



**TO** : **Investment Community**  
**FROM** : **Garanti Bank / Investor Relations**  
**SUBJECT** : **About undertaking the Activity Report for 2017**  
**DATE** : **March 1, 2018**

Our Bank's annual report for the period of 01/01/2017-31/12/2017 (integrated annual report) in Turkish and English are attached hereto as PDF files.

You can also access 2017 Integrated Annual Report on Garanti Investor Relations website from the following link: [www.garantiannualreport.com](http://www.garantiannualreport.com)

*In contradiction between the Turkish and English versions of this public disclosure, the Turkish version shall prevail.*

We declare that our above statements are in conformity with the principles included in the Board's Communiqué, Serial II Nr.15.1, that it exactly reflects the information we received; that the information complies with our records, books and documents; that we did our best to obtain the correct and complete information relative to this subject and that we are responsible for the declarations made in this regard.

Yours sincerely,

Garanti Bank

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# **GARANTI BANK 2017 INTEGRATED ANNUAL REPORT**

# GARANTI BANK 2017 INTEGRATED ANNUAL REPORT

# ABOUT THIS REPORT

We are pleased to present our first Integrated Report, which makes a holistic assessment of the financial and non-financial performance of T. Garanti Bankası A.Ş. ('Garanti') in 2017, as well as conveying its forward looking strategy.

Garanti aligns its thinking and its approach to long-term value creation to the principles of Integrated Reporting and aims to communicate its total value creation story in a clear and comprehensive way to all its stakeholders.

The content of the Report is identified in line with the material issues, which are determined in the first quarter of 2017 as an intersection of issues raised by our stakeholders and topics that are relevant to our business. The information presented in this Report covers the 12-month period ending 31 December 2017, and unless otherwise specified, includes information on Garanti's operations in Turkey as well as the international subsidiaries in the Netherlands and Romania; foreign branches in Cyprus and in Malta; 3 international representative offices in London, Dusseldorf and Shanghai. Where relevant, the information is supported by historical data.

The connection between the material issues, business strategy and performance in 2017 is clearly established, as suggested in the Integrated Reporting framework published by the International

Integrated Reporting Council ('IIRC'). Garanti is a member of IIRC's Global <IR> Network and <IR> Banking Network and is a founding member of Integrated Reporting Türkiye (Entegre Raporlama Türkiye Ağı "ERTA").

The Report is prepared in accordance with the Global Reporting Initiative ('GRI') G4 Sustainability Reporting Guidelines option 'core'. The Report is divided into five main chapters called "Introduction", "About Garanti", "2017 Performance & Outlook", "Corporate Governance & Risk Management" and "Financial Statements".

It also includes the GRI G4 Financial Services Sector disclosures, United Nations Global Compact ('UNGC') and Women's Empowerment Principles ('WEPS') Progress Report. Sustainability Accounting Standards Board ('SASB') Provisional Standard for Commercial Banks has also been used.

KPMG provided reasonable assurance on the financial information, and limited assurance on selective non-financial information defined in detail in the auditor's report.

## INTRODUCTION

The first chapter provides an introduction of Garanti's value creation story, its reflection on this year's annual report, keynote letters by Mervyn King, our

Chairman, and our CEO. Garanti's 2017 Integrated Annual Report will be presented at the Ordinary General Shareholder's Meeting of Garanti Bank.

For convenience to our shareholders, the Agenda of the Ordinary General Shareholder's Meeting, information on Garanti Share, and the Profit Distribution proposal are available in this chapter.

## ABOUT GARANTI

The second chapter gives a summary of the "Operating Environment", its outlook and challenges, the relevant "Risks and Opportunities" and the "Material Issues" which specifically impact Garanti and its stakeholders among the broader list of issues.

Our business model, its interaction with the 6 Capitals as defined in the IIRC Framework and our ability to create shared value in the long term are elaborated in "Our Value Creation".

A summary of how we govern our value creation process and our response to material issues as a Bank are provided in "Governance" and "Our Strategy".

We conclude the second chapter with an executive summary of our performance in 2017, facts & figures & key achievements, ratings and an outlook for the coming years.

## 2017 PERFORMANCE & OUTLOOK

Our "2017 Performance & Outlook", which is explained in the third chapter, comprises of 5 main sections representing the umbrella themes for 14 different material issues as explained in "Our Material Matters". Each section describes the value creation story and the outlook in connection to Garanti's Strategic Priorities.

In each of the 5 sections, we elaborate on both past performance and a snapshot of future strategies. Furthermore, Garanti's contribution to the Sustainable Development Goals ("SDGs"), the 15 year global plan of action to end poverty, reduce inequalities and protect the environment, is linked to each section.

## CORPORATE GOVERNANCE & RISK MANAGEMENT

This fourth chapter, 'Corporate Governance & Risk Management', provides a detailed discussion of the management of strategic risks related to Garanti's operations and the full governance structure.

## FINANCIAL STATEMENTS

The final chapter sets out the audited annual unconsolidated and consolidated financial statements for Garanti, including the statement of responsibility by the Audit Committee Member (Independent Member of the Board), the CEO and the CFO on the financial statements and the annual report.

The Bank prepares its consolidated financial statements in accordance

with "the BRSA Accounting and Reporting Regulation" which includes the regulation on "The Procedures and Principles Regarding Banks' Accounting Practices and Maintaining Documents" published in the Official Gazette dated 1 November 2006 with No. 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Board and circulars and pronouncements published by the BRSA and Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority for the matters not regulated by the aforementioned legislations.

The accompanying consolidated financial statements are prepared in accordance with the historical cost basis except for financial instruments at fair value through profit or loss, financial assets available for sale, real estates and investments in associates and affiliates valued at equity basis of accounting or that are quoted on the stock exchanges which are presented on a fair value basis.

New and revised Turkish Accounting Standards effective for annual periods beginning on or after 1 January 2017 have no material effect on the consolidated financial statements, consolidated financial performance and on the Bank's accounting policies and accounting estimates. New and revised Turkish Accounting Standards issued but not yet effective have no material effect on the consolidated financial statements, consolidated financial performance and on the Bank's accounting policies and accounting estimates, except for IFRS9 which will be effective from periods beginning on or after 1 January 2018. The

Bank continues to work in order to comply with TFRS9 standard, and the related studies are summarized in Note 3.30.

The accounting policies and the valuation principles applied in the preparation of the accompanying consolidated financial statements are explained in Notes 3.2 to 3.30.

*Please send your feedback and insights regarding the report via [integratedreport@garanti.com.tr](mailto:integratedreport@garanti.com.tr).*



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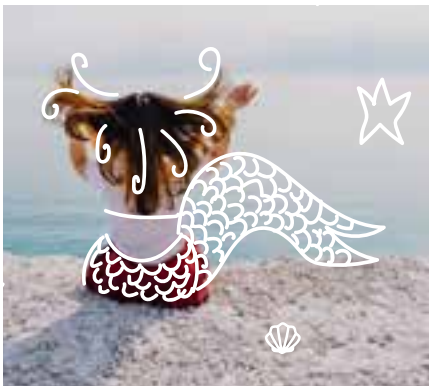
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# FOREWORD

## “IMAGINATION MAKES THE WORLD GO ROUND.”

That is a quote from an interview Albert Einstein gave in 1929. He also added, “Imagination is more important than knowledge. Knowledge is limited. Imagination encircles the world.”

Imagination is important. But what’s more important is to bring imagination together with scientific methodology. That calls for mastery, passion and experience. Making use of knowledge and shaping the future without shutting imagination out is one of the fundamentals of being a pioneer, a leader.

Ever since the day it was founded, Garanti Bank first imagined all the innovative and creative products and services it has introduced to the Turkish banking sector, then believed in them, then designed and introduced them. Its uninhibited imagination and making “why not” its starting point, instead of “no way”, make up other key secondary reasons that Garanti is able to pioneer its sector.

Always focused on improvement, always working to find solutions, Garanti values the voice of its customers, employees and stakeholders in keeping with its corporate culture that fosters innovation. Garanti Bank believes in the power of listening, participating, contributing and creating shared value. Convinced that its impact is not restricted to banking services only, Garanti ponders how it

can contribute value to the economy and the community, and works to build a better world. These are the fundamental characteristics that differentiate Garanti.

Those who adhere to imagination are original, open to novelties, unafraid of change, constantly evolve and are pioneers. Moreover, Garanti thinks big, and being a close follower of global mega trends, works to lead transformation and to exceed expectations.

2017 Integrated Annual Report of Garanti Bank is, in fact, a dream that came true. In its first integrated report that is the product of a lengthy and thorough teamwork, Garanti describes its way of thinking and its approach to long-lived value creation. In doing that, the Bank gets visual support from children, in other words, the beings with the most powerful imagination. Each individual is born with an active imagination and moves on to the world of reality as he or she grows older. Those who do not lose the child within are called pioneers.

Garanti grows, shapes its sector, and moves forward without losing the child within, therefore without losing its imagination and enthusiasm, but reflecting them on its business, processes, products and services instead. For 71 years, Garanti has been using its imagination to ask, “Anything else we can help you with?”



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# MESSAGE FROM MERVYN KING

Garanti Bankasi A.S. (Garanti) is the second largest private bank in Turkey by asset size which has been established for 71 years.

The mindset of the board of Garanti has approached the value creation of the bank by focusing on the long term health of the company rather than the short term interest of any particular stakeholder. In its first integrated report it has communicated its value creation story in clear language to its stakeholders. Stakeholders will be able to make a more informed assessment about the long term prospects of the bank.

The report covers not only Garanti's operations in Turkey but also its international subsidiaries in the Netherlands and Romania.

As if in each arm of an octopus they have placed a financial report, a sustainability report, dealt with the United Nations Global Compact and Women's Empowerment Principles then selected material information from the reports and put it in clear and understandable language in the integrated report, the head of the octopus.

Garanti needs to be congratulated in moving its corporate thinking and reporting to an integrated one in order to meet the corporate challenges of the 21<sup>st</sup> century in a resource constrained world with increasing population growth.



**PROF. MERVYN KING SC**

Chairman of the International Integrated Reporting Council (IIRC)

# LETTER FROM THE CHAIRMAN

Dear Stakeholders,

Today, trends are changing rapidly while bringing along new sets of challenges that need to be overcome. It is essential for us to be a fast adapter to succeed and differentiate in such a dynamic environment. We are proud of once again providing an even stronger support to the Turkish economy and the society, by means of this ability.

2017 was a year of recovery in global macroeconomic indicators. Positive trends in the world's growth and inflation outlook supported sentiment towards emerging market economies. Fund flows to emerging countries exceeded USD 200 billion. Turkey stood out with its strong GDP growth and attracted foreign fund flows, which resulted in 34% rise in MSCI Turkey Index.

Domestic agenda continued to be busy in Turkey with several developments on geopolitical issues, whereas developments in Europe and the USA caused disputes around those regions. However, 2017 turned out to be much better than we anticipated. Timely and effective stimulus measures taken by the government via supportive fiscal policies facilitated a quick recovery in the economy. The Turkish banking system demonstrated strong fundamentals and played a key role in the rebound of the country's economy.

Every day we work to offer our 15 million customers an excellent customer experience at Garanti. We aim to be transparent, clear and responsible towards our customers. To exceed their expectations and enhance their satisfaction, we design our processes from their perspective by placing them at the center of our activities. We aim to establish long-lived relationships built on trust, which eventually differentiate and strengthen us.

Transformation and change move faster than ever. Advances in technology have been disrupting business models. Global mega trends are shaping the future and impacting our business. As the Bank of many best practices, we are well aware of the evolution that the banking is going through. Continuous improvements in technology have empowered Garanti to better address the needs of customers, yet, new challenges also came along. Garanti foresees the banking model of the future and swiftly acts upon it. In light of this, 2017 marked another milestone as we initiated an unprecedented transformation project in our branches. With this project, we developed a new service model that captures the benefits of the emerging digital world. Our aim is to enhance customer experience leveraging digital innovation, improve sales and operational efficiency, and create seamless, omni-channel



experience to improve digital migration and reduce branch dependency and be a part of our customers' daily life. By doing so, Garanti opens up a new era in banking.

We give the utmost attention to effective risk management through integrated management of financial and non-financial risks. Today, the major risks that the businesses are facing are not the same as yesterday. Future holds in store much more complex and intangible risks such as increasing population, diminishing resources and broadening wealth gap. To tackle these issues, governments and the business world must focus on positive impact and responsible investments. As Garanti, our leading role in sustainable banking allows us to set a good example for our peers and increase our multiplier effect in contributing to sustainable development.

The path to achieving all our goals goes through investing in our employees. At Garanti, we focus on our employees' development, satisfaction and well-being. Our efforts in promoting equal opportunities and enabling professional development contribute to our high employee engagement score and low turnover. Going forward, as Industry 4.0, Artificial Intelligence and Big Data-based analyses advance, most of the operational jobs will be automated and done through digital channels. We believe that digitalization is a great opportunity for us to allocate the workforce to more creative projects, which we expect to result in increased employee satisfaction and improved customer experience.

We are glad to have an increased synergy with our majority shareholder BBVA. Several successful projects to enhance the value added to the community and economy are being carried out with the strong partnership and cooperation of BBVA and Garanti.

Going forward, we expect financial stability of our well established and solid economy to be permanent. Improving foreign demand on the back of ongoing economic recovery in the world and especially in Europe will be supportive for Turkish economy. As always, Garanti will continue to support our country's development, while sustaining its strong performance and leading the sector in every aspect. Acting with the principles of trust, integrity, accountability and transparency towards all our stakeholders assures our sustainable performance.

Sincerely,



**SÜLEYMAN SÖZEN**

Chairman

# LETTER FROM THE CEO

Dear Stakeholders,

We are pleased to present our first integrated report. This report integrates information from the annual Sustainability Report we used to publish in addition to our Annual Report. The Report was prepared in accordance with the GRI G4 Sustainability Reporting Guidelines of the GRI to core option, covering the 12-month period ended 31 December 2017. It also constitutes a summary of Garanti Bank's progress in 2017 on its commitment to implement the ten principles of the United Nations Global Compact (UNGC) in our business activities.

With this integrated report, we provide a concise overview of both our financial and non-financial performance, showing the value that Garanti Bank creates for all its stakeholders, the economy and the society. We believe that integrated reporting serves to even better reflect Garanti Bank's efforts in value creation. This first integrated report is only the start of integrating our financial and non-financial information and we will continue to take further steps to become more integrated.

## POSITIVE GROWTH MOMENTUM IN GLOBAL ECONOMIES

The year 2017 ended very positively as global economies gained strength above and beyond the initial expectations in the beginning of the year. While the pick-up in economic activity seems to be relatively stronger in advanced countries, emerging

markets also grew faster in 2017 relative to the previous year.

The Turkish economy, backed by timely incentives, showed solid progress in growth. Supportive economic policies including the Credit Guarantee Fund (CGF) scheme increased confidence in the economy and hence, lifted the growth notably. We expect GDP growth to reach 7% at year-end 2017, compared to 3.2% in 2016. However, this robust domestic demand repressed inflation. Together with the currency depreciation, headline inflation rose to 11.9% in 2017. As a response to inflationary pressure and volatility in currency, the Central Bank of Turkey (CBRT) maintained its tight stance and average funding cost increased by around 450 bps in 2017.

Despite the rise in interest rates, revitalization in economic activity and active balance sheet management supported fundamentals of the banking sector and the sector delivered better results than expected.

## HIGH QUALITY EARNINGS PERFORMANCE, ONCE AGAIN, UNDERPINNED BY DYNAMIC ASSET-LIABILITY MANAGEMENT

As Garanti Bank, we successfully completed the year with our sustained focus in excellent customer experience, sound solvency ratios and efficiency. The year was highlighted with the CGF scheme, which boosted business banking loan growth and helped asset quality. In



supporting SMEs and businesses, the engine of our economy, we were the first mover in providing CGF loans with our agile sales team and quick system integration. Accordingly, we grew by 28% in TL business banking loans. In consumer loans, albeit fierce competition in the sector, we further strengthened our leadership position among private peers. Amid the growing economy, as I mentioned previously, CBRT kept its tight stance to cope with inflationary pressures which, in turn, pressured deposit costs in the market. In this environment, in order to manage cost and duration mismatch, we focused on growing SME & retail deposits and, as a result, enhanced our deposit base further with 16% growth in TL deposits. Moreover, in order to take advantage of the opportunities in the global market environment, we continued to tap international markets to raise alternative funding sources for cost and duration mismatch management. Accordingly, we successfully renewed

our syndications, and for the first time we issued Basel III Compliant Subordinated Notes in the amount of USD 750 million and with 10 year tenure. Receiving a record demand of USD 4 billion, our Basel III Compliant Tier II issuance became the lowest costing transaction of a bank in Turkey, while also generating the largest order book ever. With the International Finance Corporation (IFC), we signed an unprecedented agreement based on mortgages that would support 'Green Mortgage' projects, for the first time in Turkey. These transactions are solid sign of the credibility established by Garanti before the international capital markets. Garanti will continue to be among the leading institutions of the Turkish financial sector with its sustainable growth strategy, innovative services, and ongoing investments in human capital.

We strive to create value for our customers, employees and all our stakeholders. We qualified for the FTSE4Good Emerging Markets Index with our performance in environmental, social and governance areas. We became the first and the only company from Turkey to be listed in the Bloomberg Financial Services Gender Equality Index with our HR practices and the support we provide to women for their increased role in business life and higher contribution to the economy. We became the only financial institution worldwide to be included in the 2017 CDP Water A List.

Disclosing climate change strategies using the CDP platform, we also retained our score in the climate change program and we were listed among CDP Turkey Leaders. We became the only company from Turkey qualified to be included in the Dow Jones Sustainability Emerging Markets Index for three consecutive years.

#### ANOTHER YEAR OF CLEAR BEAT

We are delighted to share that we delivered outstanding results in every aspect. While maintaining our leadership position among private banks in consumer lending, we significantly grew our TL business banking loans. As of today, the loans we have provided under the Credit Guarantee Fund surpassed TL 18 billion. Driven by the growth in TL business banking loans, we recorded 20% growth in TL loans, surpassing the projected 15% growth at the beginning of the year. While growing, we continued to make effective use of our capital. Our capital adequacy ratio increased to 16.8% in 2017 from 14.7% in 2016. Strong capital ratios are the result of high quality earnings. We have been constantly increasing our ROAE since 2015, which reached 16.6% as of year-end 2017, beating our initial expectations of 15.5-16%. In line with our strategic focus on efficiency, we improved our cost-to-income ratio by 4 pp vs. our 1.5 pp estimate. This high core banking profitability enabled us to strengthen our capital.

We work together and alongside our Retail, SME, Commercial and Corporate customers to find the best solutions for all their needs. There is nothing coincidental about the fact that we have ranked #1 in the net promoter score among peers for two consecutive years. As a pioneer in digital transformation for over 20 years, today we reached a point where we bring the banking service to our customers' locations and serve Turkey's largest digital customer base with close to 6 million active customers.

In our actions, we are guided by the principles of trust, integrity, accountability and transparency toward all our stakeholders. Our efforts in supporting financial literacy, health and inclusion resulted in touching the lives of 809,397 customers that started using savings products. Renewable energy makes up more than 60% of our electricity generation loan portfolio; in fact, we command 30.2% market share in Turkey's installed wind power capacity as of year-end 2017. We transform savings into sustainable investments by offering sustainability products & credit lines and TL 9.3 billion lending based on impact investment principles. Our efforts to support the financing of renewable energy led to avoid GHG emissions of 5.4 million tCO<sub>2</sub>e from hydro, solar and wind power plants that we participated in financing. The scope three footprint

of our energy production portfolio has been zero in new project finance commitments.

Our engagement activities with our stakeholders led to 8 policies and position papers that contribute to Sustainable Development Goals (SDGs), while our community investment programs addressed three different social challenges with a Social Return on Investment value of more than two.

As our most valuable asset is human, we continued to invest in our employees focusing on their development, satisfaction and well-being. We provided 36 hours of training per employee in 2017. We embrace a fair and transparent management policy based on performance, focused on equal opportunities, diversity and internal promotion. As a result, we outperformed the sector with our employee engagement score of 65%.

#### LOOKING AHEAD

This year, we expect global macro drop to be supportive given recoveries in investment, manufacturing and trade. Going forward, global GDP growth figures and the steps advanced economies will take with respect to their monetary normalization processes will be of great importance for the external financing conditions of other economies.

In Turkey, we expect CBRT to maintain its tight stance in the absence of significant improvement in inflation. This suggests a positive real rate, which might favor the country throughout the year given upbeat sentiment globally. Nevertheless, this flow may support our current account deficit and inflation.

At Garanti, as always, we will sustain our uninterrupted support to the economy while optimizing capital allocation and prioritizing risk-return balance. Following the robust lending growth linked to CGF-loans, we envisage a normalized TL loan growth. Deposits will be the main source of funding, yet we will continue to tap international funding when market conditions are favorable. We are not expecting any difficulty in reaching international funding sources.

Our new branch service model represents a new era in the Turkish banking sector. Going forward, we will continue to focus on this transformation to increase digital penetration in customers as well as in processes, thus to further enhance customer experience and loyalty.

Given our capital generative growth strategy, advanced risk management systems and organizational agility in capturing new opportunities, we are looking at the future with confidence. We act with the awareness of the impact of

each and every action we take, and with the responsibility of being an institution that shapes the future and leads the sector. With our competent human resources and extensive branch network in every city of Turkey, we keep working to offer excellence in customer experience, ensure responsible and sustainable development, operational efficiency and employee happiness.

I am grateful to all our stakeholders who trust and support us.

Sincerely,



**ALİ FUAT ERBİL**

President & CEO

# GARANTI BANK SHARE

## ISTANBUL - BORSA ISTANBUL

**SYMBOL:** GARAN  
**SEDOL:** BO3MYP5  
**ISIN:** TRAGARAN91N1  
**CUSIP:** M4752S106

DEPOSITARY RECEIPTS LEVEL - 1

## LONDON - LONDON STOCK EXCHANGE

**SYMBOL:** TGBD  
**SEDOL:** 2599818  
**ISIN:** US9001487019  
**CUSIP:** 900148701

## NEW YORK - OTCQX INTERNATIONAL PREMIER

**SYMBOL:** TKGBY  
**ISIN:** US9001486029  
**CUSIP:** 900148602

DEPOSITARY RECEIPTS - 144A

## LONDON - LONDON STOCK EXCHANGE

**SYMBOL:** 39IS  
**SEDOL:** 2557571  
**ISIN:** US9001487019  
**CUSIP:** 900148701

## NEW YORK - OTC MARKETS

**SYMBOL:** TKGZY  
**ISIN:** US9001486029  
**CUSIP:** 900148602

Garanti Bank initially offered its shares to public in 1990 on Borsa Istanbul and has become the first Turkish company to offer its shares on international markets in 1993.

Garanti's Depository Receipts are listed on the London Stock Exchange Main Market and OTC (Over-The-Counter) Markets in the USA. In 2012, Garanti participated in the prestigious tier of the U.S. Over-The-Counter (OTC) market, OTCQX International Premier, where companies traded must meet high financial standards and an effective disclosure process. Trading on this market with 85 leading companies of the world, Garanti has established itself among the top Depository Receipts traded on the OTCQX marketplace and ranked 32<sup>nd</sup> per Market Capitalization, 27<sup>th</sup> per Dollar Volume and 4<sup>th</sup> per Volume in 2017. Garanti's Depository Receipts program reached a size of 126 million shares as of 2017 year-end.

Garanti Bank has a market capitalization of TL 45 billion (USD 12 billion) as of the end of 2017 and is the most valuable bank in Turkey. With a free float ratio of 50.07% and TL 22.5 billion floating market capitalization, Garanti also has the highest free float in BIST 100. Garanti Bank share (GARAN) is the most traded banking stock in Borsa Istanbul with an average daily turnover of TL 520 million (USD 142 million) and has 11% market share in BIST 100 turnover. GARAN was the

most traded stock by foreign investors with a total foreign transactions turnover of USD 24 billion in 2017. Furthermore, GARAN has the highest weight in BIST 100 and in BIST 30 as of 2017 year-end. In 2017, Garanti share attracted USD 280 million worth of foreign funds and closed the year with an outperformance of 10% relative to Borsa Istanbul Banking Index.

95% of Garanti's shares in the free float is owned by foreign investors that are spread to around 35 countries. The composition of the institutional shareholding structure of Garanti by geographical regions is 17.9% UK and Ireland, 15.7% North America, 6.5% Europe, 2.7% Asia and 2.0% Turkey. Garanti has more than 38 thousand retail shareholders that are registered in Turkey.

Communicating the value created in a pro-active, transparent and consistent way, during 2017, Garanti Investor Relations took part in 33 national and international investor conferences held in 15 cities in Asia, USA, UK and Europe with the participation of senior management, in addition to the one-on-one meetings with 717 international investment funds. Garanti continued to organize live webcasts/teleconferences bringing its senior management together with the investment community in 2017, and made presentations on its financial results four times a year, as well as a video cast on its operating plan for the following year that described its forward looking projections.





The full audio recordings of all of these events were posted on Garanti Investor Relations website, Investor Relations applications on iPad and Android tablet. Contents prepared both in Turkish and English for the convenience of the investment community enable investors from all around the world to have easy access to all the information they need.

Commitment to its irreplaceable values of the principles of trust, integrity, accountability and transparency is Garanti's main responsibility to all its stakeholders; and serves as the guarantee of the Bank's strong reputation. Garanti's efforts to create value for all its stakeholders, the economy and the society has been recognized by national and international authorities. Since 2014, Garanti has been qualified for BIST Sustainability Index and BIST Corporate Governance Index and continues to be the only bank from Turkey listed in the Dow Jones Sustainability™ Emerging Markets Index, after being qualified in 2015. This year marks the third consecutive year of index inclusion with valuation on topics such as ethics, governance, financing activities, environmental and social performance throughout the value chain, risk management, climate change mitigation, transparency, supply chain, human and employee rights.

In addition to these, Garanti continued to qualify and remain a constituent of the FTSE4Good Emerging Markets Index

which is the independent organization, jointly owned by the London Stock Exchange and the Financial Times and designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. Moreover, through its numerous practices and initiatives for ensuring gender equality within its human resources as well as its activities directed to customers and the community, Garanti is the only company from Turkey to be included in the Bloomberg Gender Equality Index.

### EQUITY ANALYSTS' RATINGS

Garanti Bank shares are widely covered by research analysts of leading domestic and international investment banks and brokerage houses. In 2017, 29 institutions have regularly issued equity research reports on Garanti. As of the end of 2017, 24 analysts had "BUY" and 5 analysts had "HOLD" recommendation on Garanti stock.

### 29 INSTITUTIONS



24 BUY



5 HOLD

**TL 45 BILLION**

Market capitalization  
**MOST VALUABLE BANK  
 IN BIST100**

**TL 22.5 BILLION**

Highest floating market  
 capitalization in BIST100

**TL 520 MILLION**

Average daily turnover

**11%**

Turnover market share  
**THE MOST TRADED BANKING  
 STOCK OF BIST100**

**\$ 24 BILLION**

Total foreign transactions in 2017  
**THE MOST TRADED STOCK  
 BY FOREIGNERS**

**HIGHEST WEIGHT**

in BIST30 & BIST100

**TL 1.51**

Earnings per share



## **CONVENIENCE TRANSLATION INTO ENGLISH OF THE INDEPENDENT AUDITOR'S REPORT RELATED TO ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH**

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

### **1) Opinion**

We have audited the accompanying annual report of Türkiye Garanti Bankası A.Ş. ("the Bank") and its consolidated financial affiliates (together will be referred as "the Group") for the period between 1 January 2017 and 31 December 2017.

In our opinion, the consolidated and unconsolidated financial information included in the annual report and the analysis of the Board of Directors about the consolidated and unconsolidated financial position of the Group are consistent, in all material respects, with the audited complete set of consolidated and unconsolidated financial statements and information obtained during the audit and provides a fair presentation.

### **2) Basis for Opinion**

We conducted our audit in accordance with the "Regulation on Independent Audit of the Banks" ("BRSA Auditing Regulation") published in the Official Gazette Numbered 29314 dated 2 April 2015 by BRSA and the Standards on Auditing which is a component of the Turkish Auditing Standards ("TAS") issued by the Public Oversight, Accounting and Auditing Standards Authority ("POA") ("Standards on Auditing issued by POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Annual Report section of our report. We declare that we are independent of the Group in accordance with the Code of Ethics for Auditors issued by POA ("POA's Code of Ethics") and the ethical requirements in the regulations issued by POA that are relevant to audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with the POA's Code of Ethics and regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **3) Auditor's Opinion on Complete Set of Consolidated and Unconsolidated Financial Statements**

We have expressed qualified opinions due to the general reserve provisions provided by the Bank on the complete sets of consolidated and unconsolidated financial statements of the Group for the period between 1 January 2017 and 31 December 2017 on 31 January 2018.

### **4) Other Matter**

The annual report of the Group for the period between 1 January 2016 and 31 December 2016 was audited by another auditor who expressed an unmodified opinion on the annual report dated 3 March 2017.

### **5) Board of Directors' Responsibility for the Annual Report**

In accordance with the Articles 514 and 516 of the Turkish Commercial Code Numbered 6102 ("TCC") and Regulation on the Principles and Procedures Concerning the Preparation of and Publishing Annual Reports by the Bank ("Regulation") published in the Official



Gazette dated 1 November 2006 and Numbered 26333, the Group's management is responsible for the following regarding the annual report:

- a) The Bank's management prepares its annual report within the first three months following the reporting date of statement of financial position and submits it to the general meeting.
  - b) The Bank's management prepares its annual report in such a way that it presents accurately, completely, directly, true and fairly the flow of annual operations and consolidated and unconsolidated financial position of the Group. In this report, the financial position of the Bank is assessed in accordance with the Bank's consolidated and unconsolidated financial statements. The annual report shall also clearly state the details about the Group's development and risks that might be encountered. The assessment of the board of directors on these matters is included in the report.
  - c) The annual report also includes:
    - Significant events after the reporting period,
    - The Group's research and development activities.
    - Employee benefits such as wages, premiums and bonuses paid to board members and key management personnel, appropriations, travel, accommodation and representation expenses, cash and cash facilities, insurance and similar guarantees.
- When preparing the annual report, the Board of Directors also consider the related regulations issued by the Ministry of Customs and Trade and related institutions.

#### **6) Auditor's Responsibility for the Audit of the Annual Report**

Our objective is to express an opinion on whether the consolidated and unconsolidated financial information included in the annual report and analysis of the Board of Directors in relation to the consolidated and unconsolidated financial position of the Group are consistent with the audited consolidated and unconsolidated financial statements of the Group and the information obtained during the audit and give a true and fair view and form a report that include this opinion in accordance with the TCC and the Regulation.

We conducted our audit in accordance with the BRSA Auditing Regulation and Standards on Auditing issued by POA. Those standards are required that compliance with ethical requirements and planning of audit to obtain reasonable assurance on whether the consolidated and unconsolidated financial information included in the annual report and analysis of the Board of Directors for the consolidated and unconsolidated financial position of the Group are consistent with the consolidated and unconsolidated financial statements and the information obtained during the audit and provides a fair presentation.

#### **KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi**

A member firm of KPMG International Cooperative

Murat Alsan, SMMM  
Partner

1 March 2018  
İstanbul, Turkey



## INDEPENDENT LIMITED ASSURANCE REPORT

We were engaged by T. Garanti Bankası A.Ş. (hereinafter "Company" or "Garanti") to provide limited assurance on whether the "Selected Information" as defined in Appendix A.1 of this Integrated Annual Report (hereinafter "the Report") that has been prepared by Garanti for the year ended 31 December 2017 is presented in accordance with Garanti's internally developed reporting criteria as explained in Appendix A.1 of the Report.

The scope of our assurance is limited to the Selected Information listed below:

- Total Yearly GHG Emissions in tCO<sub>2</sub>e reported under scope 1 and 2 of the GHG Protocol
- GHG Emissions Intensity in the reporting period
- Year-on-year Change in GHG Emissions Intensity
- Total Yearly GHG emissions from business air travel – Scope 3 & Air Travel in Kilometres
- Total Yearly Avoided Emissions due to operational renewable energy projects under loan from Garanti
- Total Yearly Energy Consumption by Source
- Total Yearly Water Consumption by Source
- Environmental & Social Impact Assessment Process related to projects financed by Garanti:
  - Number of assessed projects in 2017
  - Number of rejected projects in 2017
  - Risk rating of the assessed projects in 2017
  - Number of project site visits conducted during 2017
- Renewable energy portfolio:
  - Amount of investments in renewable energy projects by type in the reporting period
  - Installed capacity of renewable energy projects by type in the reporting period
  - Garanti's market share of operational installed wind capacity in Turkey in the reporting period
- Materiality Analysis
- Sustainability Governance
- Total monetary amount of community investments in the reporting period
- Cardless Transactions from Garanti ATMs:
  - Total number of cardless transactions from Garanti ATMs in the reporting period
  - Total volume of cardless transactions from Garanti ATMs in the reporting period
- Number of employees attended the Female Leadership Trainings

### Management's responsibilities

Management is responsible for the preparation and presentation of the Report for the Selected Information in accordance with the Garanti's internally developed criteria as described in Appendix A.1 of the Report, and the information and assertions contained within it; for determining the Garanti's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues; and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.



Management is responsible for preventing and detecting fraud and for identifying and ensuring that Garanti complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and the Selected Information are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

### **Our responsibilities**

Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement.

We apply International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

### **Procedures performed**

A limited assurance engagement on a Selected Information consists of making inquiries, primarily of persons responsible for the preparation of information presented in the Selected Information, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of Garanti's processes for determining the material issues for Garanti's key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at the corporate and business unit level responsible for providing the information in the Selected Information.
- Comparing the information presented in the Selected Information to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Selected Information.
- Reading the information presented in the Selected Information to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of Garanti.



The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained has a reasonable assurance engagement been performed.

### **Inherent limitations**

Due to the inherent limitations of any internal control structure it is possible that errors or irregularities in the information presented in the Selected Information may occur and not be detected. Our engagement is not designed to detect all weaknesses in the internal controls over the preparation and presentation of the Selected Information, as the engagement has not been performed continuously throughout the period and the procedures performed were undertaken on a test basis.

### **Conclusion**

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

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

Based on the procedures performed and the evidence obtained, as described above, nothing has come to our attention that causes us to believe that the Selected Information as defined in Appendix A.1 of the Report of Garanti for the year ended 31 December 2017 is not presented, in all material respects, in accordance with the Garanti's internally developed reporting criteria as explained in Appendix A.1 of the Report.

In accordance with the terms of our engagement, this independent limited assurance report on the Selected Information has been prepared for Garanti in connect with reporting to Garanti and for no other purpose or in any other context.

### **Restriction of use of our report**

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than Garanti, for any purpose or in any other context. Any party other than Garanti who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than Garanti for our work, for this independent limited assurance report, or for the conclusions we have reached.

### **KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi**

A member firm of KPMG International Cooperative

Şirin Soysal, Partner  
İstanbul, 1 March 2018

# AGENDA OF THE ORDINARY GENERAL SHAREHOLDERS' MEETING

1. Opening, formation and authorization of the Board of Presidency for signing the minutes of the Ordinary General Meeting of Shareholders,
2. Reading and discussion of the Board of Directors' Annual Activity Report,
3. Reading and discussion of the Independent Auditor's Reports,
4. Reading, discussion and ratification of the Financial Statements,
5. Submission for approval of the revised Dividend Policy in accordance with the Corporate Governance Principles promulgated by the Capital Markets Board of Turkey,
6. Determination of profit usage and the amount of profit to be distributed according to the Board of Directors' proposal,
7. Submission for approval of the appointments of the Board Members for the remaining term of office of the Board Membership position vacated during the year,
8. Release of the Board Members,
9. Determination of the number of the board members, election of the board members including the independent member whose terms of office have expired and informing the shareholders regarding the external duties conducted by the board members and the grounds thereof in accordance with the Corporate Governance Principle No. 4.4.7 promulgated by the Capital Markets Board of Turkey,
10. Election of the Independent Auditor in accordance with Article 399 of Turkish Commercial Code,
11. Informing the shareholders about remuneration principles of the Board Members and directors having the administrative responsibility in accordance with the Corporate Governance Principle No. 4.6.2 promulgated by the Capital Markets Board of Turkey, and informing the shareholders regarding the revised Compensation Policy,
12. Determination of the remuneration of the Board Members,
13. Informing the shareholders with regard to charitable donations realized in 2017, and determination of an upper limit for the charitable donations to be made in 2018 in accordance with the banking legislation and Capital Markets Board regulations,
14. Authorization of the Board Members to conduct business with the Bank in accordance with Articles 395 and 396 of the Turkish Commercial Code, without prejudice to the provisions of the Banking Law,
15. Informing the shareholders regarding significant transactions executed in 2017 which may cause conflict of interest in accordance with the Corporate Governance Principle No. 1.3.6 promulgated by Capital Markets Board of Turkey.

# PROFIT DISTRIBUTION

Our Bank ended its 72<sup>th</sup> fiscal year with a profit of TL 6,343,919,301.93. We propose our esteemed shareholders profit be distributed as detailed in the table below in accordance with the "Article 45 - Distribution of the Profit" of the Articles of Association of the Bank, and the Head Office be authorized to initiate on April 24, 2018 the distribution of gross cash dividend and conduct the operations regarding the issue.

Sincerely,  
**Board of Directors**

## 2017 DISTRIBUTION OF THE PROFIT TABLE

(Turkish Lira)

<b>NET PROFIT</b>	<b>6,343,919,301.93</b>
A - 5% for the 1 <sup>st</sup> Legal Reserve Fund (TCC 519/1)	0,00
<b>B - FIRST DIVIDEND CORRESPONDING TO THE 5% OF THE PAID UP CAPITAL</b>	210,000,000.00
C - 5% Extraordinary Reserve Fund	306,695,965.10
<b>D - SECOND DIVIDEND TO ORDINARY SHAREHOLDERS</b>	1,540,000,000.00
2 <sup>nd</sup> Legal Reserve Fund (TCC 519/2)	154,000,000.00
The other funds have to be kept in the Bank	1,149,602.78
D - Extraordinary Reserve Fund	4,132,073,734.05

## INFORMATION ON 2017 DIVIDEND PAYOUT RATIO

GROUP	TOTAL DIVIDEND AMOUNT		TOTAL DIVIDEND/NET DISTRIBUTABLE PROFIT	DIVIDEND PER SHARE (NOMINAL VALUE: TL I)		
	Cash (TL)	Bonus Share (TL)	Ratio (%)	Amount (TL)	Ratio (%)	
GROSS (*)	-	1,750,000,000.00	-	27.59%	0.41667	41.66667
NET	-	1,487,500,000.00	-	23.45%	0.35417	35.41667

(\*) Tax withholding in the rate of 15% shall not be deducted from the cash dividend payments made to full taxpayer institutions and limited taxpayer institutions that generate income in Turkey via offices or permanent representatives.





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# THE ENVIRONMENT WE OPERATE IN

## 2017 MACROECONOMIC OVERVIEW AND 2018 OUTLOOK

### A RELATIVELY BETTER YEAR

2017 started with several concerns on the World economy as the election of Trump in the US was expected to initiate several restrictions on global trade. Though, as it is understood that pre-election commitments of Trump could only be applied over time with sizable flexibilities, risk appetite has reemerged with a more synchronized and balanced growth outlook throughout the world. This drove capital inflows to developing economies at least during the summer, when Turkey also benefited a lot.

Despite the ongoing volatility, 2017 proved to be a year during which global trade has gained momentum with a relatively better outlook on regional basis. The US economy continued with high job gains, while the recovery in Europe turned out to be more synchronized. Chinese economy maintained its structural transformation but thanks to supportive fiscal measures it attained higher-than-expected growth rates, which also benefited other emerging economies that export commodities. Increasing demand across-the-board also helped commodity prices escalate, supporting the demand to increase further. Overall, global economy managed to grow around 4% in 2017 and is expected to sustain these levels in the coming years.

Although growth became promising, inflation stayed at muted levels possibly as a result of the digital transformation in the economy. Thus, 2017 continued to be the year of normalization in monetary policies at a very gradual pace. The Federal Reserve (Fed) hiked its policy rate twice as it had initially communicated and started to shrink its balance sheet as of October. European Central Bank (ECB) enhanced its forward guidance and announced that it would lower its monthly asset purchases to EUR 30 billion as of the start of 2018.

The tighter monetary policy of the Fed was accompanied with higher interest rates in the shorter end of the US yield curve but weak inflation releases resulted in more stable long term interest rates. Hence, a yield curve becoming more horizontal started to feed expectations on a more gradual rate hike scenario from the Fed, which kept risk appetite in global financial markets strong. Though, higher than expected inflation releases associated with the upward revisions on growth expectations thanks to the tax reform and recovering global economic activity might result in a more hawkish monetary normalization of the Fed, which could have an impact on risk perception, triggering further volatility in financial markets.

In the coming period, both the pace of global demand and the mood in financial markets will be key for the continuation

of capital flows to developing economies, which prove to be in a better position compared to previous years as their economies are now well-prepared to shocks from past experiences and relatively reshaped strengths.

### SIZABLE RECOVERY IN TURKISH ECONOMY

2017, for Turkey's economy was a year of efforts to compensate for the negative repercussions of 2016. In addition to the measures taken at the end of 2016, the implementation of the Credit Guarantee Fund (CGF) created a strong growth path. Turkey's economy grew 7.4% in the first three quarters of the year; and will likely have grown close to 7% throughout 2017. Apart from solid domestic demand where investment expenditures also started to contribute, net exports also made a positive contribution thanks to the recovery in tourism revenues and the higher growth rates in Europe. A similar scenario in 2018 is likely in which net exports continue to contribute positively but with a limited extent, while domestic demand maintains a strong trend.

On the other hand, high growth rates, lagged impact of currency depreciation and relatively higher oil and food prices were the factors that pushed up inflation in 2017. Annual consumer inflation ended the year at 11.9%, up from 8.5% in 2016. Bearing in mind the cumulative effects of the depreciation of the Turkish lira, expected strong economic activity and

cost push factors will likely keep inflation high, close to two-digit levels in the first three quarters of 2018 before falling towards 9% at the end of the year.

As a result of increasing volatility in Turkish Lira and deteriorating inflation outlook, the Central Bank of Turkey (CBRT) took several steps to fight against this trend by increasing its average funding cost (~450 bps during the year) and also using non-interest financial instruments like holding foreign exchange deposits against TL deposits auctions, rediscount credits and TL - settled forward foreign exchange sale auctions. Sizable worsening in inflation expectations and excess demand will likely to require monetary policy to remain tight at least throughout 2018.

In terms of external balance, after declining to USD 32.6 billion (3.8% of national income) at the end - 2016, current account deficit went up to USD 47.1 billion in 2017 due to higher energy prices, strong gold imports and solid domestic demand. The current account deficit closed 2017 at around 5.5% of national income.

On the fiscal policy front, 2017 was a year of counter-cyclical policies, which resulted in a worsening in budget performance. Although the recovery in domestic demand and the extension of tax amnesty supported tax revenues, relatively higher government expenditures resulted in a pick-up in central government budget deficit, up to c.1.5% of national income in 2017 from 1.1% in 2016. The ratio of primary surplus to the GDP also deteriorated (YE2016: 0.8%; YE2017: c.0.3%). Fiscal policy is expected to remain accommodative in 2018 to keep growth momentum strong

against the unfavorable base impact of 2017. The efforts to earn more revenues to spend more are consistent with the Medium Term Plan (MTP) targets that the budget deficit to GDP ratio will be close to 2% during the forecast period. Preferring direct tax hikes to generate more revenues strengthens the combat against high inflation. For example, the increase in corporate tax on companies would serve for this aim.

As a result of the deterioration in budget performance, Treasury's borrowing requirement increased in 2017 compared to previous years. Apart from the increasing need, Treasury also benefited from the positive global mood during the summer months in 2017, conducted a front-loaded borrowing and ended the year with a surplus of TL 23 billion including currency gains. Thus, Treasury's domestic debt roll-over ratio rose to 125% from 90% in 2016. On the other hand, the ratio of EU-defined public debt stock to the GDP remained almost flat with its YE2016 value, and stood at 28.3% in the third quarter of 2017. The ratio was 28.2% at the end of 2016.

In terms of recent developments in politics, after the constitutional referendum on April 2017 resulted in favor of the executive presidency, Turkey will start to be governed by presidential system in which the President will be the head of the state and also the government and can sustain party membership. The post of the Prime Minister will be abolished. The President can appoint and dismiss senior public executives. The number of Members of Parliament (MPs) will increase to 600 from 550 and the minimum age to become a candidate in parliamentary elections will be reduced

to 18 from 25. In the meantime, the Parliament will adopt new laws in line with the amended constitution including the election law.

## OPPORTUNITIES & CHALLENGES OF TURKISH ECONOMY

As a bridge uniting Asia and Europe, Turkey's economy continued to strengthen in 2017. With a GDP of 858 billion US dollars, Turkey is the 17<sup>th</sup> largest economy in the world<sup>1</sup>. After the global financial crisis in 2008-2009, Turkish economy managed to grow by 6.8% and Turkey's 2017 GDP growth is expected to remain strong, with levels close to 7%. Figures are well above the rates of other developing countries as well as EU and prove the dynamic nature of the Turkish economy. Going forward, according to IMF's recent estimate, Turkish economy will grow by 4% in 2018, which is higher than Emerging Europe and LATAM countries and double that of the growth of the EU. Indeed, the revision of national accounts in 2016 and current high momentum in economic activity resulted in a higher potential growth rate, which is 5.5% according to a more recent article of the Central Bank.

Fiscal discipline, sound monetary policy, a strong and well-supervised financial system and a reform agenda continue to be the main pillars of Turkey's economic program. Turkey's central government is expected to run a budget deficit c.1.5% in 2017. The general government debt stock ratio has been meeting the EU Maastricht Criteria of 60%, since 2004.

Another important factor that supports the growth profile is the demographics of Turkey. Turkey has a sizable, young

and growing population. With around 80 million people, Turkey has one of the highest populations in Europe and the CEEMEA countries. 55% of the Turkish population is under 35 years-old and the labor force is constantly evolving towards a more qualified level with increasing participation of women. In 2030, the population is expected to reach 88 million, compared to negative growth in Europe and the CEEMEA region.

One of the main challenges Turkey faces is the gross external financing needs summing up to around 25% of GDP per year. High dependence of the production on intermediate goods imports and being in the lower part of the global supply chain result in both higher trade and accordingly current account deficit as the Turkish economy grows. Hence, it gets vital for Turkey to attract capital inflows in order to finance the deficit. This fact recently poses challenges as Central Banks of the advanced economies, especially the Fed, continue to withdraw from the accommodative monetary policies. The likelihood that the monetary policy normalization could be gradual in advanced economies may alleviate the pressure on emerging markets by giving more room to apply necessary reforms as capital inflows would remain moderate despite the likely increase in the cost of financing. To this aim, the economy management in Turkey has already started to implement some structural reforms such as increasing incentives for savings and lowering intermediate goods imports by means of replacing with domestic production.

Another main challenge could be the currency mismatch problem of the corporate sector with an open FX position

of around 25% of GDP. It exacerbates vulnerabilities of the economy to external shocks as exchange rate volatility could get higher during turbulence in global financial markets. Meanwhile, to tackle the problem, the economy management has initiated certain measures such as non-deliverable TL forward contracts and some limitations of foreign currency loans under a risk exposure of 15 million dollars. Furthermore, the bigger companies will also be required to hedge in the coming months. All in all, together with the program initiated to increase savings, both external financing needs and vulnerabilities in the economy could be diminished as the Government continues to pursue indispensable structural reforms.

## OPPORTUNITIES & CHALLENGES OF TURKISH BANKING SECTOR

The Turkish banking sector is strictly regulated and highly monitored by two powerful agencies; Banking Regulation and Supervision Agency (BRSA) and Central Bank of the Republic of Turkey (CBRT).

According to the BRSA sector data as of December 2017, there are 49 banks operating in Turkey (28 private commercial banks, 3 state banks, 13 development and investment banks, 5 participation banks). The top seven banks, three of which were state-controlled, are holding more than 70% of the banking sector's total assets, loans and deposits in Turkey.

Turkey's large and dynamic economy with attractive demographics definitely contributes to the banking sector's growth prospects. The Turkish banking sector had a cumulative average growth

rate of more than 13% since 2002. Despite this outstanding performance, Turkish banks still have significant room for growth. The penetration rates for banking products increased significantly since 2002. Yet, they are still low compared to figures in Euro area. More importantly, the unbanked population is quite high in Turkey. More than 40% of the adult population is unbanked<sup>2</sup> which means they do not have an account at a financial institution.

Unlike many other banks around the world, liquidity risk is not a big threat for Turkish banks. With 55% of the total assets funded with customer deposits, the sector remains solid with its highly stable funding structure.

BRSA has been monitoring the liquidity position of the banks closely. Liquidity Coverage Ratio requires banks to carry high quality liquid asset reserve sufficient to cover their net cash outflows and the ratio is well-above required levels indicating Turkish banks' solid liquidity position.

In terms of capital, Turkish banks are also in an advantageous position. After introducing a recommended Capital Adequacy Ratio (CAR) level of 12% on the top of 8% required level, within the scope of Basel-III alignment, BRSA introduced new capital buffers such as SIFI Buffer, Capital Conservation Buffer and Counter-Cyclical Buffer. A deeper analysis of the capital structure of Turkish banks indicates that the banking sector capital is mainly made up of Tier I capital (as high as 86%), namely paid-up capital, legal reserves, profit for the period and retained earnings.

Unlike European banks, high leverage is not an issue for Turkish banks. While delivering mid-to-high teens Return on Average Equity (ROAEs), Turkish banking sector operates with as low as 8x leverage where Eurozone is around 12x while South Africa operates with higher than 10x<sup>3</sup>.

Touching upon asset quality, Turkish banks also stand out for their sound asset quality. Thanks to the established and prudent underwriting procedures, 3.0% NPL ratio is one of the lowest in the region and the specific coverage is 79%.

State banks have significant presence in banking sector assets and deposits. Three state banks hold one third of the sector's total assets, loans and deposits.

Deposits are very short-term in Turkey, their maturities are mostly 1 to 2 months. As Turkish banks do not fund their long-term loans (such as project finance loans or mortgages) with short-term funding sources, loan to deposit ratio of the sector falls way above 100% (117% as of December 2017). In that sense, the dependence to international markets to diversify funding sources and manage duration mismatch, increases the sector's sensitivity to external developments and investor sentiment. Nevertheless, Turkish banks have continuous access to international funds. The banking sector managed to roll-over 76% of its long-term foreign currency debt even in the dire moments of the global crisis.

Moreover, the deposit market is not fully liberalized. Privileged status of state banks in collecting low-cost state institutions' deposits allows them to offer higher deposit rates in the market. This pricing behavior distorts the competition.

Additionally, scarcity of TL funding in the absence of well-developed capital markets makes the pricing competition more fierce.

*Source: BRSA monthly data as of December 2017*

*1 IMF's World Economic Outlook Report dated October 2017. Ranking as of YE 2016*

*2 Per World Bank's "Turkey: Financial Inclusion Conference" notes dated June 3-4, 2014.*

*3 IMF-FSI databases. Most figures are based on 2Q17 figures*

# CORPORATE PROFILE

Established in 1946, Garanti Bank is Turkey's second largest private bank with consolidated assets of TL 356.3 billion (USD 94.4 billion) as of December 31, 2017.

Garanti is an integrated financial services group operating in every segment of the banking sector including corporate, commercial, SME, payment systems, retail, private and investment banking together with its subsidiaries in pension and life insurance, leasing, factoring, brokerage and asset management, besides international subsidiaries in the Netherlands and Romania.

As of December 31, 2017, Garanti provides a wide range of financial services to its more than 15 million customers with 19 thousand employees through an extensive distribution network of 937 domestic branches, 7 foreign branches in Cyprus and one in Malta, and 3 international representative offices in London, Düsseldorf and Shanghai. Garanti offers an omni-channel convenience with seamless experience across all channels with more than 5,000 ATMs, an award-winning Call Center, internet, mobile and social banking platforms, all built on cutting-edge technological infrastructure.

Moving forward to maintain sustainable growth by creating value for all its stakeholders, Garanti builds its strategy on the principles of always approaching

its customers in a "transparent", "clear" and "responsible" manner, improving customer experience continuously by offering products and services that are tailored to their needs. Its competent and dynamic human resources, uninterrupted investments in technology, innovative products and services offered with strict adherence to quality and customer satisfaction carry Garanti to a leading position in the Turkish banking sector.

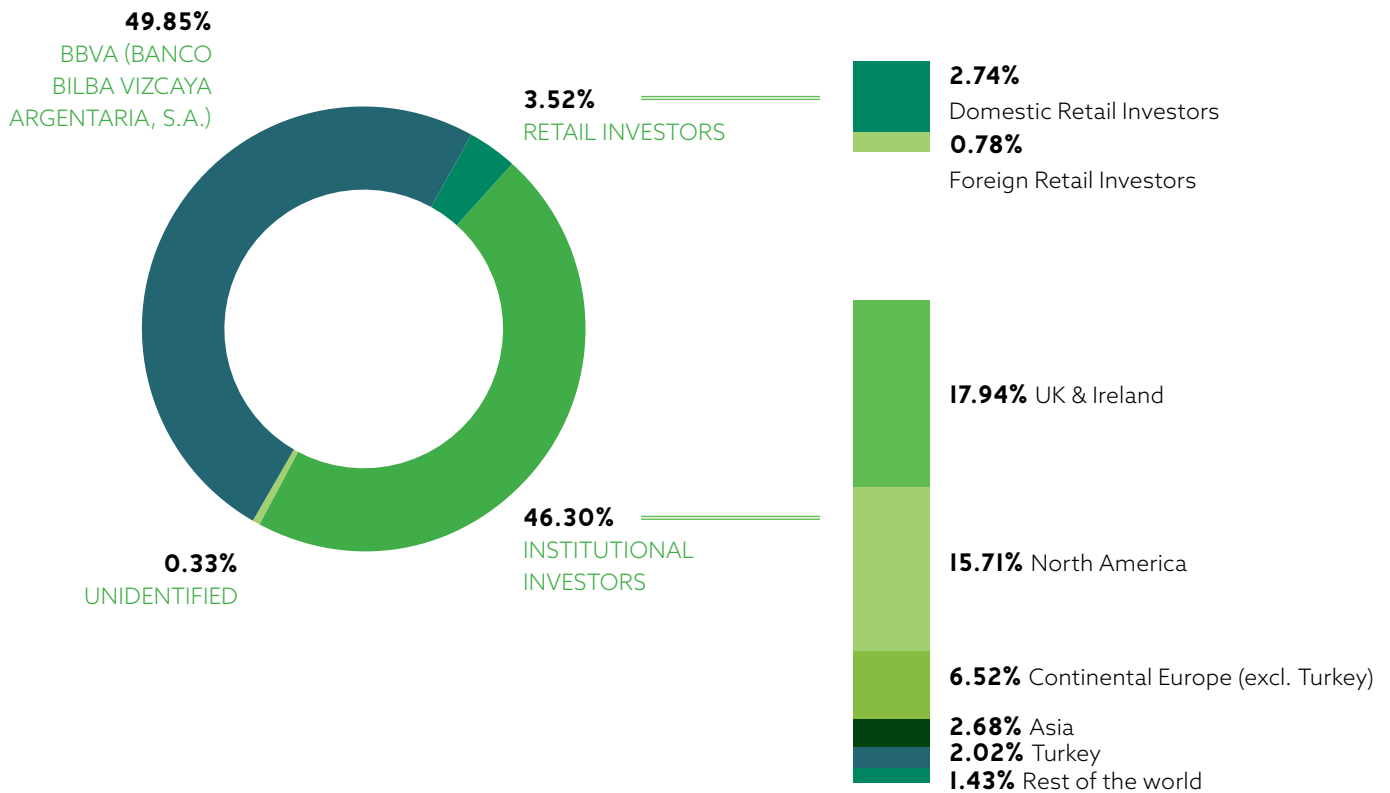
Implementing an advanced corporate governance model that promotes the Bank's core values, Garanti has Banco Bilbao Vizcaya Argentaria S.A. (BBVA) as its majority shareholder with 49.85% share. Its shares publicly traded in Turkey, and its depositary receipts in the UK and the USA, Garanti has an actual free float of 50.07% in Borsa Istanbul as of December 31, 2017.

Garanti's constantly improving business model is driven by its strategic priorities focused on responsible and sustainable development, customer experience, employee happiness, digitalization, optimal capital utilization and efficiency. Its custom-tailored solutions and wide product variety play a key role in reaching TL 285.5 billion (USD 75.6 billion) cash and non-cash loans. Garanti's capital generative, disciplined and sustainable growth strategy that strictly adheres to solid asset quality enables the Bank to move forward strongly. Its effective risk management through world-class

integrated management of financial and non-financial risks and organizational agility in capturing new opportunities result in sustainable value creation for all its stakeholders.

Moreover, Garanti creates shared value and drives positive change through lending based on impact investment, as well as strategic partnerships and community programs focusing on material issues for both Garanti and its stakeholders.

# GARANTI'S SHAREHOLDING STRUCTURE



## INSIDER HOLDINGS:

The chairman, members of the Board of Directors, the CEO and the Executive Vice Presidents are allowed to own publicly-traded shares of Garanti Bank; their transactions in Garanti Bank shares are publicly disclosed pursuant to Capital Markets Board regulations.

Note: There is no ultimate non-corporate controlling shareholder holding more than 5% share in the shareholding structure.

Institutional shareholder and foreign individual shareholder composition data based on IPREO Shareholder ID Analysis dated December 2017; the actual free float ratio and the share of local individual shareholders are all based on Central Agency Registry Agency data.

# OUR PURPOSE

TO BRING THE AGE OF OPPORTUNITY TO EVERYONE FOR A BETTER LIFE

# OUR COMPETITIVE ADVANTAGES

## DYNAMIC HUMAN CAPITAL MAKING A DIFFERENCE

- HR policies focusing on employee happiness
- Awarded talent programs
- Platforms to encourage employees to share their suggestions and innovative ideas
- First company from Turkey eligible for "Gold Certificate" from Investors in People (IIP) for the second time
- 36 hours/employee training per annum

## CUSTOMER-ORIENTED INNOVATIVE PRODUCTS AND SERVICES

- Differentiating with innovative, flexible and custom-tailored solutions
- Conducting market research and listening to customers
- Blending customer needs and tendencies with evolving trends

## STATE-OF-THE-ART TECHNOLOGY AND EXCEPTIONAL DATA WAREHOUSING

- Business-integrated IT
- Fully in-house developed, custom-fit IT solutions
- Uninterrupted transaction capability and infrastructure security
- Dynamic and advanced technology enabling quick customer service time
- Continuous investment in technology since 90s
- Data-driven and agile decision-making processes
- One of the best practices in Turkish market in terms of data consistency, reliability and report generation efficiency

## BEST CUSTOMER EXPERIENCE MANAGEMENT

- Making a difference in customer experience with smart business processes
- Simple and clear processes/customer journeys designed in customers' eyes
- Systems enabling propensity analysis and product development
- Sophisticated segmentation systems
- Multi-channel CRM tools offering effective & timely solutions

## STRONG BRAND AND REPUTATION

- Consistent communication and Community Investment Programs contributing to brand perception
- Holistic reputation management approach and strong reputation index
- Consumers define Garanti as "Leader in technology, innovative and makes the life easier"



# OUR VALUES

## CUSTOMER COMES FIRST

- We are empathetic
- We have integrity
- We meet their needs

## WE THINK BIG

- We are ambitious
- We break the mold
- We amaze our customers

## WE ARE ONE TEAM

- I am committed
- We collaborate
- This is Our Bank

### CENTRALIZED OPERATIONS

- First bank to set up centralized operations in Turkey
- 99% centralization ratio
- First bank in Turkey to create "paperless banking" operating environment
- First bank in the world to implement ID scanning facilities in branches
- Alleviating branches' operational workloads through effective use of technology

### SINGLE POINT OF CONTACT FOR ALL FINANCIAL NEEDS

- International banking operations in the Netherlands and Romania since 90s
- Leading position in bancassurance
- 22 out of 100 new pension participants in Turkey choose Garanti
- Fastest mortgage process in the world by granting within the same day

of application as long as the appraisal report is ready

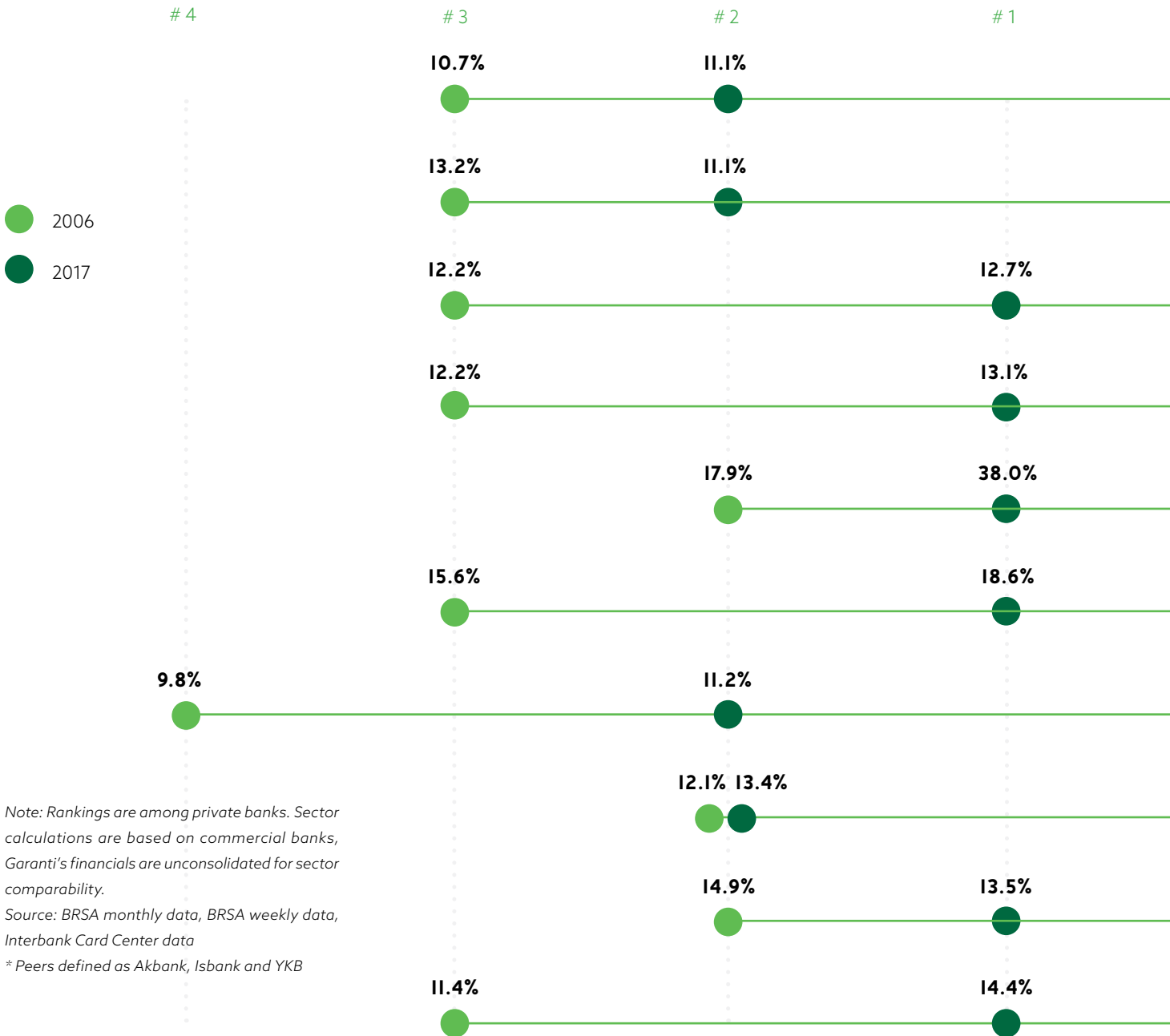
- Leading position with TL 15 billion factoring volume and total assets of TL 3.5 billion
- Leading position in leasing sector with more than 2,400 contracts
- Turkey's first asset management company
- Strong presence in capital markets with over 8% brokerage market share and 11% in the futures market

### OMNI-CHANNEL CONVENIENCE WITH SEAMLESS EXPERIENCE ACROSS ALL CHANNELS

- New service model with renovated branches capturing the benefits of digital world for better customer experience
- Presence in 81 cities with widespread branch network

- Leading position in internet & mobile banking
- 95% of non-cash financial transactions occur via digital channels
- Offering solutions based on tendencies and location, Bonus Flas: more than 4 million downloads within two years
- >5,000 ATMs, also serving non-bank customers through cardless transactions
- Leading financial call center with more than 77 million customer contacts per year
- Offering personalized financial management services
- 1 out of every 4 transactions handled via digital channels in Turkey go through "Garanti"

# GARANTI'S POSITION IN THE SECTOR



Note: Rankings are among private banks. Sector calculations are based on commercial banks, Garanti's financials are unconsolidated for sector comparability.

Source: BRSA monthly data, BRSA weekly data, Interbank Card Center data

\* Peers defined as Akbank, Isbank and YKB

**ASSETS**

With uninterrupted support to the economy, Turkey's 2<sup>nd</sup> largest private bank

**LOANS**

Business partner of its customers  
share of loans within assets is 64%,  
hovering around its highest levels

**CONSUMER LOANS**  
(Excluding Credit Cards)

Leading bank in Turkey

**CONSUMER MORTGAGE LOANS**

With sector leader Garanti, more  
than 57,000 people became  
homeowners

**CONSUMER AUTO LOANS**

Sector leader with focus on  
continuous improvement of  
customer experience

**# OF POS**

Leader in payment systems  
with 670 thousand POS  
terminals and 6.8 million  
credit card customers

**CUSTOMER DEPOSITS**

Wide deposit base on the  
back of its customers' trust

**DEMAND DEPOSITS**

Expanding demand deposit base with  
outstanding variety in offerings Demand  
Deposits/Total Deposits >25% (Sector 20%)

**NET FEES & COMMISSIONS**

Highest fee generation  
capability backed by  
diversified fee sources  
& further digitalized  
processes

**ORDINARY BANKING INCOME**

Highest level & Highest improvement  
in core banking contribution to ROAA  
since 2015 among peers\*

G4-18

# RISKS AND OPPORTUNITIES

2017 was another year of great challenges and opportunities. The major risks businesses are facing today and tomorrow are not the same as yesterday. Within this chapter we therefore disclose risks and opportunities, shaped by events such as political uncertainties, social unrest, disruptive technological advancements and extreme weather events. All these events, both internally and externally, affect our ability to create value for our stakeholders in the short, medium and long term. They are addressed through a variety of hard and soft controls such as Garanti's risk management approach and through initiatives undertaken under the framework of material issues as explained in performance chapters and in the section "Corporate Governance & Risk Management". Challenges and opportunities with regards to the Turkish Economy and Turkish Banking Sector are further addressed in the section The Environment We Operate In.

## CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

Environmental, social and economic trends such as increasing population, diminishing resources and the broadening wealth gap are among the grand challenges facing our society today. To tackle these issues, governments and the business world must focus on positive impact and responsible investments. The momentum gained by the UN Sustainable Development Goals (SDGs)

should be carried on in the upcoming years. Achieving the SDGs globally will require USD 5 to 7 trillion a year until 2030. For the developing countries this means a USD 2.5 trillion gap per year. This only further emphasizes the critical role of financial institutions. Our leading role in sustainable banking allows us to set a good example for our peers and increase our multiplier effect in contributing to sustainable development.

As set out in our Sustainability Policy adopted in 2014, Garanti aspires to achieve its aim of sustainable banking through technological innovations, managing the environmental footprint of its operations and developing sound environmental & social risk assessment as part of its risk management framework. Garanti also recognizes the importance of an effective organizational structure and strong corporate governance to maintain ongoing development and successfully deliver its sustainability objectives.

Furthermore, Garanti is aware of the need to collaborate and engage with its peers and suppliers on a global level to identify new opportunities, capture emerging best practices and products and remain a sustainability leader in Turkey.

In Our Material Matters Section, we explain how Garanti addresses the SDGs through the actions we undertake under each material issue and refer to the relevant sections of this Report.

## CLIMATE CHANGE ADAPTATION

As predicted in the World Economic Forum Global Risk Report 2017, major global risks arose from climate-related events. Natural disasters that claimed lives and destroyed property globally dominated the news throughout the year. Devastating storms in the Atlantic during the summer months resulted in many deaths and estimated to cost USD 290 billion in damages. Wildfires in California and Portugal were among the largest and most destructive disasters in modern history causing many deaths and leaving thousands of people homeless, along with severe mudslides in Africa killing more than 1,000 people.

Turkey also had its share in extreme weather events in 2017. The record-breaking hail in July which only lasted 20 minutes is estimated to cost TL 1.2 billion in damages. The extraordinary tornado in November in Antalya damaged 1.8 million square meters of greenhouse area which will cause a major blow in the region's agriculture sector and ultimately our country's annual food supply.

In 2017 we witnessed a worldwide enhanced collaboration and dedication to combat climate change. The Task Force on Climate-related Financial Disclosures, established by the Financial Stability Board, released its recommendations report on how companies should publicly disclose their climate-related risks and

opportunities. The report drew a lot of attention from the business world as well as public authorities and global reporting standards such as CDP and Global Reporting Initiative (GRI). Garanti was among the first one hundred companies to support this report and Garanti will initiate the process to align its operations and disclosures accordingly in the coming years.

This new challenge of improving our environmental disclosure will add on our existing track record under the global environmental reporting framework. Specific examples of activities undertaken to address this issue are explained on Responsible and Sustainable Development Chapter.

## SWITCHING FROM FOSSIL FUELS TO RENEWABLES

Divestment from fossil fuels was again a growing trend in all sectors, especially the financial sector. A joint declaration was adopted during the One Planet Summit between the 23 national and regional development banks from the International Development Finance Club (IDFC) and multilateral development banks to increase funding dedicated to the implementation of the Paris Agreement. The World Bank announced its plan to discontinue its financing of upstream oil and gas projects in 2019. Countries also started to announce their pledges to decarbonizing their economy by initiatives like Powering Past Coal Alliance as well as commitments to apply a more significant carbon price.

2017 also marks the year of a remarkable success in the renewable energy investments. Globally, around one

fifth of the world's energy comes from renewables. Last year, renewables made up more than half of new additions to power generation capacity globally<sup>1</sup>. As we declared in our Climate Change Action Plan in 2015, we continued to prioritize renewable energy investments in 2017. To date, loans provided to such projects exceeded USD 4.9 billion. As a pioneer in financing renewable energy projects and being the largest lender for wind projects in Turkey, Garanti Bank exceeded its goal of prioritizing renewables in project finance as 100% of the total resources allocated to greenfield energy investments was allocated to renewable investments in 2017. Moving forward, Turkey's estimated climate-smart investment potential is estimated to be USD 270 billion<sup>2</sup> between 2016 and 2030. This also clearly shows the future investment need and the critical role of financial institutions. Specific examples of activities undertaken to address this issue are explained in Responsible and Sustainable Development.

*1 The power of renewables (The World Bank, 2017 in 12 Charts)*

*2 IFC Climate Investment Opportunities in Emerging Markets (2016), p.76*

## GROWING INEQUALITY

Without the right policies to keep the poor safe from extreme weather and rising seas, climate change could drive over 100 million more people into poverty by 2030. This number will just be an addition on top of the 900 million people expected to be living in extreme poverty if development progresses slowly. It is also estimated that 200 million people will be displaced due to climate change by 2050, where Turkey is considered to

be among the countries that will attract immigrants and consequently will be significantly affected due to limited resources. Climate change was not the only factor in the increasing inequality trend. Unfortunately, the world continued to suffer from terror attacks and intergovernmental crises in 2017. Tackling these challenges requires extreme determination and dedication globally. Increasing inequality is resulting in devastating economic and social impacts. The fight against inequalities related to gender, race, ethnicity and social class will be of paramount importance in the coming years. For instance, an increase in participation of women in the workforce can have significant impacts on economic activity therefore expanding the market that the private sector operates in. On the other hand, the level of diversity in the workforce of a company can impact its profitability as it contributes to key areas such as the quality of governance and the level of customer centricity.

Financial services sector, providing inclusive financial products and services as well as improving the financial health and literacy of communities will also be more important than ever in tackling all types of inequalities. Garanti is actively participating to tackle several types of inequalities by supporting women entrepreneurs and advocating for gender equality in private sector through setting an example with the good practices that it implements. Examples of such activities are explained in Investing in Human Capital and Customer Experience Sections.

## GOLDEN AGE OF ENTREPRENEURSHIP

Decent jobs are the key pathway to end inequality and yet 60% of young people in the age of 15-24 worldwide are jobless. The percentage of young people is steadily rising in the emerging countries and for young people jobs are very important for their social, economic, and political inclusion.

Fortunately, with the technological advancements it has never been easier to start a business. Nearly 3,200 reforms in the business environment have been recorded in 186 economies around the world. And the majority of these reforms were in the area of starting a business. Today, the time taken to start a new small or medium business averages 20 days worldwide, compared with 52 in 2003. Turkey also had a great year in entrepreneurship and business growth as well. In line with these developments, Garanti continued its support on entrepreneurship through initiatives such as GarantiPartners program. Detailed information can be found in Customer Experience and Responsible and Sustainable Development Sections.

## DIGITAL TRANSFORMATION

The disruptive new technologies and advancements are changing the world, as we know it and the way we do business. As 2017 marked the 20<sup>th</sup> year anniversary of our digital banking, we will always closely follow these developments and preserve our pioneer role in this field.

As Industry 4.0, Artificial Intelligence and Big Data-based analyses advances, most of the operational jobs will be automated

and done through digital channels. As Garanti, we believe that this is a great opportunity for us to allocate that workforce to more creative projects such as improving customer experience and enhancing customer behavior analysis. In 2017 we initiated an unprecedented transformation project in our service model in branches, where we developed a new service model that captures the benefits of the emerging digital world. By doing so, we aim to improve sales and operational efficiency, enhance customer experience leveraging digital innovation, and create seamless, omnichannel experience to increase digital migration and reduce branch dependency.

On the other hand, in an increasingly connected and digitized world, it is of major importance to address the threat of cybercrime. Unfortunately 2017 was a year the world experienced many serious cyber-attacks and hacks globally. With Equifax data breach in May, 145.5 million accounts were effected. In October hackers accessed a server containing personal information for more than 57 million Uber drivers and riders. Possibly the worst ransomware attack in the history also happened in 2017, WannaCry Cyber-attacks infected around 300 thousand computer systems worldwide including The U.K. National Health Service and The U.S. National Security Administration (NSA). In the upcoming years, as these threats will increase and become much more severe, the importance of cyber & information security will increase further.

In 2017, Garanti continued to improve its outstanding information and cyber security systems as explained in detail on Digital Transformation Section. In order

to improve the cyber security efforts of Turkey, Garanti collaborates in several initiatives such as Sectoral Cyber Incident Response Team managed by Banking Regulation and Supervision Agency (BRSA), Turkey Informatics Industry Association (TUBISAD), and Cyber Emergency Response Team for Turkish Finance Sector.

## THE ERA OF CRYPTOCURRENCIES

In a year of soaring and fluctuating cryptocurrency prices and countless initial coin offerings, regulators worldwide stepped in to define how they would oversee what is considered to be a legally uncertain and ambiguous topic to date.

2017 was not only the year that the cryptocurrencies have become extremely valuable, but it was also the year that they have become an acknowledged part of the financial system. Some governments have already started to work on developing necessary regulations to include these digital options into their financial systems. Many world-renowned companies such as Microsoft, Bloomberg, GAP, and Expedia are now accepting Bitcoin payments. On the other hand, there is still huge opposition disapproval for such systems that eventually they can be banned entirely and become useless. This volatility still makes it very hard to invest in these options.

Technologies like Blockchain also gained increasing attention during 2017. In an age of growing distrust of governments and enterprises, information held transparently where anyone can verify the transaction becomes more and more appealing. Venture funding for

Blockchain continues to grow, and people are still looking into ways to move Blockchain from proof-of-concept to adoption and production. This major trend will remain as a significant issue to be closely monitored by the financial sector in order to better analyze the risks and opportunities moving forward.

## 21<sup>ST</sup> CENTURY SKILLS GAP

All these new technological advancements, global developments, and future challenges require a brand new and much broader skill set. However, education is still one of the greatest challenges worldwide. The 2018 World Development Report finds that “The quality and quantity of education vary widely within and across countries. In the poorest countries, fewer than 1 in 5 primary school kids are proficient in math and reading.” Hundreds of millions of children around the world are growing up without even the most basic life skills, let alone the skills required to survive in the 21<sup>st</sup> century. This also creates a challenge for the business world as it means the talent pool will be unable to serve the changing needs of companies.

To tackle this issue Garanti has many initiatives such as Teachers’ Academy Foundation, Math & Science – Learning with Fun, and Code the future with Garanti. Garanti also supports its employees in this regard through various trainings and mentoring programs in order for them to be fully equipped for today’s and tomorrow’s challenges. More examples can be found on Responsible and Sustainable Development and Investing in Human Capital Sections.

G4-18, G4-19, G4-24, G4-25, G4-26

# OUR MATERIAL MATTERS

With this integrated report we aim to provide a coherent story of our activities. The basis of this story is the materiality analysis which enables us to identify the most relevant and important topics for Garanti and its stakeholders, the material issues. Material issues are mainly determined based on stakeholder dialogue and are plotted in the materiality matrix. The topics defined within the materiality matrix form the basis of this report, as set out in the 'About this report' section.

We performed our first materiality analysis in 2013. As we want to make sure that we are always in line with the needs of our stakeholders and to make sure that the identified material issues are still the most important, we perform an update of our materiality analysis at least once every two years. The last revision was finalized in the first quarter of 2017 and also formed the basis for our 2016 Sustainability Report. We listened to our internal and external stakeholders and reviewed the connection between our corporate strategy and global trends which impact the banking sector.

We carried out a desk study and reviewed the trends, sectoral reports, reports of global banks, and advice by international professional organizations such as GRI and SASB. After identifying the long list of topics, we conducted a comprehensive stakeholder analysis and outreach by reaching all stakeholder groups via online questionnaires, focus group meetings and phone to gather their opinion. In the external trend analysis, we reviewed

the priorities of initiatives which guide the business world and financial sector, such as the Sustainable Development Goals, UN Principles for Responsible Investments, and Global Alliance - for Banking on Values.

In executive interviews, we included the view of top management who are closely involved in determining the Bank's future strategy. The executives evaluated the topics according to the five-year corporate strategy and topics' risk and opportunity areas as well as their operational, reputational, strategic, legal and financial impact. In addition to executive interviews we evaluated the topics through a four-step assessment called "Four Factor Impact Analysis". In the assessment, we ranked each topic according to the magnitude of impact, likelihood of impact and time frame

(short, middle, long) in terms of;

- Direct financial impact and risk,
- Legal, regulatory and policy drivers,
- Opportunities for innovation,
- Industry norms, best practices and competitive advantage.

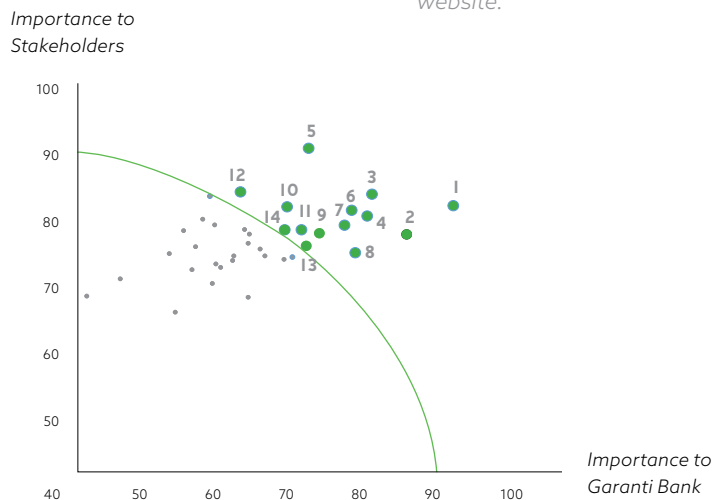
In an integrated governance approach, we finalized the Bank's material issues considering the alignment of topics with our integrated business strategy. Common topics which are highly important for both external stakeholders as well as our executives constituted the material issues and were clustered under 6 main topics: Customer Experience, Financial Performance, Digital Transformation, Corporate Governance and Risk Management, Investing in Human Capital, Responsible and Sustainable Development.





## MATERIAL ISSUES FOR GARANTI BANK AND ITS STAKEHOLDERS

The full list of issues can be found in Appendix I of 2016 Sustainability Report on page 40, 188 and 189. The Report is available on Garanti Investor Relations website.



## SUSTAINABLE DEVELOPMENT GOALS AND GARANTI BANK

On 1 January 2016, the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development officially came into force. SDGs, adopted by the United Nations, guide the business world in terms of contributing to social development.

The financial services sector should also adopt the SDGs for example by reshaping market opportunities in line with society's needs, to ensure a comprehensive, strong and stable economy for all individuals and to achieve social welfare in the world. The actions that we undertake to address the material issues contribute to the following SDGs and are explained in the Performance Section.

CLUSTER	# OF ISSUE	MATERIAL ISSUE	RELEVANCE TO SDGs
CUSTOMER EXPERIENCE	1	Customer centricity and increasing customer satisfaction	5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 10 REDUCED INEQUALITIES
	8	Financial health and supporting customers in making conscious financial decisions	8 DECENT WORK AND ECONOMIC GROWTH
FINANCIAL PERFORMANCE	4	Financial performance (including solvency) & direct and indirect impact on economy	8 DECENT WORK AND ECONOMIC GROWTH
CORPORATE GOVERNANCE AND RISK MANAGEMENT	5	Transparent disclosure of information for stakeholders	10 REDUCED INEQUALITIES
	12	Good corporate governance	10 REDUCED INEQUALITIES
	3	Risk and crisis management (including integrated management of financial and non-financial risks)	10 REDUCED INEQUALITIES
DIGITAL TRANSFORMATION	14	Compliance	10 REDUCED INEQUALITIES
	6	Customer privacy and information security	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
INVESTING IN HUMAN CAPITAL	2	Digital transformation and technological advancement	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
	10	Investing in human capital	4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 16 PEACE AND JUSTICE STRONG INSTITUTIONS
RESPONSIBLE AND SUSTAINABLE DEVELOPMENT	7	Management of customer ESG (Environmental, social and governance) risks	4 QUALITY EDUCATION, 6 CLEAN WATER AND SANITATION, 7 AFFORDABLE AND CLEAN ENERGY, 8 DECENT WORK AND ECONOMIC GROWTH, 11 SUSTAINABLE CITIES AND COMMUNITIES
	11	Climate change and energy	12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 13 CLIMATE ACTION, 14 LIFE BELOW WATER, 15 LIFE ON LAND, 17 PARTNERSHIPS FOR THE GOALS
	9	Pioneering the development of sustainable banking	12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 13 CLIMATE ACTION, 14 LIFE BELOW WATER, 15 LIFE ON LAND, 17 PARTNERSHIPS FOR THE GOALS
	13	Stakeholder dialogue	12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 13 CLIMATE ACTION, 14 LIFE BELOW WATER, 15 LIFE ON LAND, 17 PARTNERSHIPS FOR THE GOALS

## HOW DO WE INCLUDE OUR STAKEHOLDERS IN THE PROCESS?

Since our stakeholders, both internally and externally, are of great importance to us, regular communication with our stakeholders gives us the opportunity to be an inclusive Bank. The feedback from our stakeholders allows us to determine risk and opportunity areas more comprehensively as well as understand stakeholder expectations and meet their needs more sensitively. In addition to maintaining the dialogue with our stakeholders through various channels all year round we used the AA1000SE Stakeholder Engagement Standard as a reference to conduct the stakeholder engagement process in a more strategic and comprehensive way. With a 22% response rate we collected the opinion of 152 people through an analysis carried out by an independent company. Firstly, we grouped our stakeholders according to three criteria as directly impacting Garanti, indirectly impacting Garanti and

bringing in new opportunities, insights and approaches. We prioritized our stakeholders, which were grouped as customers, employees, shareholders, investors, analysts, suppliers, NGOs and associations, media, universities, financial institutions, governmental institutions and international organizations according to the criteria of dependency, influence, proximity, representation, policy, strategic intent and responsibility.

We reached most of the prioritized stakeholders via online surveys. We also interviewed our shareholders face-to-face or by telephone, held a focus group meeting with the Sustainability Representatives in the Head Office and conducted interviews with 10 senior managers directly reporting to the Board and the CEO. The stakeholders were requested to prioritize the relevant topics and share their opinions and expectations about the perception of important trends and Garanti Bank's practices. While 14 issues have been identified as material by our stakeholders the top five issues

are customer centricity, risk and crisis management, digital transformation, transparent disclosure of information for stakeholders and financial performance.

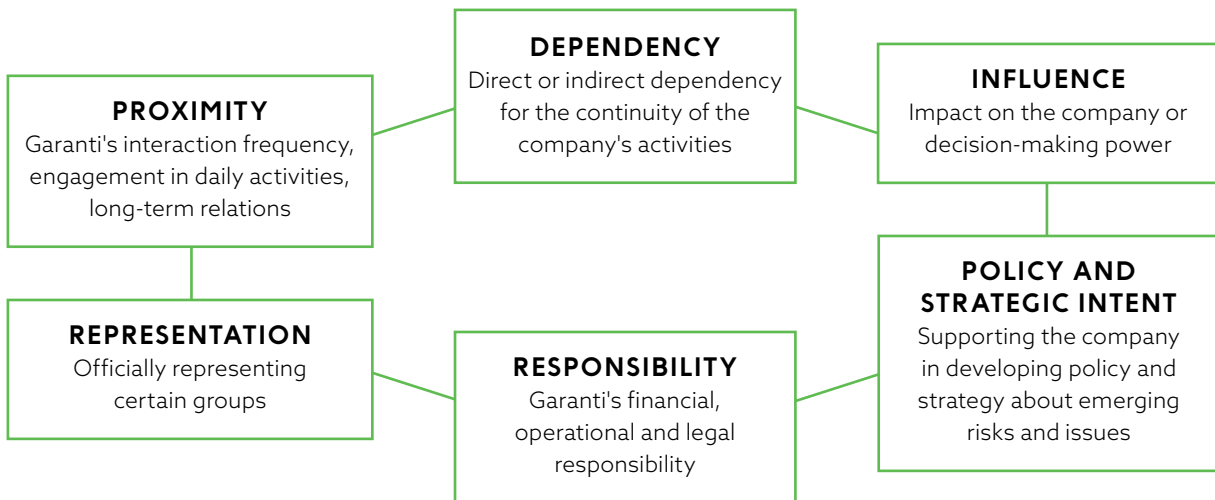
**MOST OF OUR STAKEHOLDERS EXPECT GARANTI TO KEEP PIONEERING SUSTAINABILITY AND RAISING AWARENESS AMONG ITS EMPLOYEES AND CUSTOMERS.**



FIND SUSTAINABILITY VERY IMPORTANT FOR THE BANKING SECTOR.



DEFINES SUSTAINABILITY AS LONG-TERM, PROFITABLE AND STABLE GROWTH.



## ISSUES RAISED BY IMPORTANT STAKEHOLDERS IN 2017

Some of the important issues which are a result of our continued stakeholder dialogues during the reporting period are as follows.

STAKEHOLDER GROUP	ISSUE	WHAT DO WE DO ABOUT IT?
EMPLOYEES	Increasing the employee focus and satisfaction within the Bank practices and ensuring employee representation in HR processes and decision mechanisms.	In February 2017, GONG (Developing Opinion and Suggestion) platform was established. GONG is an idea platform, where Garanti Bank employees share their opinions and suggestions about Human Resources practices and the working environment. Based on one of the suggestions delivered on the GONG platform, employees chose the birthday gifts in 2018. The Gong platform activities were handed over to the Insight and Employee Research Team, which was established in April.
TOP MANAGEMENT	Better control over in-house GHG emissions	In 2017, we agreed with a service provider which develops and implements projects on remote monitoring and control of environmental parameters such as electricity.
CUSTOMERS	Increasing expectations on faster service, less waiting time and better service experience in branches and new demands due to new technologies and digital world	Garanti has launched a new service model in 2017 that captures the benefits of the emerging digital world with the aim of offering an all-around excellent banking experience. All Garanti branches are evolving into an innovative structure built on digitalization where the customers are able to benefit from all kinds of services in a one-stop banking system in the fastest and easiest manner.
NGOs AND ASSOCIATIONS INVESTORS	Publishing an integrated report	We published our first integrated report in 2018.
NGOs AND ASSOCIATIONS INVESTORS	Action against Climate Change	In line with the Climate Change Action Plan published in 2015, we carry on our work. In 2017, our CEO has been one of the ~100 supporters of the recommendations published by TCFD <sup>1</sup> guidelines.

<sup>1</sup> Financial Stability Board's Task Force on Climate-related Financial Disclosures.

# OUR VALUE CREATION

## OUR WAY OF CREATING SHARED VALUE

Our business model is driven by our purpose to bring the age of opportunity to everyone.

We make use of five different sets of capitals in our business model in delivering an outcome that contributes to SDGs and adds value to the economy, the community and all our stakeholders.

Our effectiveness, agility and organizational efficiency are key in realizing our Strategic Priorities which represent our business response to material issues that are clustered into five topics in this Report.

A robust risk and governance model shaped by our ambition to follow best practices helps us to reframe all the challenges in a way to serve our purpose and grasp opportunities.

### FINANCIAL

We use our dynamically managed and deposit driven funding base together with well diversified funding mix and opportunistic utilization of alternative funding drives our disciplined, sustainable and capital generative growth.

With a 4% reduction of cost to income ratio compared to previous year, is our goal to constantly improve our business model and processes with an operational and environmental efficiency point of view and seek cost revenue synergies.

### DIGITAL & INTELLECTUAL

We constantly invest in digital platforms so as to provide transaction convenience, unrivaled customer experience and pioneering solution suggestions to our 5.9 million digital banking customers. We expand our digital customer base and increase the share of digital channels in our sales. We take precautions against all risks which could prevent secure and uninterrupted service (e.g. cyber threats) ensuring information security.

### HUMAN

We invest in our employees by focusing on their development, satisfaction and well-being through an average of 36 hours of training per FTE and 31 well-being programs. We strive to form teams possessing team spirit, and with shared wisdom, social responsibility and delivering results. We employ a fair and transparent management policy based on performance, focus on equal opportunities and diversity.

### RELATIONSHIP

We strive to offer our 15 million customers an excellent customer experience by placing them at the center of all our activities and by designing our processes from their perspective. We aim to be transparent, clear and responsible towards our customers and establish long-lived relationships built on trust. We help our customers in making informed decisions supporting financial literacy, health and inclusion through solutions we offer.

### NATURAL & SOCIAL

We transform savings into sustainable investments by offering sustainability products & credit lines and TL 9.3 billion lending based on impact investment principles. We advise our customers to grow their businesses in a sustainable manner in our daily communication and initiatives tailored to their needs. We strive to drive positive change through 36 engagement platforms and 27 memberships. We focus on community investment programs and invested TL 20.3 million delivering impactful outcomes on material issues.



VALUE  
CREATED

## FINANCIAL

We contributed TL 285.5 billion (USD 75.6 billion) to the economy, through cash and non-cash lending and our operations produced a Return on Average Equity of 16.6% and a Return on Average Assets of 1.9% with a Capital Adequacy Ratio of 16.8% and CET-I of 14.7%.

Garanti's market capitalization reached TL 45 billion (USD 12 billion) at the end of 2017 and Garanti proposed to its shareholders TL 0.41667 per share gross dividend representing 27.59% dividend payout ratio.

We contribute to the economy and the society by paying dividends to our shareholders, salaries to our employees, invoices to our suppliers and tax revenues to governments. We make a significant contribution to public finances not only through our own tax payments, but also, through third party tax collection due to our economic activity. The total tax contribution of Garanti to public finances is disclosed voluntarily on Garanti Investor Relations website.

## DIGITAL &amp; INTELLECTUAL

Our investment in digital channels resulted in share of digital sales to total sales increase to 1/3 with no data breach regarding customer privacy. As a pioneer in digitalization, we empower our customers with state-of-the-art digital solutions and set an example for our peers in keeping up with the latest technological advancements.

## HUMAN

We created employment for 18,851 people and our efforts in promoting equal opportunities and enabling professional development contribute to our high employee engagement score and low turnover.

With a women ratio of 41% in management levels and a variety of initiatives promoting women's advancement in their career, Garanti is the only company in Turkey qualified for the Bloomberg Gender Equality Index.

## RELATIONSHIP

Our relationship with our customers is built on trust by exceeding their expectations and enhancing their satisfaction. Our leadership position among our private peers in Net Promoter Score is a result of our customer experience focus that is at the core of our business model. Our efforts in supporting financial literacy, health and inclusion resulted in touching lives of 809,397 customers that started using savings products.

## NATURAL &amp; SOCIAL

Our impact investment principles and participation in financing renewable energy projects led to avoided GHG emissions of 5.4 million tonnes of CO<sub>2</sub>e based on total operational installed capacity, while the Scope 3 footprint of our energy production portfolio is 0 in new PF commitments.

Our engagement activities led to 8 policies/position papers that are issued to contribute SDGs and our community investment programs addressed 3 different challenges with a Social Return on Investment value of more than 2.

As a result of these efforts, Garanti has qualified in six leading sustainability indices.

CONTRIBUTION TO SUSTAINABLE DEVELOPMENT GOALS



# OUR GOVERNANCE

Garanti Bank's effective Board of Directors is at the heart of Garanti's well-functioning governance structure and goes beyond fiduciary responsibilities. It acts as the ultimate internal monitor and contributes an outside view to corporate strategy, oversees performance against the strategy set out and helps Garanti thrive in the long run. To ensure effective risk management, the Board monitors compliance, internal control and risk management policies and systems that are aligned with the Bank's strategy and risk appetite, as well as subsequently performing its oversight function.

Garanti has a one-tier Board of Directors that is formed by 10 members with the composition of 1 female and 9 male board members as of March 1, 2018. In accordance with the principle of separation of powers and authority, the Chairman and the CEO have different roles at Garanti Bank. This clear distinction establishes a balance between authorities and powers within the scope of the Bank's corporate structure, drawing the lines of decision-making capacity of each position. The CEO is the only executive member of the Board of Directors.

*The independence statement including independent member criteria is available in the Corporate Governance Principles Compliance Report on page 147.*

The composition of the Board with 3 independent members supports the exercise of independent and objective judgment. Garanti's Board of Directors brings together members with the right combination and diversity of skills, background, knowledge, expertise and experience. The average tenure of the board members is 6 years. The average experience of the non-executive board members in banking and business administration is more than 28 years. Two non-executive members of the board have board memberships in Garanti subsidiaries, four non-executive members have responsibilities in BBVA subsidiaries and two non-executive members have other board memberships.

*Please refer to Board of Directors Section for details.*

The Board of Directors operates on the principle that it must convene as and when necessitated by the Bank's affairs and transactions, but at least once a month. Pursuant to the Articles of Association of the Bank, the Board of Directors meets with the attendance of seven members minimum and resolutions of the Board of Directors are taken by affirmative votes of at least seven members present in the meeting. In 2017, the Board of Directors met 16 times by satisfying the required quorums for meeting and decision.

A Corporate Secretariat position has been set up to facilitate communication between the members of Board of Directors and the Head Office.

At Garanti Bank, risk management mechanisms, which provide long-term continuity and durability of business activities in the long run, consist of a structure that enables the identification, prioritization, measurement, monitoring and management of risks.

Focusing on Risk Management and Audit, one of the core elements of our strategy, includes a structure oriented toward an optimum capital balance and proactive audit systems in line with our activities and within the framework of continuing sustainable growth by creating value, by means of creating a risk management system where risks are measured with methods in compliance with international standards and local regulations, and by observing the risk-return trade-off based on this system.

Garanti carries out risk management, internal audit and control activities in line with applicable legislation and independent of executive functions through an organization that reports to the Board of Directors.

The Board of Directors is ultimately responsible for establishing and ensuring effective functioning of risk management,



internal audit and internal control systems and for establishing, implementing and maintaining risk management and internal audit strategies and policies that are compatible with Garanti Bank's capital and risk level.

*Please refer to Internal Systems Governance Section for details.*

To successfully navigate into the future, Garanti adopts a holistic approach for effective and sustainable risk governance, establishes centralized and integrated risk and control systems. The Board and the Senior Management are in strong collaboration regarding the Bank's strategic objectives in a manner that promotes synergy.

There are a number of committees set up at the Bank to fulfill the supervisory function. The Board of Directors oversees and audits the entire Bank via the Credit, Remuneration, Corporate Governance, Audit and various risk management committees. The committees organized under the Board of Directors are Credit, Audit, Corporate Governance, Remuneration and Risk Committees.

Moreover, members of the Board of Directors do actively participate in 13 committees being members of Garanti Assets & Liabilities Committee, Sustainability Committee, Integrity Committee, Personnel Committee, Consumer Committee, Employee Committee, Customer Committee, Weekly Review Committee, Cost Management and Efficiency, Volcker Rule Oversight, New Business and Product Committee, Responsible Business Committee and Corporate Assurance Committee.

*Please refer to Committees Section for details.*

*Details on Garanti's Code of Conduct, Declaration of Human Rights, Disclosure Policy, Dividend Distribution Policy, Human Resources Policy, Anti-Money Laundering Policy, Donation and Contribution Policy, Compensation Policy, Employee Compensation Policy, Sustainability Policy, Environmental Policy, Environmental and Social Loan Policies, Climate Change Position Statement & Action Plan are available in the Policies section under Corporate Governance on Garanti Investor Relations website.*

# OUR STRATEGY

## OUR STRATEGIC PRIORITIES



### EFFICIENCY

- Constantly improve business model and processes with operational and environmental efficiency point of view
- Cost and revenue synergies



### DIGITALIZATION

- Constantly invest in digital platforms so as to provide unrivaled customer experience, transaction convenience, and pioneering solution suggestions
- Expand our digital customer base and increase the share of digital channels in our sales



### EMPLOYEE HAPPINESS

- Invest in our employees focusing on their development, satisfaction and wellbeing
- Form teams possessing team spirit, acting with shared wisdom, social responsibility and delivering results
- Embrace a fair and transparent management policy based on performance, focused on equal opportunities, diversity and promoting from within

## MAIN PILLARS OF OUR STRATEGY



- Listen to our customers, understand their needs, meet and exceed their expectations by offering the highest service quality and innovative solutions
- Help our customers achieve their targets and make an impact on their lives





## CUSTOMER EXPERIENCE

- Offer our customers an excellent experience by placing them at the center of all our activities and efforts
- Always be transparent, clear and responsible towards our customers
- Design our processes from our customers' perspective, vesting them in a swift, easy and plain format
- Help our customers in making informed decisions through supporting financial literacy, health and inclusion in solutions that we offer
- Have long-lived relationships with our customers that is built on trust by exceeding their expectations and enhancing their satisfaction
- Offer innovative solutions and advise our customers to grow their businesses in a sustainable manner



## OPTIMAL CAPITAL UTILIZATION

- Use capital effectively so as to maximize the value to be created
- Focus on disciplined and sustainable growth on the basis of true banking principle
- Strict adherence to solid asset quality



## RESPONSIBLE AND SUSTAINABLE DEVELOPMENT

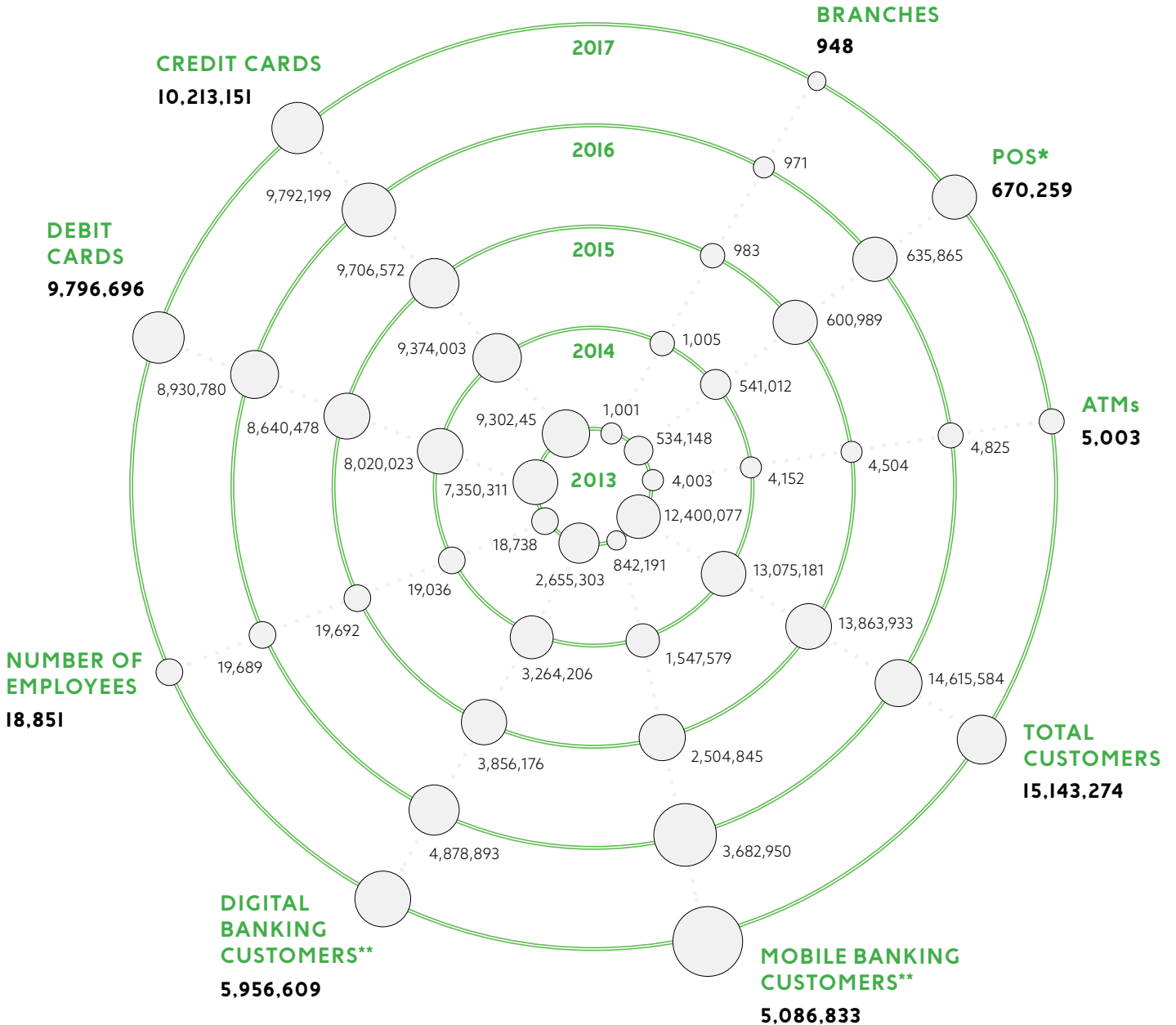
- Implement an advanced corporate governance model that promotes our core values
- Act with the principles of trust, integrity, accountability and transparency against all stakeholders
- Effective risk management through world-class integrated management of financial and non-financial risks
- Create shared value through lending based on impact investment principles
- Drive positive change through strategic partnerships
- Focus on community investment programs which deliver impactful outcomes on material issues

- Competent, well-educated and who value continuous progress and think big
- Respectful of the society and the environment, pleasant, solution-oriented, enthusiastic
- Responsible and ethical banking professionals



- Leading transformation in parallel with technological and digital developments
- Backed by state-of-the-art IT infrastructure
- Effectiveness and productivity focused efficient business model across all channels

# GARANTI IN NUMBERS

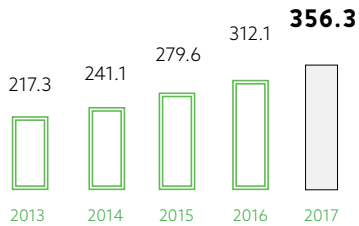


\* Includes shared and virtual POS.

\*\* Active customers on - min. 1 login or call per quarter.

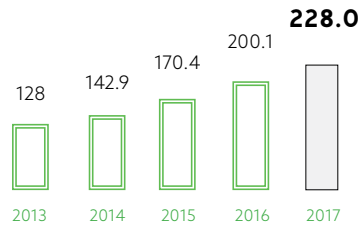
## ASSETS

(TL billion)



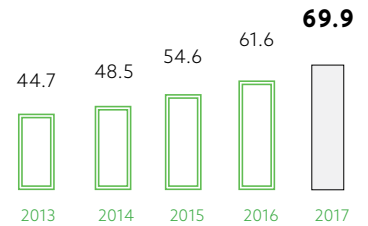
## PERFORMING CASH LOANS

(TL billion)



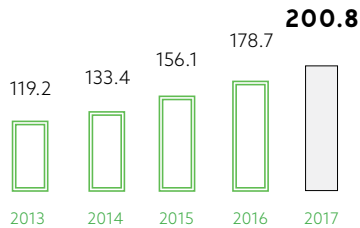
## CONSUMER LOANS

(TL billion)



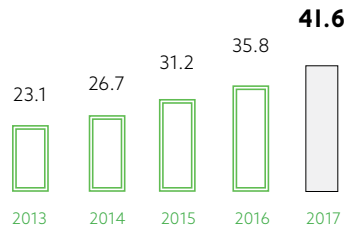
## DEPOSITS

(TL billion)



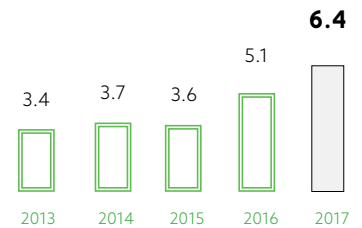
## SHAREHOLDERS EQUITY

(TL billion)



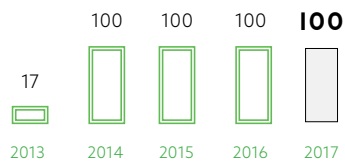
## NET INCOME

(TL billion)



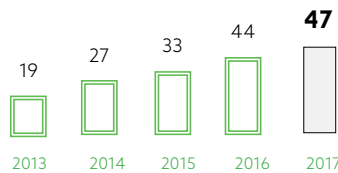
## SHARE OF RENEWABLES IN ENERGY PRODUCTION PORTFOLIO

(in new PF greenfield commitments) (%)



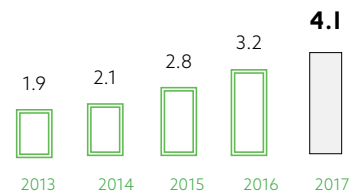
## PROJECTS SUBJECTED TO E&S RISK MANAGEMENT SYSTEM

(Cumulative)



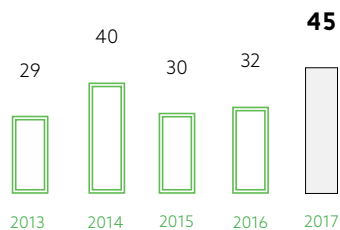
## TOTAL LOAN GRANTED TO WOMEN ENTREPRENEURS

(Cumulative, TL Billion)



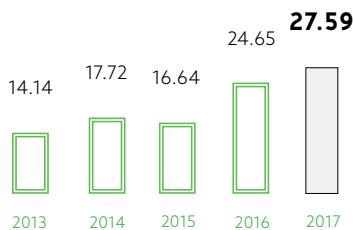
## MARKET CAPITALIZATION

(TL billion)



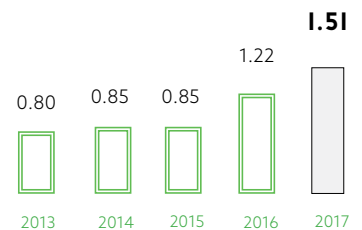
## GROSS DIVIDEND PAYOUT RATIO

(%)



## EARNINGS PER SHARE

(in TL)



# 2017 KEY PERFORMANCE INDICATORS

## CUSTOMER EXPERIENCE



NET PROMOTER SCORE

**HIGHEST**

among peer group

GROW CUSTOMER BASE EFFECTIVELY

**> 15 MILLION**

customers chose  
Garanti

DIISABLED FRIENDLY ATMs

**3,824**

(76% of all ATMs)

## HUMAN CAPITAL



EMPLOYEE ENGAGEMENT SCORE

**65**

Maintained its highest employee  
engagement level in banking sector

AVERAGE HOURS OF  
TRAINING PER EMPLOYEE

**36 HOURS**

HIGH PERFORMER TURNOVER

**2.3%**

WOMEN EMPLOYEES IN DECISION  
MAKING POSITIONS

**41%**

in senior/middle level management

## DIGITAL TRANSFORMATION



**1/4**

of all digital transactions  
in Turkey go through Garanti

DIGITAL SALES

Increased share of digital sales  
to total sales: from 1/4 to

**1/3**

NON-CASH FINANCIAL  
TRANSACTIONS THROUGH  
DIGITAL CHANNELS

**95%**

Note: Please read more on Net Promoter Score in the Customer Experience Section on Page 55.

## RESPONSIBLE AND SUSTAINABLE DEVELOPMENT



AMOUNT OF  
IMPACT INVESTMENTS

**TL 9.3 BILLION**  
to date

SUSTAINABILITY INDICES IN WHICH  
GARANTI IS INCLUDED

**6**

INVESTMENT IN  
COMMUNITY PROGRAMS

**TL 20.3 MILLION**

% OF LOANS WITH ESG PROVISIONS  
IN LOAN AGREEMENTS

**100%**

## FINANCIAL PERFORMANCE



ROAA **1.9%**

ROAE **16.6%**

NPL **2.6%**

CAR **16.8%**

CET-1 **14.7%**

CORE BANKING INCOME  
/ AVG. ASSETS

**2.9%**

COST / INCOME

**46.2%**

Focused on creating sustainable value for all its stakeholders, Garanti places its customers at the core of its operations with aim of providing unrivaled customer experience. Garanti's customer-focused innovative business model enables Garanti to generate sustainable income and command a leading position in Turkish banking sector.

Garanti employees are one of its most important assets and one of the main pillars of its strategy. Garanti aims to provide a fair working environment that encourages full utilization of employees' skills, offering a wide range of opportunities and ensuring recognition and awarding of their accomplishments.

By constantly investing in digital platforms to provide unrivaled customer experience, transaction convenience, and pioneering solution suggestions, Garanti increases the share of digital channels in total sales.

Moreover, Garanti creates shared value and drives positive change through lending based on impact investment, as well as strategic partnerships and community programs focusing on material issues for both Garanti and its stakeholders.

With its solid capital structure and focus on efficiency, Garanti preserves its sound financial structure through effective balance sheet management and sustains its contribution to the economy.

# GARANTI BANK'S RATINGS

Garanti Bank is rated by Fitch Ratings, Moody's, Standard & Poors and JCR Eurasia. The Long Term TL and FC ratings of Garanti Bank assessed by Fitch Ratings and JCR Eurasia Ratings represent investment grade.

Garanti Bank is included in the Borsa Istanbul (BIST) Corporate Governance Index by achieving an overall corporate governance score of 9.51 assigned by JCR Eurasia Ratings for its superior compliance with Capital Markets Board Corporate Governance Principles.

*You may find detailed information on Garanti Bank's ratings, their definitions, rating and outlook actions on Garanti Investor Relations website ratings section.*

## CREDIT RATINGS

### FITCH RATINGS

(Outlook: Stable)

#### LONG TERM

FC **BBB-** LC **BBB-**

### MOODY'S

(Outlook: Negative)

#### LONG TERM

FC Deposits **BA2** LC Deposits **BAI**

### STANDARD & POOR'S

(Outlook: Negative)

#### LONG TERM

FC **BB** LC **BB**

### JCR EURASIA RATINGS

(Outlook: Stable)

#### LONG TERM

International FC **BBB** International LC **BBB+**

## CORPORATE GOVERNANCE RATING

(Outlook: Positive)

Overall Compliance Score **9.51**

SECTIONS	WEIGHT	SCORE
Shareholders	<b>25%</b>	<b>9.22</b>
Disclosure and Transparency	<b>25%</b>	<b>9.40</b>
Stakeholders	<b>15%</b>	<b>9.57</b>
Board of Director	<b>35%</b>	<b>9.66</b>





## 2017 PERFORMANCE & OUTLOOK



# CUSTOMER EXPERIENCE

Customer experience has always been one of the main pillars of Garanti's strategy. We strongly believe that companies delivering compelling experience are and will become the most successful ones in their industries. Customer experience is even more important in today's ever changing environment accelerated by technology. Boundaries between industries have already blurred, and digital business models create the new norms for all business areas. Solutions that delight customers easily become the standard not for a specific category but for all.

Therefore at Garanti, we see customer experience as the most important element for strengthening our competitiveness and differentiating us in our industry as well as from other markets. We have a solid and long-run strategy built on a combination of technology and human factors, which are the key determinants of our age. We execute our customer experience strategy with the aim of making our customers' lives easier, looking after their financial well-being, assisting them in making conscious financial decisions, helping them to grow their business in a sustainable manner and finally bringing financial services to everyone.

Customers' needs and expectations are continuously evolving and reshaping in harmony with technological

advancements. But common ground stays the same: they want to experience shortened and frictionless journeys saving their time, smarter solutions supporting their well-being and personal connection which they enjoy. This understanding shapes all of Garanti's customer experience management efforts. We want our customers to be happy because of having chosen to work with us. Building a good customer experience is one of the top strategic priorities and indispensable passions for Garanti senior management, as well. For this purpose, the Customer Committee is established to discuss customer experience topics and convened under the chairmanship of the CEO. The Bank's customer experience strategies are defined by the Committee. It is also responsible for realizing and ensuring continuous effort, which aims to enhance experience at every touch point and improve our performance.



By focusing on customer experience, we are actively contributing to Sustainable Development Goal 5: Gender Equality, Goal 8: Decent Work and Economic Growth, Goal 9: Industry, Innovation and Infrastructure, Goal 10: Reduced Inequalities.

## VALUE DRIVER

Offer our customers an excellent customer experience by placing them at the center of all our activities and efforts

Design our processes from our customers' perspective, vesting them in a swift, easy and plain format

Have long-lived relationships with our customers that is built on trust by exceeding their expectations and enhancing their satisfaction

Always be transparent, clear and responsible towards our customers

Help our customers in making informed decisions through supporting financial literacy, health and inclusion in solutions that we offer

Offer innovative solutions and advise our customers to grow their businesses in a sustainable manner

**INDICATOR** **PERFORMANCE**

	2017	2016
Customers <sup>1</sup>	<b>15,143,270</b>	<b>14,615,584</b>
Target Customers Surveyed <sup>2</sup>	<b>7.35%</b>	<b>8.31%</b>
Feedback Received <sup>3</sup>	<b>864,000</b>	<b>881,000</b>
Products or services that are changed & developed through customer feedback	<b>24</b>	<b>11</b>
Net Promoter Score <sup>4</sup> (Ranking)	<b>#1</b>	<b>#1</b>
New & Upgraded products, services and channels that aim to support our customers in terms of managing their financials	<b>3</b>	<b>3</b>
Customers informed about their financial status	<b>83%</b>	<b>74%</b>
Disabled friendly ATMs	<b>3,824</b>	<b>2,598</b>
Woman attended to Women's Entrepreneurship events and Garanti has helped to enhance financial awareness (cumulative)	<b>9,100</b>	<b>8,494</b>
Customers that started using saving products	<b>809,397</b>	<b>502,431</b>
Site visits on Environmental & Social issues to customers	<b>28</b>	<b>22</b>
Environmental & Social workshops and conferences	<b>4</b>	<b>5</b>
SME initiatives (incl. apps and events)	<b>7</b>	<b>5</b>
Environmental & Social issues addressed in workshops and conferences	<b>11</b>	<b>14</b>
Woman Entrepreneurs encouraged to apply WE Awards (Cumulative)	<b>34,384</b>	<b>32,836</b>
Customers and financial institutions informed on Environmental & Social issues <sup>5</sup>	<b>29</b>	<b>19</b>

*1 Excludes customers with inadequate documentation.*

*2 Represents percentage of target customers surveyed at least once during the year.*

*3 Represents customer feedbacks received through customer hotline and after service surveys which conducted for the journeys in branches, call center and customer hotline.*

*4 Open Market NPS: Net Promoter Score research is conducted by an independent research agency Ipsos for Garanti Bank. According to the research results, Net Promoter Score of Garanti Bank was the highest among its peer group in Turkey. Peer group consists of Garanti Bank, İş Bank, Akbank, Yapı Kredi Bank, QNB Finansbank and Denizbank. 2016 NPS research had been conducted between October 10, 2016 - January 17, 2017. Main bank customers, who have communicated with the banks over the last 3 months, surveyed by quota sampling and conducted face to face in the representative cities of Turkey.*

*5 Customers and financial institutions informed through E&S workshops or through meetings/calls.*

Garanti's success on executing its customer experience strategies rely on four key competencies: customer understanding capacity, design philosophy, empathetic culture and measurement systems.

**1 - CUSTOMER UNDERSTANDING CAPACITY**

We believe that today's hyper changing world needs a continuous monitoring for what customers are expecting, doing, thinking and feeling. At Garanti, we utilize multiple methods to have such a deep understanding of our customers like exploratory researches, social listening, quantitative surveys and instant feedbacks. Also, our customers may pass on their criticisms via e-mail, websites and social media as well as a dedicated team that serves on a private customer hotline.

Our employees also play a big role in the development of customer understanding capacity. Especially our frontline employees share their feedbacks and opinions to improve customer experience through a suggestion platform named "You Propose-Önersen". It allows employees to share their innovative ideas about product and service upgrades or new product and service designs with the relevant business units at any time.

In 2017, we received more than 850K feedbacks from customers, which have been studied extensively. We collected 1,313 suggestions from our employees during 2017. We continuously analyze the data pool enriched by our customers and our employees by leveraging latest technologies and convert it into actionable insights. All these studies provide a solid ground for our customer centric design efforts.

## 2 - DESIGN PHILOSOPHY

Improving customer experience calls for improving not only individual touch points but the entire journey end-to-end. While we design customer journeys, each step is experienced through the customer's eyes and solutions are provided to satisfy the needs and expectations at any micro moment at the maximum extent possible. Journey perspective requires thinking of digital and physical channels in the same context while creating a consistent and seamless experience.

## 3 - EMPATHETIC CULTURE

Assuring that customers experience the services and products as they are designed requires customer experience practices to be deeply embedded in the organizational culture. It requires employees to refer to customer thought in their day to day business, and also

internalize and recognize the needs and feelings of others.

With these principles in our mind, we started a program branded as "Garanti Empathy" to carry out our customer centric culture to a new level at the end of 2016. Garanti Empathy provides a platform for all Garanti employees to stay informed about bankwide customer experience projects, learn about best practices both internally and worldwide, access tools such as guidelines, tips and trainings for self-improvement, and share their empathy stories with others to inspire new ones.

Empathy culture in Garanti also supported by incorporating customer experience in the definition of success. For every Garanti employee, building an excellent customer experience is an assigned responsibility.

## 4 - MEASUREMENT SYSTEMS

We measure the effects of these efforts upon customer experience with various methods. One of the most important ones is after-service surveys conducted for all customer-facing employees and critical touch points. Employees can monitor customer feedback on a daily basis, which they then use as a resource to take necessary actions to enhance the experience they deliver.

Another key practice is tracking customer service checkpoints such as complaint figures or leakages from the processes and operational quality indicators which we name as Customer Centricity Index.

In addition to operational measurements, we also monitor our relative position in the market compared to peers, which shows us our differentiating performance areas and also opportunities.

Our efforts related to customer experience had a positive effect which is reflected in some of our indicators:

- In 2017, we increased our after service NPS by 8 points from January to December<sup>1</sup>.
- Number of complaints per active customer declined 10% compared to previous year.
- In 2017, Garanti Bank's Garanti Cep has been elected the favorite brand of Turkey in the "Mobile Banking" category in Turkey's Lovemarks 2017 Survey, conducted for the tenth time this year by MediaCat.<sup>2</sup> Garanti holds a higher apprehension and affection in the mobile banking field predominantly for 35-to-44 age group, which defines the brand as an "indispensable brand".

<sup>1</sup> After service NPS is measured by independent research agency Ipsos for Garanti Bank. Daily interviews with quota sampling and by telephone (CATI or IVR) are done with Retail and SME customers who went through critical journeys in branches

<sup>2</sup> MediaCat is one of the leading marketing magazines of Turkey, and runs the reference survey of the business and brands world by selecting the brands that are favorites of Turkish consumers in 22 categories under the scope of "Lovemarks". The survey is conducted offline by Ipsos and online by Fikrimühim.

## WHAT WE DID IN 2017

In 2017, we conducted 10 open market Net Promoter Score studies researches for Retail, SME and Commercial Segments and Digital Channels. Also we conducted 2 exploratory researches to better understand customer experience in branch and loan journeys.

We developed a smart platform called "Empathy Assistant" to help and guide branch employees while resolving

customer issues. Empathy Assistant provides automatic diagnoses of the root causes for the issues customers mention, and supports the employees with a list of actions to resolve them.

We structured our communication design around a new set of principles which we called TCR: Transparent, Clear and Responsible banking. We review existing customer communications from contracts to scripts and e-mails in order to further give our customers relevant information by using a simple and understandable language and to look out for their interests.

Setting the trends for the sector, Garanti is known to be the bank leading transformation for no less than the last 20 years. Garanti's new service model is opening a new door, new era for the banking sector, especially for branch banking. Having started the pilot run in May 2017, Garanti has been converting 10 to 15 branches each week on average. Conversion of all branches is expected to be completed by the end of 2018.

The new model that captures the benefits of the emerging digital world focuses on 3 main objectives:

- improve customer experience,
- increase digital migration/reduce branch dependency,
- upgrade employees' capabilities and improve sales/operational efficiency.

The new model integrates digital into branch service model as well, and therefore Garanti is now leveraging its branches to the future.

To enhance customer experience, new service model aims to increase

sales capacity (to create more time for proactive/reactive interaction with customers) and also develop tools to serve the customer in the branch and also on the customer's premises (tablet banking). To this end;

- We developed a new service model to improve sales/operational efficiency by challenging our key orthodoxies:
  - Sellers for sales and cash transactions
  - Customer service representatives for general operations and service quality
  - Branch manager to manage & coordinate lobby
  - Migrators to help increase digital awareness
- We re-designed and digitized our processes to create seamless, omni-channel experience to reduce branch dependency/to ensure the same experience across all channels & enhance customer experience:
  - Comprehensive platforms including all critical customer information and easy access to sales & transactions screens
  - A new g-matic algorithm to manage lobby traffic
  - Digital and omni-channel processes
  - Digital approval for in-branch processes
  - In-branch remote sales (via phone)
  - Tablet banking for sales/service on the customers' premises
- We re-designed our branch lay-out in accordance with the new concepts:
  - Removed teller desks, designed new desks for sellers where all customers are sitting while served.
  - Removed brochures and used digital screens for information/ advertising.

In 3Q17, Digital Customer Journey Analytics team was formed with data scientists that perform customer path analysis with advanced data modeling, in order to better understand digital customer experience. The team not only conducts analysis based on offline data but also is responsible for providing an optimum experience for digital customers. Main focus is concentrated on three key customer journeys: customer experience enhancements in existing journeys, new customer journeys for new products and new enablers & solutions. Journey analytics uses quantitative and qualitative tools to assess the impact of each action by mapping key journeys and quality check, identifying pain points and root causes, assessing values at stake, developing and prioritizing and continuously assessing impact with KPIs.

Providing a better experience for digital channels is at the heart of our operations. During 2017 Garanti worked hard to provide the best customer experience for its clients. By adding new features and giving better solutions for daily use of transactions, the satisfaction of our clients is increased. Enabling easy, fast and convenient user experience for higher customer satisfaction, Garanti developed many exemplary digital products.

Garanti customers can:

- Withdraw and deposit money from/ in their own accounts from Garanti ATMs without any card by using the QR code with Garanti Mobile Banking Application.
- Log-in to Garanti Mobile Banking easily and quickly by scanning their eyes.

*To read more on Digital Channels please visit Garanti Investor Relations website.*

In 2017, Garanti has conducted 10 major surveys in total to support brand communication efforts, understand customer needs, develop solutions that fit customers' needs and adapt its products & services accordingly.

*To read more on Surveys, please visit Garanti Investor Relations website.*

Garanti invests and applies the latest Big Data and Analytic Technologies to create a more customized banking experience. Predictive models and machine learning algorithms are widely used to understand customers' needs in this sense.

Remote RM (Relationship Manager) service model has been launched, which will provide centralized service to customers opting to receive an effective remote CRM service. This business model is intended to increase the share the Bank has with these customers. Having started to employ agile methods in solution deployment aimed at alleviating the operational load on development teams along with conventional methods, Garanti Technology charges ahead with becoming a Bimodal IT. Remote RM service model serves select retail banking customers that are more prone to appreciate remote banking services from a distance. In this service model, specialist Portfolio Managers utilize voice and video calls, in addition to e-mail and remote access channels to serve their specially assigned customers. Customers of this type receive expert portfolio services regarding their entire banking portfolio wherever they are. In post-service surveys, customer experience score increased by 52% by the end of 2017. This proves the fact that the Remote RM service model is fast and time-saving,

the customer's portfolio is more easily accessible, and frequent communication increases customer depth.

## OUTLOOK

At Garanti, product development processes are evolving through lean methods and rapid execution of products and services compatible with e-transformation. Garanti aims to define its products and services as simple, efficient and complete solutions. It constantly improves and extends its portfolio of 253 products and services its products with an operational efficiency point of view while creating financial value. Product decisions are made by collating customer feedbacks with innovation areas and assessing how well products meet customers' needs.

Understanding customers to better meet their needs lies at the heart of Garanti's big data efforts. As the fundamental and the most essential step to understand the customers better, Garanti has established a structure that puts customers in the center, and approaches them in different contexts involving both their financial and non-financial experiences.

To date, Garanti has been exceptionally successful in understanding, maintaining and hence utilizing its relationship with its customers, which is a significant part of customers' financial experience. This involves understanding the products and services customers use, their entire history with Garanti including purchases, complaints, risk rating, and value. Although, this relationship says a lot about customers, it is indeed not yet complete especially in terms of personal aspects.

The emergence of big data has made

it possible to understand customers beyond their relationship with Garanti, as individuals have different attitudes, social connections, preferences, life stages along with their financial behaviors. It also marks the beginning of understanding the circumstances that customers are in, ranging from spotting the transactions they do in real-time to identifying the changes they are going through.

Ultimately, Garanti aspires to understand its customers in both financial and non-financial aspects. The structure that puts the customer in the center paves the way for making more relevant offers/solutions to customers both in terms of sales and customer experience, with the use of big data. Hence, in 2017, we have conducted gap analyses and constructed a roadmap to achieve a complete understanding of our customers within their financial and non-financial world.

Moreover, continuously enhancing customer experience & satisfaction and deepening its sustainable relations built on long term, Commercial Banking will maintain its position among peers as part of its strategic priorities. The biggest challenge is the current competitive environment where both the technological infrastructure and the banking practices of Garanti are followed.

## FINANCIAL HEALTH & INCLUSION

Placing customers at the heart of its operations, Garanti acts with the principles of transparent, clear and responsible banking. Garanti helps its customers achieve their targets and aims to have a positive impact on their lives by offering financial planning services and

products that encourage savings such as 'NET Savings Account' and 'Spend and Save'. Garanti communicates with its customers transparently in all sales & marketing activities and provides all the information they need in a clear and easy to understand way. With its responsible banking approach, Garanti shares advantages and possible risks of products and services. It offers feasible solutions and aims to build long term and sustainable relations that are built on trust.

According to the World Bank Global Financial Inclusion data, 2 billion people in the world do not have access to financial services offered by financial institutions. In Turkey, where 43% of the adult population lack access, Garanti aims to empower its customers and provides tools for them to manage their financials. Garanti intends to support its customers in creating a savings culture. Facilitating access through all its channels, Garanti ensures that its customers are informed about their financial statuses, and have full control over their finances. With its segmented approach Garanti provides consultancy and guidance on financial planning and offers solutions to its customers according to their needs varying from savings to pension. Garanti also works to provide increased access to banking services for disabled people.

## WHAT WE DID IN 2017

### PRODUCTS FOR FINANCIAL HEALTH

Garanti has 19 products and services available that aim to support our customers in terms of managing their financials and improve access to financial services in Turkey.

Within the scope of products and services under this topic that can be broken down into different groups, Garanti;

- Enables transactions such as bill payments, money withdrawals/ deposits/transfers by and to people who do not have a bank account via branches, ATMs and mobile banking. In 2017, Garanti made it easier to display and pay debts for manually paid bills.
- Enables women to use their gold savings for loans and deposit accounts such as depositing physical gold in terms of grams via branches and gold service point jewelers.
- Is instrumental in instilling a habit of saving up in 400 thousand customers with its NET Saving Account product, a first in the sector. Garanti also introduced the Government Incentivised Marriage&Housing Accumulating Accounts to encourage Turkish citizens to save up money in 2016.
- Designs programs for financial inclusion of women through increasing their financial literacy and improving their perception toward the banking sector such as KALP-Women's Platform Facebook page.
- Offers segment specific programs for customers of all ages such as Garantili Gelecek (Guaranteed Future), Bonus Genç (Bonus Young), and Retirement Banking Program.

In 2017, Garanti launched the Additional Installment Transaction for card transactions that are already split into installments, allowing customers to extend the payment period and reduce installment amounts of their card payments, contributing to improved payability and increased financial health.

### BANKING FOR OUR DISABLED CUSTOMERS

Garanti developed a web-based Sign Language training for employees to improve the experience of disabled customers while receiving service from branches. Over 10 thousand employees completed the training on providing services for disabled customers. Garanti is happy with this result, as 65% of the assigned employees completed this optional training. Internet Banking and Mobile Banking services were made compatible with the screen reader software, enabling audio transactions for disabled customers by listening to the menu. In 2017, Garanti served through 3,824 disabled friendly ATMs, which corresponds to a 47% increase. Enhancing the accessibility of ATMs for visually impaired customers, credit card debt payments can be done from the visually impaired menu.

## OUTLOOK

We will maintain our strategy to offer segment specific products and services that cultivate savings culture, and to look after the financial health of our customers. In the coming years, we will continue to offer services, which enhance the access of unbanked and underbanked people to financial services, through a variety of solutions such as expanding our disabled-friendly ATM and branch network.

The principle of always approaching our customers in a "transparent", "clear" and "responsible" manner will stay as a core element of our strategy to enhance customer experience and help them make informed decisions.

## SUPPORTING CUSTOMERS TO GROW THEIR BUSINESSES SUSTAINABLY

In addition to our financial products that address the specific needs of the SMEs, we offer information and advisory services to support their growth and resilience. We increase their access to information and new markets, contribute to their development, and support them in growing their business.

With our support to the economic sustainability of SMEs, we also create employment opportunities indirectly and contribute to sustainable development of Turkey.

Garanti helps SMEs, women entrepreneurs and farmers, who are key to sustainable development of the economy, through playing an active role in financial education. With trainings and capacity building efforts, we educate them in financial issues and help them become self-sufficient, strong institutions that make conscious decisions.

Our robust environmental and social risk assessment process, which is in line with best practices, helps us support our customers, especially in the corporate and commercial segments, in managing their non-financial risks. We make use of our human and intellectual capital to contribute to the improvement of our customers' environmental, social and ethical performance.

### WHAT WE DID IN 2017

Garanti has a variety of innovative platforms that aim to support companies in terms of managing their financials and businesses. These initiatives also help

our customers grow their businesses in a sustainable manner and increase their resilience to new developments. In this context, Garanti;

- Offers information and advisory services that address the specific needs of the SMEs and contribute to their development such as Teşvikbul (Find Incentive), Şirketkur (Establish Your Business), MarkaOl (Brand Builder), Teknosor (Techno Consult), Dış Pazar Bul (New Market Finder), Garantili İşler (Business@Garanti).
- Helps flourish the entrepreneurial ecosystem in Turkey, and aims to support and accelerate early startups and initiatives with the potential to attract investment and grow. Garanti Partners Acceleration Program supports early startups of any scale and sector, the SMEs and growing ventures. Garanti creates a holistic support mechanism by providing various and differentiated touch at every stage of entrepreneurial life cycle by providing office place, Mentoring, Networking, Marketing Support, Training.
- Facilitates women entrepreneurs' access to financing, executes free-of-charge educational collaborations to ensure sustainability such as Women Entrepreneurs Executive School, and encourages them to realize their full potentials through Turkey's Woman Entrepreneur Competition. The SROI value of the women entrepreneurship projects was estimated as 2.44.
- Supports rural development with agricultural banking products and acts as a solution partner.
- Hosted the 3<sup>rd</sup> Sustainability and Risk Management Workshop, where corporate customers from energy and infrastructure industries were

informed on cutting edge sustainable business topics such as TCFD (Financial Stability Board's Task Force on Climate-related Financial Disclosures) recommendations, carbon pricing and disruptive technologies.

### OUTLOOK

In the coming years, our capacity building efforts will continue to focus on entrepreneurship, agricultural practices, digitalization and sustainability issues. Organizing summits and meetings where stakeholders can share experiences and information and providing informative trainings on emerging issues will be key in supporting our customers. Technical and technological support on topics such as digital transformation by creating partnerships and specialized teams will also be part of our roadmap for the coming years. Informing our customers on environmental and social trends will stay as an important topic in our agenda especially for corporate and commercial customers. We will make use of the existing channels and platforms such as the United Nations platforms in designing capacity building initiatives.





# 2017 PERFORMANCE & OUTLOOK



# FINANCIAL PERFORMANCE

For Garanti, financial performance is at the core of our value creation process and it is the cause and the effect in delivering sustainable growth. By making our products available to our customers, investing in our facilities and by constantly improving our business model and processes with an operational and environmental efficiency point of view, Garanti is committed to have a direct and indirect impact on the economy.

Aiming to use capital effectively to maximize the value created, Garanti focuses on disciplined and sustainable growth on the basis of a true banking principle with strict adherence to solid asset quality. Combining its approach to unconditional customer satisfaction with its solid capital structure and a focus on efficiency, Garanti preserves its sound financial structure through effective balance sheet management and sustains its contribution to the economy. Standing by its customers at all times, Garanti has been constantly increasing the share of loans within total assets, finally bringing them to their highest-ever level.

Following a prudent and risk-return focused lending strategy, Garanti commands leading positions across various segments in the sector, from retail banking to payment systems, mortgages to auto loans, SMEs to project finance, transaction banking to digital

banking. Furthermore, Garanti displays a proactive and consistent approach to risk assessment, which ensures preservation of its solid asset quality.

Garanti's diversified and actively managed funding base, its capital adequacy ratio of 16.8%, its growing deposits with 15 million customers' trust, and continuous access to foreign funding sources feed the business model and its long-term sustainable growth.

Garanti's business model, along with its well diversified fee sources and its further digitalized processes, support its ability to generate sustainable income. All of them combined secure the highest net interest margin, and the highest net fees and commissions base among its peers. Furthermore, Garanti maintains its focus on efficiency and effectively manages its operating costs to foster sustainable value creation.



By focusing on financial performance, we are actively contributing to Sustainable Development Goal 8: Decent Work and Economic Growth.

## VALUE DRIVER

Use capital effectively so as to maximize the value to be created

Focus on disciplined and sustainable growth on the basis of true banking principle

Constantly improve business models and processes with operational and environmental efficiency point of view

Cost and revenue synergies

**WHAT WE DID IN 2017**

ASSESSMENT OF FINANCIAL POSITION, PROFITABILITY AND DEBT PAYMENT CAPABILITY

There was a benign environment for the Emerging Markets in the second and third quarters of 2017. Even though the Fed continued with expected rate hikes, longer term yields and inflation expectations were subdued, and reached their lowest level in September. However, long-term inflation expectations started to increase due to higher oil price, tax reform and strong employment data. This caused the market to reprice the Fed’s rate hikes in 2018 from 1 hike to 2.5. This increase in the USD interest rates, especially in the shorter tenors of the UST curve, caused an outflow from EM countries. Turkey experienced additional geo-political risk aversion, coupled with high and sticky inflation levels in the last quarter, causing TL to depreciate even further compared to other EM Currencies.

The CBRT was compelled to keep utilizing the Late Liquidity Window as its main source of funding throughout 2017. The CBRT maintained a tight monetary policy by a series of hikes at the beginning of the year, with the rates stabilizing at 12.25% in the second half of the year. However, the implementation of the Credit Guarantee Fund Scheme (CGF) served to prevent the expected negative effect of high interest rates upon growth. Loans utilized under the CGF barely consume capital for the banks, as they were guaranteed almost in full by the Turkish Treasury. This facility was the main propeller of the GDP growth in 2017. However, the closure of the output gap, also with the help of certain tax

INDICATOR	PERFORMANCE			
	2017	2017 PROJECTION	ACTUAL VS PROJECTION	2016
Asset Growth (%)	<b>14%</b>	~10%	Beat	<b>12%</b>
Total Performing Loan Growth (%)	<b>14%</b>	~11%	Beat	<b>17%</b>
TL Loan Growth (%)	<b>20%</b>	~15%	Beat	<b>18%</b>
FC Loan Growth (in USD) (%)	<b>-3%</b>	Flat-to-Slightly Up	Lower	<b>-4%</b>
NPL Ratio (%)	<b>2.6%</b>	~3.0%	Beat	<b>3.0%</b>
Net Cost of Risk (bps)	<b>74</b>	~110bps	Beat	<b>124</b>
NIM inc. Swap Cost (%)	<b>4.7%</b>	Flattish vs 2016	Beat	<b>4.4%</b>
Fee Growth (%)	<b>18%</b>	10%	Beat	<b>10%</b>
OPEX Growth (%)	<b>8%</b>	6% Below Inflation	In-line	<b>6%</b>
Cost/Income (%)	<b>46.2%</b>	~1.5pp improvement	Beat	<b>50.3%</b>
Leverage	<b>7.6X</b>	Flattish vs. 2016	In-line	<b>7.7X</b>
ROAE (%)	<b>16.6%</b>	~15.5-16%	Beat	<b>15.4%</b>
ROAA (%)	<b>2%</b>	~2%	In-line	<b>2%</b>
Capital Adequacy Ratio (%)	<b>16.8%</b>	-	-	<b>14.7%</b>
CET-1 (%)	<b>14.7%</b>	-	-	<b>13.6%</b>

incentive programs aiming to increase the aggregate demand, as a side effect, caused a lackluster response to the CBRT's anti-inflationary policies and the CBRT had to hike rates for one last time in the last quarter to 12.75%. During this period, preemptive hedging activity, proactive asset pricing and defensive securities portfolio allocation strategies precluded deterioration of Garanti's Net Interest Margin due to higher interest rates.

Amid this environment, Garanti aimed to optimize permanence of its liability items and diversity of its funding facilities, while composing the assets items so as to maximize risk-adjusted return on capital. Garanti made use of the EM friendly market environment through the second quarter of the year to issue both a Senior Eurobond and a Sub Debt at favorable levels, increasing Garanti's Capital and FC liquidity buffer significantly. High TL Loan growth due to CGF utilization also incited Garanti to search for alternative sources of long-term TL funding, which resulted in issuance of TL Green Bonds, TL Covered Bonds for the first time. Within the framework of structural FX risk management, the FX sensitivity of profit is managed so as to reduce P&L volatility at a subdued level.

## ROBUST & HIGH QUALITY EARNINGS PERFORMANCE

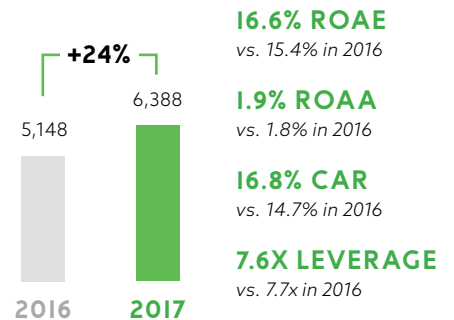
Garanti's innovative business model focused on operational efficiency, optimal capital utilization and sustainable growth, backed by effective risk management and governance, produced a consolidated net profit of TL 6 billion 388 million, while increasing its free provision buffer and bringing free provisions to TL 1 billion 160 million. Garanti's dynamic balance sheet management was further reflected on the robust and high quality earnings delivering a Return on Average Equity (ROAE) of 16.6% and Return on Average Assets (ROAA) of 2%.

## CUSTOMER-DRIVEN & INCREASINGLY HIGHER YIELDING ASSET MIX

Garanti's consolidated total assets increased by 14% on an annual basis and reached TL 356 billion. Asset growth remained customer-driven in 2017 in line with the guidance as loans represented 64% of assets while the securities portfolio was strategically managed as a hedge against volatility.

## NET INCOME

(TL million)



**16.6% ROAE**  
vs. 15.4% in 2016

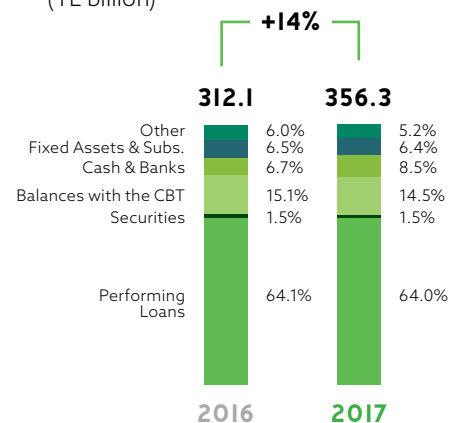
**1.9% ROAA**  
vs. 1.8% in 2016

**16.8% CAR**  
vs. 14.7% in 2016

**7.6X LEVERAGE**  
vs. 7.7x in 2016

## COMPOSITION OF ASSETS

(TL billion)



## SUBSIDIARIES

- 52% INCREASE IN NET INCOME CONTRIBUTION FROM SUBSIDIARIES

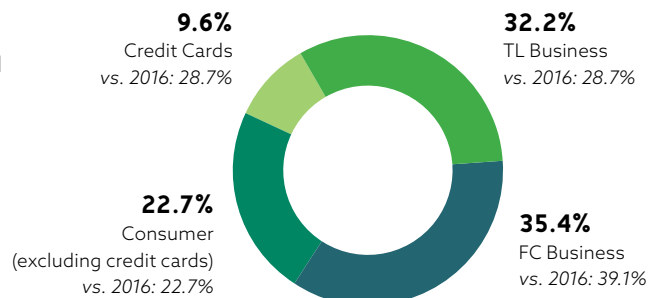
## COMMERCIAL BANKING

- TL 143 BN BANKING VOLUME
- 32% GROWTH TL CASH LOANS
- TL 1.6 BN PROFIT
- 12.4 BN CGF TO 5,222 FIRM

## PERFORMING LOANS BREAKDOWN

**+ 20% YoY**  
TC LOAN GROWTH

**- 3% YoY**  
FC LOAN GROWTH

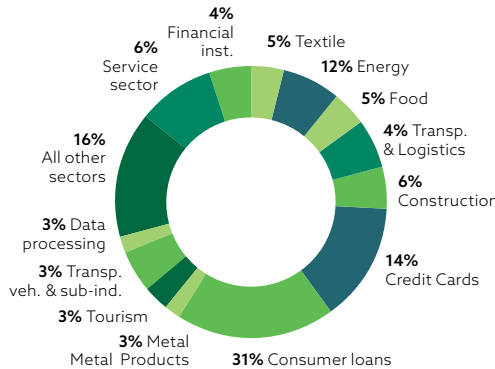


**LENDING STRATEGY: SELECTIVE & PROFITABILITY FOCUSED**

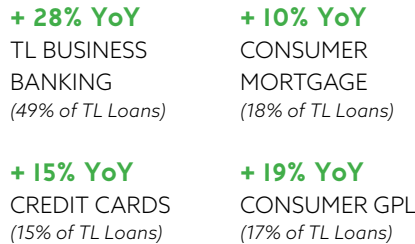
Garanti recorded a disciplined growth in loans with a 14% increase, which was driven mainly by TL loans. TL loans expanded 20% exceeding the guidance for 2017. The Credit Guarantee Fund (CGF) scheme was a significant impetus in TL lending growth. Garanti was the first mover on this front with its agile sales team and system integration. As a result, TL business banking loans went up by 28% annually. *Please read more on CGF under the Important Developments Regarding 2017 Operations section.*

**LEADING POSITION IN RETAIL BANKING**

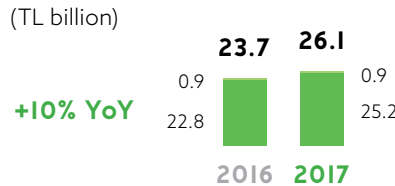
With its effective delivery channels and successful relationship banking, Garanti's market share in retail lending among private banks further increased in 2017. Garanti maintained its focus on consumer products and registered a healthy growth of 16% on an annual basis. In 2017, Garanti welcomed 73 million customers in its 948 branches spread around all the cities in Turkey, and offered them a wide range of products and services to meet their financial needs. Garanti, the Mortgage Expert, sustained its leadership in mortgages among private banks with an annual growth of 10%. While supporting its customers in a growing economy with a young population, Garanti booked a 19% annual growth in consumer GPLs. Noteworthy was the significant increase in digital sales within total GPL sales. The ratio climbed to 78% per December monthly data.



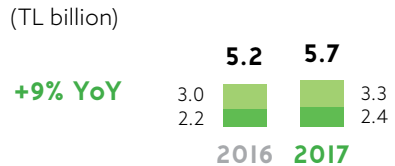
**LOAN GROWTH BY PRODUCT**



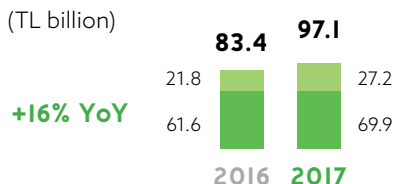
**MORTGAGE LOANS**



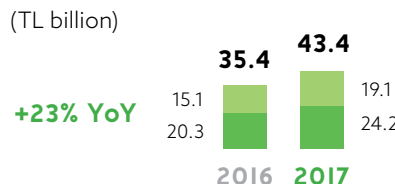
**AUTO LOANS**



**RETAIL LOANS**



**GENERAL PURPOSE LOANS<sup>1</sup>**



**SME BANKING**

- TL 76.2 BN BANKING VOLUME
- 6.1 BN CGF TO 15,735 FIRM (per Garanti SME definition)
- 3.63% NPL RATIO REMAINED BELOW THE SECTOR AVERAGE OF 4.71% (per BRSA SME definition)

**CONSUMER FINANCE**

- 38% SHARE ON CONSUMER AUTO LOANS AMONG COMMERCIAL BANKS
- 598 IN-NETWORK AUTO DEALERS
- 31K CUSTOMER FINANCED VIA ONE-STOP SHOP SYSTEM

**HOUSING FINANCE**

- 590K PEOPLE BECAME HOMEOWNERS WITH GARANTI TO DATE

**RETAIL BANKING**

- 385K RETAIL CUSTOMER BECAME CAR OWNERS TO DATE
- 491K RETAIL CUSTOMER BECAME HOMEOWNERS TO DATE
- SERVING 13.6 MN RETAIL CUSTOMER
- 1.4 MN PEOPLE SAVE WITH GARANTI TO DATE
- GARANTI DISBURSED GENERAL PURPOSE LOANS (GPL) TO APPROXIMATELY 1 MILLION INDIVIDUALS IN 2017.

Consumer Loans  
Commercial Instalment Loans

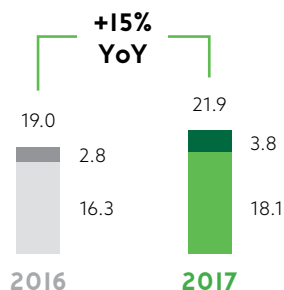
<sup>1</sup> Including other loans and overdrafts  
Note: Sectoral breakdown based on latest 30.09.2017 IFRS results

### PIONEERING PAYMENT SYSTEMS

Garanti commands a leading position in payment systems and credit cards with its Garanti Payment Systems, which was founded 18 years ago. It has the largest POS network with 670,259 POS devices and dominates the market with a market share of 18.6%. Garanti manages the broadest credit card customer base with 10.2 million credit cards and 9.6 million plastic cards. Customers of 10 other banks can use Turkey's lovable Bonus brand. The Bonus platform is Turkey's largest card platform with a market share of 30.8% in terms of credit card turnover. Besides, Garanti continued to be the leader in e-commerce volume with a 21.75% market share. Backed with these capabilities, Garanti preserved market shares in acquiring and issuing credit card volumes with respective shares of 19.37% and 19.50%. As of 2017 year-end, the credit card receivables amount increased to TL 22 billion.

### CREDIT CARD BALANCES

(TL billion)



### FOREIGN CURRENCY LENDING

Investment appetite remained weak due to ongoing global and domestic uncertainties. The decreasing demand combined with Garanti's risk/reward priorities and rational pricing focus reflected on Garanti's large base of Foreign Currency (FC) loan book. Maintaining a large base of FC loan book and amortizations resulted in a 3% shrinkage in Garanti's FC lending growth that was slightly lower than the flattish growth guidance. In 2017, the Turkish banking sector contracted along with Garanti due to the weak investment appetite. However, Garanti, sustained its pioneering position in project finance, corporate and commercial banking by remaining the primary business partner of its customers.

Garanti continued to support Turkey's sustainable growth with its pioneering and leading role in the project and acquisition finance sector in 2017. Despite challenging market conditions, Garanti committed approximately USD 2.1 billion\* in 2017 and maintained its year-end loan balance at USD 12.6 billion in line with the previous year. Infrastructure projects were at the forefront in 2017. Garanti, acting as the facility agent for the deal, has provided around USD 450 million to the Northern Marmara Highway Project (Kurtköy-Akyazı and Kınalı-Odayeri Segments), the largest infrastructure project of the year with a total loan amount of USD 2.7 billion. In the energy sector, new investments were limited in 2017 and there were mainly refinancing

### PROJECT FINANCE

- \$2.1 BN FINANCING TO PROJECTS IN 2017
- \$12.6 BN TOTAL EXPOSURE
- #1 IN WIND ENERGY FINANCING WITH 30.2% MARKET SHARE

activities in line with our expectations. Yet, Garanti continued to support renewable energy projects that are vital for Turkey's sustainable growth. Total funds allocated to renewable energy projects surpassed USD 110 million to finance 750 MW renewable energy projects by the end of 2017. Thus, the share of renewable energy in the electricity generation loan portfolio of Garanti rose to 60%. Also on the M&A side, 2017 was a recovery year. Although the total number of acquisition deals remained similar to the previous year, the volume increased. Garanti partially financed the largest acquisition transaction of the year (i.e. Petrol Ofisi takeover by Vitol for ~USD 1.4 billion)

The change in the landscape led to a decrease in the public-private partnership projects (PPPs) in the pipeline for 2017, even in renewable energy & real estate sectors. Yet, outperformance in TL loans compensated for the shrinkage in FC loans and Garanti recorded a total lending growth of 14%, which is above the guidance.

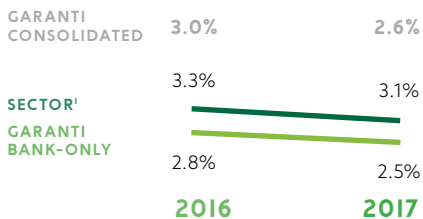
\* Refinancing and restructuring transactions are also included in the figures

## SOLID ASSET QUALITY WITH FURTHER STRENGTHENED COVERAGE RATIO

Garanti displays a proactive and prudent approach to risk assessment, which ensures preservation of its solid asset quality that consistently outperforms the sector. Supportive fiscal policies of the government revitalized the economy in 2017 and shored up asset quality. As a result, net new Non-Performing Loan (NPL) inflows fared lower than anticipated throughout the year. Garanti's NPL ratio was registered as 2.6%, while the cumulative net Cost of Risk (CoR) improved to 74 bps. Both indicators performed better than the guidance. Leveraging on this opportunity, Garanti further strengthened its cash coverage. Total cash coverage ratio increased from 131% in 2016 to 137% in 2017.

### NPL %

NPL ratio - Consistently below-sector



### NET CoR<sup>2</sup> (bps)

Cumulative Net CoR remains below guidance

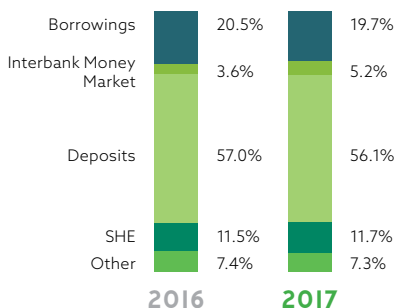


## DEPOSIT DRIVEN & HEAVY WITH LOW COST & STICKY DEPOSITS FUNDING BASE

Garanti preserved its liquid balance sheet composition in 2017 with the help of its prosperous dual currency balance sheet management. Dynamically managed funding base of the Bank continued to be largely composed of deposits.

Garanti's leading position in consumer deposits is the outcome of its customer-centric and innovative business model, which places customers' needs and satisfaction at the core of its business. The Bank's improving Net Promoter Score (NPS) mirrors its success in being the customers' preferred bank. Garanti increased its NPS and preserved its leader position among Tier-1 banks. Garanti preserved its focus on sticky and low-cost mass deposits during 2017. 14% growth rate in customer deposits base was in line with the loan expansion. Garanti continued to deliberately avoid irrational pricing competition and to rely on its strength in relationship banking and its customer-focused business model.

Both diversification of funding sources and the management of the cost of funding play an important role. Garanti has a solid demand deposit base that helps the Bank in its funding cost optimization.



## PRIVATE BANKING

- TL 15.1 MN OF ASSETS UNDER MANAGEMENT
- TL 4.1 MN STRUCTURED DEPOSITS AND CORPORATE BOND SALES

Garanti further strengthened its demand deposit base by almost 16% on an annual basis and the share of demand in total deposits went up to its highest historical ratio of 27%. In 2017, Loan to Deposit Ratio (LDR) in the Turkish Banking Sector was 117%. At 114%, this indicator was slightly better for Garanti than the overall sector's 117%. The figure is even much lower if we add local currency bond issuances, other local currency MM funding, merchant payables, foreign currency bond issuances and other foreign currency MM funding (Securitizations, syndications, bilaterals). Hence, the adjusted LDR decreases to 80% from 114%.

## DEPOSIT GROWTH

TL +16% YoY DEPOSITS

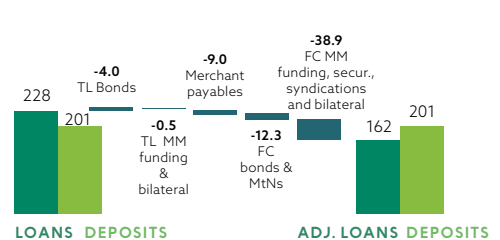
FC +2% YoY DEPOSITS (in USD)

77% SME & RETAIL DEPOSITS<sup>3</sup>

share in TL Deposits

27% DEMAND DEPOSITS  
Bank-only: >25% vs. sector's 20%<sup>4</sup>

Total Loans / Deposits **114%**  
Adjusted LDR **80%**



1 Sector figures are per BRSA bank-only weekly data, commercial banks only

2 Specific + General Provisions net of Collections

3 Based on bank-only MIS data

4 Based on BRSA weekly data as of 29 December 2017, commercial banks only

## WELL-DIVERSIFIED FUNDING MIX & OPPORTUNISTIC UTILIZATION OF ALTERNATIVE FUNDING

### INTERNATIONAL BANKING

- BROAD CORRESPONDENT NETWORK WITH OVER 2,000 BANKS

Turkish banks have continuous access to international funds. The banking sector managed to roll over 76% of its external debt even in the dire moments of the global crisis at the beginning of 2009. As of 2017, sector rollover ratio stood around 97%. With the aim of managing the asset-liability duration gap and optimizing funding costs, Garanti continued to diversify its funding structure by actively tapping alternative funding sources. During 2017, the Bank issued its first Basel III compliant subordinated debt at the lowest cost ever attained by a bank in Turkey. This issuance helped reduce the sensitivity of capital to currency volatility and supported Garanti's best in class solvency ratios. Furthermore, Garanti reinforced its asset liability management through two syndications with 100% rollover ratios in 2017, which serve as a testament to Garanti's intrinsic financial strength and solid banking relationships. Garanti issued the first ever residential mortgage covered bond in Turkey in local currency to support green mortgages in collaboration with International Finance Corporation (IFC). Following that the Bank signed similar covered bond agreement with European Bank for Reconstruction and Development (EBRD). Total issuance in 2017 was \$5.6 billion, of which \$1.9 billion was fresh.

Basel III compliant Tier II	<ul style="list-style-type: none"> <li>• \$ 750 mn, 10NC5</li> <li>Record subscription &gt;\$4bn</li> <li>6.125%, largest deal size and lowest coupon for Turkish Tier 2 Basel III compliant bond (2Q17)</li> </ul>				
Eurobond	<ul style="list-style-type: none"> <li>• \$ 500 mn 6-yrs maturity @5.875% (1Q17)</li> </ul>				
Covered Bond	<p>"Green Mortgage"</p> <ul style="list-style-type: none"> <li>• \$ 150 mn equivalent TL 529mn (2Q17)</li> <li>• € 75 mn equivalent TL 313mn (3Q17)</li> <li>• € 200 mn equivalent TL 840mn (4Q17)</li> </ul>				
100% syndication roll-over	<ul style="list-style-type: none"> <li>• € 1.25 bn equivalent: 100% rollover (2Q17)</li> <li>• \$ 1.3 bn equivalent: 100% rollover (4Q17) (including 2 year tranche)</li> </ul>				
DPR Securitization	<ul style="list-style-type: none"> <li>• € 153 mn 5-yrs maturity (1Q17)</li> <li>• \$ 250 mn 5-yrs maturity (4Q17)</li> <li>• \$ 285 mn 5-yrs maturity (4Q17)</li> </ul>				
EIB Funding & Bilateral	<ul style="list-style-type: none"> <li>• \$ 79 mn 6-yrs maturity (1Q17)</li> <li>• \$ 145 mn 2-yrs maturity (4Q17)</li> <li>• \$ 250 mn 3-yrs maturity (4Q17)</li> </ul>				
Swap for margin optimization	<p>Average net swap funding volume:</p> <table border="1"> <tbody> <tr> <td>• TL 17 bn in 4Q17 @ 10.7%</td> <td>• TL 24 bn in 2Q17 @ 10.4%</td> </tr> <tr> <td>• TL 26 bn in 3Q17 @ 10.5%</td> <td>• TL 13 bn in 1Q17 @ 9.5%</td> </tr> </tbody> </table>	• TL 17 bn in 4Q17 @ 10.7%	• TL 24 bn in 2Q17 @ 10.4%	• TL 26 bn in 3Q17 @ 10.5%	• TL 13 bn in 1Q17 @ 9.5%
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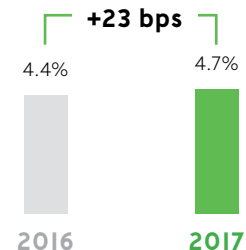
## ROBUST NIM PERFORMANCE UNDERPINNED BY DYNAMIC ASSET-LIABILITY MANAGEMENT

In a challenging year dominated by economic uncertainties and volatilities, Garanti successfully preserved its ability to generate sustainable income on the back of dynamic assets and liabilities management. The Bank maintained its highest Net Interest Margin (NIM) among peers, even in an increased rate environment. Effectively, as the liquidity provided to the market by the CBRT was mainly via the late liquidity window throughout 2017, the weighted average cost of CBRT funding was ~450 bps higher vs. the beginning of the year. The Bank continued to maximize its risk-adjusted return on capital and improve profitability while minimizing any fluctuations in NIM. Garanti focused on

defending its spreads by disciplined loan pricings and the high share of demand deposits in total. CPI linkers served as hedge against inflationary pressure and the higher than anticipated CPI readings led the upside on NIM, which ended 2017 at 4.7% remaining above the flattish guidance.

### NIM INCL. SWAP COSTS

#### CUMULATIVE





## HIGHEST FEE GENERATION CAPABILITY BACKED BY DIVERSIFIED FEE SOURCES & FURTHER DIGITALIZED PROCESSES

Garanti maintained its leadership in net fees and commissions income by sustaining its double-digit growth momentum on top of its highest fee base in the Turkish banking sector. With a diversified fee base, Garanti recorded an annual growth rate of 18% in fees and commissions.

Digitalized processes fostered Garanti's fee income generation capacity while focusing on further penetration of the existing customers increased cross-sell opportunities. Garanti's number of digital customers increased by 22% in 2017 and reached 6 million, marking the largest digital customer base in Turkey. Consequently, the share of digital in non-credit linked fees increased up to 40%.

As cash-non-cash loans constitutes 17% of net fees and commissions base, Garanti registered 15% year-on-year growth in this area.

Being the frontrunner in the credit cards business has been another key to Garanti's success on this front. Garanti is in leadership position in the number of credit card customers, plastic cards, POS terminals, member merchants as well as in issuing, acquiring and e-commerce volumes. Contribution of payment systems to total fees was 49% in 2017 with 13% growth year-on-year.

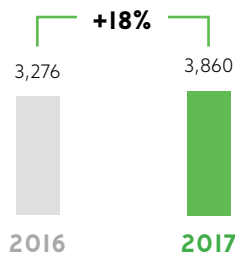
Garanti offers an omni-channel convenience with seamless experience across all channels. With 100% geographical coverage, 5,003 ATMs

facilitating 300 million transactions/year, leading call center, and Internet & mobile banking platforms, Garanti occupies the top position in interbank money transfers and swift transactions with respective shares of 14% and 17%. Contribution of money transfers to total fees was 13% in 2017 with 31% growth year-on-year.

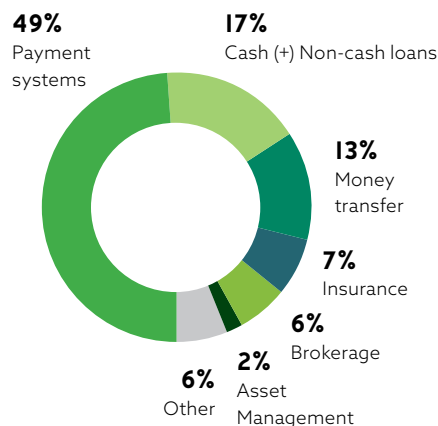
As the single point of contact for all financial needs of customers, Garanti offers a wide range of products and services in insurance, brokerage and asset management, each contributing to the net fees and commissions by 7%, 6% and 2%, respectively.

### NET FEES & COMMISSIONS

(TL million)



### SHARE IN FEE BASE



### GARANTI SECURITIES

- 8.1% MARKET SHARE MARKET LEADER IN THE EQUITY MARKET
- 12.37% MARKET SHARE IN BIST30 MAKING ACTIVITIES IN OPTIONS CONTRACTS
- \$1.8 BN VOLUME IN LEVERAGED FX TRADING

### INSURANCE AND PRIVATE PENSION

- IN 2017, GARANTI RANKS 1<sup>ST</sup> IN NON-LIFE AND 3<sup>RD</sup> IN LIFE INSURANCE AMONG PRIVATE BANKS
- GARANTI RANKS 3<sup>RD</sup> IN TOTAL FUND OF PRIVATE PENSION SYSTEM

### GARANTI PENSION&LIFE

- #1 IN PENSION TECHNICAL PROFIT<sup>1</sup>
- #1 WITH 1.2<sup>2</sup> MILLION PARTICIPANTS
- #1 IN AUTO-ENROLLMENT 346<sup>2</sup> THOUSAND PARTICIPANTS AMONG PRIVATE COMPANIES

### GARANTI ASSET MANAGEMENT

- TL 18.3 BN TOTAL ASSETS UNDER MANAGEMENT
- TL 5.8 BN MUTUAL FUNDS UNDER MANAGEMENT
- TL 12 BN PENSION FUNDS UNDER MANAGEMENT

### TREASURY

- 51% SHARE IN LOCAL INTERBANK FX MARKET
- USD 1.8 BN SPOT FX TRADING

1 IAT (Insurance Association of Turkey) data, as of September 2017

2 PMC (Pension Monitoring Center) data, as of December 29, 2017

Note: Fee breakdown is based MIS data

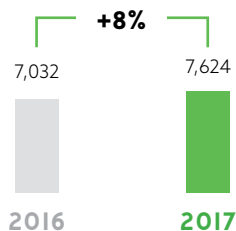
## COMMITTED TO IMPROVE EFFICIENCY & OPERATIONAL EXCELLENCE

Paying the utmost attention to stakeholder satisfaction, Garanti launched its new service model. The Bank aims to further improve operational efficiencies while empowering its employees to be more skilled and agile. New service model is a transformation project, which brings flexibility to the sales force to increase revenue generation capacity and cost efficiencies.

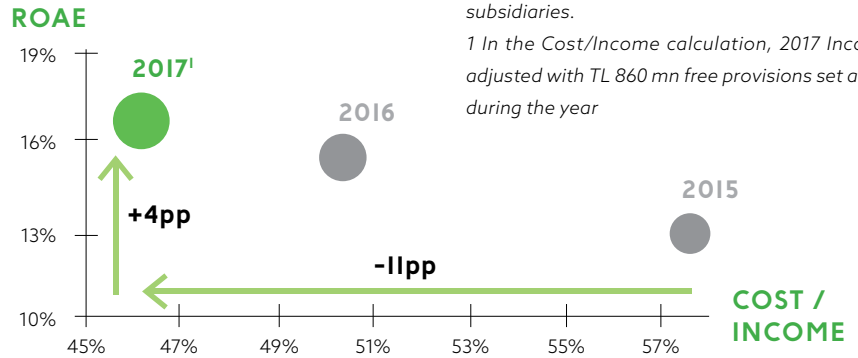
Garanti continued to focus on cost/revenue synergies and improved its Cost/Income and ROAE ratios by more than 11 and 4 percentage points since 2015. Furthermore Garanti's efficient business model in its branches and continued focus on efficiency secured sustained leadership in branch efficiency ratios of Cash Loans/Average Branch, Assets/Average Branch and Customer Deposits/Average Branch. As a result of commitment to efficiency, Garanti recorded an OPEX growth of 8%, which is below inflation and in line with the guidance.

### OPERATING EXPENSES

(TL million)



### INCREASING EFFICIENCY



Note: In the Cost/Income calculation, Income defined as NII + Net F&C + Trading gains/losses - Provision for loans + Other income + Income from subsidiaries.

<sup>1</sup> In the Cost/Income calculation, 2017 Income adjusted with TL 860 mn free provisions set aside during the year

### TURKEY'S FIRST BANK TO CENTRALIZE ITS OPERATIONS: GARANTI'S OPERATIONS CENTER ABACUS

Turkey's first bank to centralize its operations, Garanti alleviates operational load on its branches and enhances employee productivity through active use of technology. The Bank ensures superior quality, timely and error-free execution of operational transactions of its millions of customers through ABACUS. The Bank's loss resulting from operational errors was a mere USD 17,500 within a total turnover of USD 552 billion. Garanti channels 99% of all operational transactions of branches to ABACUS made up of a dynamic team of 1,148 experts.

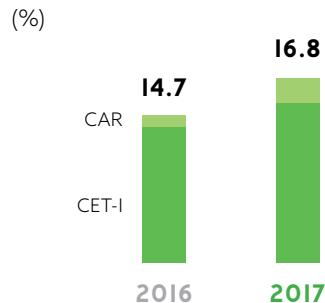
### ABACUS

- USD 552 BILLION TRANSACTION VOLUME
- 8,077 POINTS YEAR-ROUND NONSTOP CASH SERVICE
- 99% CENTRALIZATION RATIO IN OPERATIONAL TRANSACTIONS

### CAPITAL GENERATIVE GROWTH STRATEGY REFLECTED ON SOLVENCY RATIOS

In 2017, Garanti further strengthened solvency on the back of its capital generative growth strategy. The Bank reported a Basel-III compliant Capital Adequacy ratio of 16.8% and a Common Equity Tier I ratio of 14.7%. At Garanti, common equity Tier-1 corresponds to 88% of total shareholders' equity. With strengthened solvency ratios, the Bank proposed a dividend payout ratio of 27.59%, which is higher than previous years.

### CAPITAL ADEQUACY RATIOS



## GARANTI'S TAX CONTRIBUTION

Adopting transparency, prudence and honesty principles in tax matters, Garanti reports on the total tax contribution, both on its own and on behalf of third parties.

*Please read more on tax strategy & reporting on Garanti Investor Relations website.*

## GROUP PERFORMANCE IN 2017

In 2017, the Group outperformed compared to the prior year in almost every performance area.

The increase in net income was in the order of 24.1%, which drove return on equity up by more than 1 percentage points, followed by a considerable improvement in capital adequacy ratio by 212 basis points as of year-end.

The Group's special emphasis on efficiency is also reflected on the financial statements as a sharp decrease in Cost/Income ratio from around 50% to 46%.

Meanwhile, the strong asset quality preserved thanks to prudent risk management approach across the Group led to a decrease in consolidated non-performing loan ratio by 33 basis points.

Subsidiaries played a key role, as they did in previous years, in delivering the strong financial results at the end of 2017. The contribution of subsidiaries to the Group is not only limited to the net income figure but also to other financial performance metrics, enabled by the synergy captured with the parent Bank in all fields of activity as well as in management.

In 2017, major contribution to the consolidated performance was in the areas of insurance & pension business, and brokerage & securities activities, which are also supported by the Group's banking investments abroad.

On the side of insurance and pension business, 2017 was a year of success as:

- Garanti Pension increased its market share<sup>1</sup> by more than 20 basis points in terms of the number of participants.
- Garanti Pension achieved a net increase of more than 65,000 participants and continued to be the market leader with 1.2 million participants in total.
- Life business performed well thanks to the boost in the overall sector's performance driven by the Credit Guarantee Fund and KOSGEB credits, which stimulated credit life insurance, the flagship product of the Turkish life insurance market.
- Financial income also outperformed the last year by the increase observed in market interest rates.

In terms of brokerage & securities activities, year-end 2017 results were positive mainly thanks to:

- Equity and derivative transactions volumes that remained high during the year thanks to the rally in the markets.
- Despite regulatory changes that adversely affected the sector in FX products, the Group managed to compensate the negative effect caused by such business line by other activities such as treasury, intermediary services and corporate finance.

Regarding the Group's banking activities abroad;

- Despite one-off regulatory costs which hit the sector as a whole, the Group's subsidiary successfully managed this situation and offset such negative impact through effective measures on cost management, and by supporting gains from trading activities, combined with prudent balance sheet and risk management strategies.

Having maintained its operating income level with a slight increase in the leasing business, the Group implemented a more prudent approach to cost of risk, which led to a reduction in the net income figure by the end of 2017.

All in all, the subsidiaries' performance continued to support the Group's strong financial results in 2017.

*<sup>1</sup> According to the data published by Pension Monitoring Center as of 29/12/2017*

*Please refer to the Glossary Section on Garanti Investor Relations website for more information on financial ratios & abbreviations used in this chapter.*

## 2018 OUTLOOK

In 2018, asset growth will continue to be credit-driven. Around 10% growth projection in total assets will be led by a normalized 14-15% growth in Turkish Lira loans.

TL loan growth is expected to be across the board; consumer loans and credit cards are expected to grow in a range from low teens to mid-teen whereas TL business banking loans are expected to grow at high teens.

The Bank will achieve its growth target by expanding and further diversifying its customer base while increasing customer penetration by offering customized solutions across all lines of business. Increasing the share of digital sales in total sales via digital product offerings will remain as a primary focus area. On the retail banking front, the Bank will concentrate more on analytical approaches and big data oriented marketing actions to increase the strong market existence and to improve customer experience.

FC loans are expected to fare at similar levels vs. year-end 2017 after a few years of shrinkage due to lack of demand. In 2018, redemptions are expected to be compensated with new loan originations. New Public Private Partnership (PPP) projects will gain momentum in 2018, especially with the new bridges, major highways and healthcare projects. Additionally, important IPOs are expected to kick off in 2018, the proceeds from which are expected to be used in the existing loan repayments. The remaining amount would be a source for new acquisitions especially for venture

## 2018 PROJECTIONS

Asset Growth	~ 10%
TL Loans (YoY)	~ 14-15%
FC Loans (in USD) (YoY)	Flat
TL Customer Deposits	~ 15%
FC Customer Deposits (in USD)	~ 5%
Net Cost of Risk	~ 100bps
NPL Ratio	~ 3%
NIM inc. Swap Cost exc. CPI	Flat
Free Growth (YoY)	Low-teens
OPEX Growth (YoY)	< = CPI
ROAE	> 16.5%
ROAA	> 2.2%

capital and mutual funds. In the energy sector, renewable energy projects will be prominent as they were in 2017 and "Renewable Energy Resources Area" (YEKA) projects will be at the forefront in our pipeline in 2018.

Garanti will continue to shape its funding mix actively to manage duration mismatch while optimizing funding costs. With successful dual currency balance sheet management, the Bank will tap both Foreign Currency and Turkish Lira customer deposits as well as foreign funding opportunities depending on the market outlook throughout the year. Swap utilization is expected to continue opportunistically, while syndication rollovers and securitizations are anticipated to provide further support to the funding base.

IFRS-9 standard brings together all three aspects of accounting for financial instruments project: classification and measurement, impairment and hedge accounting. In this context, it became compulsory for banks to adopt IFRS 9

effective from 1 January 2018. Since the publication of the initial drafts of the standard, Garanti has been analyzing its potential impact in both departments: i.e. classification of portfolios and valuation models of financial instruments. Garanti considers that implementation of IFRS 9 will not have a significant impact on the balance sheet of the Bank.

IFRS 9 replaces the "incurred losses" model in IAS 39 with a model of "expected credit loss". Garanti does not anticipate a significant impact on total equity as a result of the impairment calculation based expected credit loss model in accordance with IFRS 9. Current level of general and specific provisions is estimated to be sufficient for the IFRS9 transition. By the end of 2018, NPL ratio and Net Total Cost of Risk are expected to be realized at 3% and 100 basis points, respectively, normalizing from their low bases of 2017. The Bank expects no deterioration in the collection performance, and might consider sales from its NPL portfolio given favorable market conditions.

In the coming year, cumulative net interest margin including swap costs excluding CPI linkers' income is expected to be preserved flat vs. 2017 on the back of dynamic assets and liabilities management. Timely loan pricing is expected to support core spread in a tight monetary policy environment. Disciplined pricing stance will continue throughout the year. While deposit growth focus will remain on sticky and low-cost mass deposits, solid base of demand deposits will be sustained. Cross currency swaps will be opportunistically utilized for margin optimization. CPI-linkers will continue to provide hedging against inflationary pressures. In 2018, Garanti will take the necessary actions based on a cautious optimism with respect to the management of balance sheet liquidity risk, interest rate risk, the Bank's securities portfolio, structural exchange rate risk, and capital.

Double-digit growth momentum will be maintained in net fees and commissions income. Growth in this department is anticipated to be at low-teens in 2018. Garanti is expected to preserve the highest level of net fees and commissions among its peers. Diversified businesses, e.g. payment systems commissions, cash and non-cash loans, insurance commissions and money transfers will be the main contributors to growth.

The increase in operating expenses of Garanti is estimated to be less than or equal to CPI in 2018. Cost/Income Ratio is targeted to improve further within the same period.

In 2018, Garanti will continue to focus on improving customer experience, internal and external digitalization and branch transformation. Risk/return focus in loan growth will remain along with the active assets and liabilities management that will result in high return on capital. In the light of its 2018 projections, Garanti aims to achieve an ROAE of above 16.5% and an ROAA of above 2.2%.

2018 promises to be a robust year for global and emerging markets alike. Important factors to watch for will be the speed of the Fed's continuing rate hikes, US inflation expectations, commodity prices and ECB Tapering. New CGF utilizations, inflation and preparation for 2019 elections will be hot topics to watch out in Turkey. In emerging markets (EM), country-specific fragilities will gain the foreground; macro parameters such as external balance, internal balance, growth potential and inflation will be monitored closely by investors. These macro parameters together with politics will also determine the share each country will attract from the EM flows.

### EXPECTATIONS REGARDING THE GROUP IN 2018

Garanti operates as an integrated financial services group through its leading financial subsidiaries offering services in life insurance and pension, leasing, factoring, brokerage and asset management in Turkey, along with its international subsidiaries operating in Romania and the Netherlands.

Garanti aims to make sure that the synergy captured with its subsidiaries is powerfully sustained in 2018, and the subsidiaries are expected to increase their shares within the Group's net income. In 2018, the Group will keep working towards preserving and improving its asset quality in geographies where its subsidiaries in Romania and the Netherlands pursue their banking operations.

Targets include sustaining productivity increase while preserving its asset quality, upgrading the strong balance sheet structure, and boosting and maintaining the profit generation capability. With respect to its operations in Turkey; in the insurance business, the Group lost some market share in terms of total funds, but increased its market share in the number of participants. At the bottom line, it was the most profitable private company in the sector parallel to its targets. The rise in the number of participants and profitability on the private pension front is anticipated to persist in 2018, and to affect the operating results positively, while solid premium production is projected to continue and keep supporting profitability in the life insurance department. The Group also envisages higher contribution from the leasing business, which should reflect on 2018 results. In the securities business, the positive contribution expected from stock and derivatives volumes to commissions is anticipated to support profitability together with opportunistic trading activities. In 2018, the Group aims to adhere to its sustainability-focused growth strategy

that maintains asset quality, increases productivity and generates capital. The strong share of loans within the assets structure will be maintained, and proactive risk management concept will back the preservation of solid asset quality as it did in previous years. The Group aims to sustain its cumulative net interest margin through an active assets and liabilities management. With their double-digit growth rates, fees and commissions income is intended to remain as one of the Group's significant income generators. The Group will carry on with active productivity management and will focus on molding its business model with an eye on potential growth areas. As before, the Group will persist with its initiatives to create long-term value in 2018; yet, it will continue to keep operating expenses under control. Standing out with its robust capitalization, the Group will retain this quality and move forward. In the light of all of these, the Group will preserve its ability to generate sustainable profit on the back of its differentiated business model.



## 2017 PERFORMANCE & OUTLOOK



# DIGITAL TRANSFORMATION

Digitalization is one of the global trends deeply influencing every part of life. Digital transformation is driven by developments in many different areas from the internet of things to cloud technology, from big data to artificial intelligence. As internet access and smart phone usage become far more widespread, customers change their preferences to reach products and services in favor of more simple, useful and time-saving channels which they can access from anywhere, turning away from traditional methods. It is now more important to deliver a customer experience where customized solutions are offered, going a few steps beyond just meeting customer expectations.

Constantly investing in digital platforms to provide unrivaled customer experience, transaction convenience, and pioneering solution suggestions, and to increase the share of digital channels in our sales is one of the strategic objectives of Garanti. Our Digital Transformation strategy is to deliver a full-fledged banking platform covering various banking transactions and services that are convenient, accessible and customized through all channels. Therefore our focus is on omni-channel

banking which enables customers to perform seamless transactions. Accordingly, our main concern is to listen to our customers' needs and answer them in a prompt manner. Our goal is to bring the age of opportunity to everyone, and we are aware of the fact that this process will commence at the branches.

Digital transformation led the banking sector to develop effective risk management tools in many areas including ensuring customer information security and privacy, and managing the increasing cyber threats. We take precautions against all risks that could prevent secure and uninterrupted service as we continuously invest in IT systems guaranteeing information security and measure the results within the context of customer satisfaction on digital platforms.

## VALUE DRIVER

Constantly invest in digital platforms so as to provide unrivaled customer experience, transaction convenience, and pioneering solution suggestions

Expand our digital customer base and increase the share of digital channels in our sales

Taking precautions against all risks which could prevent secure and uninterrupted service (e.g. cyber threats) ensuring information security.



**INDICATOR** **PERFORMANCE**

	2017	2016
Digital banking customers *	<b>5.9 MN</b>	<b>4.8 MN</b>
Mobile banking customers *	<b>5.0 MN</b>	<b>3.7 MN</b>
Digital transactions in non-cash financial transactions	<b>95%</b>	<b>93%</b>
Digital sales (share in total sales)	<b>1/3</b>	<b>1/4</b>
Number of cardless transactions via Garanti ATMs	<b>27.6 MN</b>	<b>19.0 MN</b>
Amount of Cardless Transactions via Garanti ATMs (TL)	<b>13.9 BN</b>	<b>10.9 BN</b>
Programs organized to raise awareness on customer privacy and information security	<b>19</b>	<b>15</b>
Hours of cyber security training per Full Time Employee	<b>0.64</b>	<b>0.48</b>
Employees who attended cyber security trainings	<b>99%</b>	<b>88%</b>
Data breaches regarding customer privacy	<b>0</b>	<b>0</b>

\* Digital and mobile customer figures are provided for "active customer" definition which refers to at least one login in the last 3 months. 2017 figures are for Dec'17 active & 2016 figures are for Dec'16.

For Garanti, digitalization is a key material topic, as identified by both our internal and external stakeholders. Therefore, technology is an integral part in decision making supporting process efficiencies and continuously driving the Bank forward. With a single source of data and common understanding, technology is used within Garanti as an enabler for top-down fast decision-making and strong communication. It is reflected in the way we do business, from advanced CRM applications and segmentation, to innovative products and services, and to a paperless banking environment. We want to offer an unrivaled customer experience by constantly investing in digital platforms.

Garanti supports the idea of all individuals benefiting from the opportunities created by digitalization, and develops solutions to enable use of banking services by more people.



By focusing on digitalization, we are actively contributing to Sustainable Development Goal 9: Industry, Innovation and Infrastructure.

## DIGITALIZATION FOR UNRIVALED CUSTOMER EXPERIENCE

Strictly focused on offering a better experience on digital channels at all times and a follower of omni-channel strategy, Garanti aims to reach the users at the right time with the right message. Customers are approached through the best-fitting channel by the use of smart decision techniques. Offering service through third-party services and messaging applications such as WhatsApp and BiP (a new generation communication application) in addition to digital channels, Garanti improves its structure on every possible platform based on its vision of being accessible by customers anywhere they need banking services. Customers are offered solutions that fit their financial needs through timing predictions and deployment of API ecosystem. Garanti aims to maintain its leadership in digital channels by continued monitoring and implementation of new technologies putting mobile channels at the heart of this experience. The Bank aims to increase customer interaction and dialogue through efficient advertisement, innovatively designed competitions and campaigns on social networks, while using them in a creative and pioneering fashion. The Bank intends to make use of social networks both for promoting its products and services, and also as an active sales platform. Furthermore Garanti transforms digital channels into an environment where customers can receive financial consultancy. Garanti also contributes to its customers' preparation for the digital future by developing financial tools supporting digital transformation.

## VALUE CREATION THROUGH DIGITALIZATION

Investing in digital channels feeds the sustainable growth model of Garanti. It leads to increasing customer satisfaction & loyalty. Branches with more than 65% digital penetration have more than 40% higher operation and service quality and efficiency. In addition, product penetration of digital customers is 65% higher than average customers, an evidence of higher cross-sell. Services fees driven by online and mobile banking make up 40% of the Bank's total service fees and support the growing fee base. On the other hand, transaction costs in online banking are 30 times and mobile banking are 55 times lower than branch banking, resulting in higher efficiency. Digitalization also leads to higher profitability. Profitability of a digital customer is twice that of a non-digital customer. Through digitalization comes sustained growth: branches can increasingly focus on building relationships, providing advisory, generating sales and acquiring new customers.

The EVP in charge of digital banking responsible for digital channels, customer experience & satisfaction and call center together with the EVP in charge of technology, operations, organization and process development, customer analytics, innovation & product development lead digital transformation within the Bank in collaboration with the senior management team. Furthermore, the progress and the performance are closely monitored by the Board of Directors.

## WHAT WE DID IN 2017

Managing the largest digital customer base in Turkey, Garanti Digital Channels enables 5.9 million digitally active customers to execute any banking transaction anytime, anywhere, with 5,003 Paramatik ATMs, an award-winning Call Center, its Internet Banking that has been leading novelties, and its Mobile Banking platform. While 5.0 million of these customers actively use mobile banking, 3.5 million customers use only mobile banking. Integrated into customers' lives, Garanti digital banking welcomes 2.3 million logins per day. Approximately 290 million transactions are performed through online and mobile banking channels annually. Utilizing digital channels effectively, 95% of all non-cash financial transactions go through digital channels with increasing weight in mobile, which reached 183 million in 2017. Garanti has 22% market share in retail internet & mobile banking financial transaction volume. Aiming to offer its customers an instant, convenient and uninterrupted experience, Digital Channels succeeds in remaining the leader of digital banking year after year.

Garanti, in an effort to manage brand awareness and corporate reputation on social networks, is present in 17 different social media platforms with more than 50 social media accounts. Aiming to provide direct access to innovative products and services by addressing customers' and followers' needs, Garanti places social media as a digital channel, and has the highest number of followers amongst financial institutions on social media in Turkey and in Europe. Garanti has more than 1.7 million followers on Facebook and over 5 million followers overall.

The creative solutions we produce on social media are groundbreaking in Turkey, and globally. We are the first bank in the world to receive general-purpose loan applications through a secure form on Facebook. We offer an efficient customer satisfaction service with "GarantiyeSor" (Ask Garanti), which is the first 24/7 social media customer satisfaction channel in the banking sector in Turkey. We design special offers in line with the customers' profiles and needs. Our Automik application is a good example for this. It is the first application in Turkey that allows potential automobile loan applications through Facebook. On social media platforms, Garanti makes use of creative content and initiatives that support its corporate image and contribute to business results by offering a description of products and services, which are at the same time aligned with the entertaining nature of social networks.

At Garanti, we are well aware of the fact that digitalization commences at the branch level, and acknowledge the importance of branches in better facilitating digitalization of the customer base. When in need we are able to act swiftly. Development of Appointment Requesting and Branch Density Monitoring in Mobile Banking Application was an agile project completed in August 2016. The project integrated branch appointment system into Mobile Banking and enabled customers to view branch density within the mobile application. With the aim of decreasing branch density, we are now working on a new project that targets further branch density optimization by guiding customers. Our customers will be able to

see and track density of branches and get an appointment from the selected branch through the mobile banking application. Also, they will generate a queue number for the selected branch. The entire branch experience will commence on digital and will be completed on digital.

Moreover, we want to guide customers to digital channels (Mobile & Internet Banking and ATM) when high branch densities are observed, by smartly placed "How to Do on Digital" guides. Customers will answer specific questions for their transactions and will see useful information about how a transaction can be done through the digital channels. Finally, customers will track branch densities as available or crowded from the map on the application as we can display average and maximum waiting times. With this feature, we aim to lead customers to get an appointment or visit the branch at a more convenient time.

#### EMPOWERING CUSTOMERS

We analyze customer behavior for each platform and continuously develop these platforms based on customer's needs along the cycle. Completely analyzing and understanding customer life cycle for every single platform is of paramount importance as customer needs vary depending on the platform. For example, customers using mobile platforms tend to perform their transactions quickly and they use this channel while they are on the go. In order to meet their mobility needs we created a virtual voice assistant, MIA (Mobile Transaction Assistant), which enables our customers to perform their transactions just with voice commands. This service is a first in Turkey for the banking service. Users not only perform

simple and basic inquiries but they can also enquire in a much more complex and diversified manner. MIA is developed for the purpose of perceiving natural language understanding and users are not required to use specific sentences or keywords. In other words, it understands what customer says and develops itself with AI while it serves. MIA is a world leading Bot among similar applications, with its sophisticated understanding capability and the ability to serve for nearly 200 different intents and 100 different concepts. MIA has responded to approximately 11 million intents from 1.5 million distinct customers so far.

We do not convert traditional products on physical channels to digital channels with the same features. We aim to create entirely digital products designed for digital channel's needs. Modular Auto Insurance is a good example of Solely Digital products, where customers can determine their coverages by themselves and take advantage of discounts depending on the number of coverages they select. It was designed based on the analysis of customers' buying trends on digital channels and customers' pain points, etc. Features of the product were shaped based on this thorough analysis and needs of the customers. Therefore this product is available only via digital channels, a truly end-to-end digital product.

We try to be a part of every technological movement and to adapt our services or create new ones based on these technology trends.

In April 2016, 4.5G was launched by all telecom operators in Turkey. At the same

time, we launched our face-to-face loan service as 4.5G technology offers faster internet connection. With this service, customers can interact with agents face to face while they apply for a loan on Mobile Banking. This provides a good example of human touch placement within digital experience.

Another digital innovation we have implemented further extends this example. Garanti's Facebook Messenger Bot enables personal loan calculation in a conversational form. Users can run calculations through this platform and easily reach the information they need. The bot responds to personal loan related questions to a certain extent, and it guides the user to a Garanti website or other distribution channel when needed. In addition to this, Turkey's first investment platform, Paragaranti.com now features Turkey's first investment chatbot. The Artificial Intelligence driven chatbot can answer up to 500 sets of questions giving users reach to the latest information on capital markets.

We try to position our channels in a way that they talk to each other. This applies not only to online experience; we aim to connect online and physical experience. Money withdrawal via QR function is a good example of this. Customers can withdraw money through ATMs by using their mobile banking application. All they need for fulfilling their cash needs is their mobile phone; they no longer need to carry an ATM card or even their wallet. We combined the physical ATM experience with digital experience. Another example of this is our general purpose loan application process. Our customers are able to perform loan

disbursement through online banking irrespective of the application process's having been initiated online or otherwise. When developing our products and services, we take all digital channels into consideration. We believe that customers would like to use the features that one tool offers also in all the other tools they have registered. For instance, they would like to approve a banking document using the mobile app when on the way or to do it on the desktop screen when at work. That is why we focus on omni-channel banking.

We try to offer better service experience to our customers and develop our services in order to be a part of their lives. Today, conversational services are one of the most used ones amongst consumers. These services are so crucial and convenient that we use these applications to communicate with each other even when we are in the same room. Hence, Garanti positioned itself in these services as well. Garanti customers and non-customers can perform inquiries such as ATM location lookup, stock market & currency information and so on through WhatsApp and Telegram. Our innovative services on instant messaging platforms are amongst our efforts to make customers' lives easier. Thanks to our WhatsApp service, which is a first in the Turkish banking sector, users who share their location information can find out where the nearest Branch or Paramatik ATM is located. On BiP, the messaging application and conversational service of the biggest mobile telecom operator in Turkey, customers can transfer money to people who do not have banking accounts without using internet or mobile Banking, solely by entering the receiver's phone number.

3<sup>rd</sup> party partnerships are also important for us to be in our customers' lives in every way possible.

Car dealers can now finance zero-km brand new vehicles via Internet Banking without any dependency on the physical branches with the completely re-designed Dealer Based Stock Financing product Garanti Dealer (Garantili Bayi). With its flexible and tailor-made perspective, Garanti Dealer grants performance-based floor plan pricing by taking a given dealer's retail auto loan generation performance into consideration.

Garanti reached an agreement with Apple authorised reseller whereby instant GPL will be made available through digital channels through an online approval process in the Apple authorised reseller stores. Customers are able to apply for an instant GPL of up to TL 15 thousand from Garanti Mobile and Garanti Internet with a promotion code. Once the loan is approved and disbursed, online customers are able to make the purchase directly via integrated POS.

We are able to offer most of the products and transactions in each channel with similar customer experience and we are capable of developing new platforms adaptive with other channels from the very first day. Customers can inquire the transactions they made in a channel on another platform, while they can display the campaigns tailored for them in each channel. We also take each channel's own needs into consideration. For example, customers can perform loan applications, open e-savings account on any channel; although the steps in Mobile Branch is less than those in Internet Branch, they

both have the same texture. Moreover, we are well aware of the fact that the key to keeping customers engaged with each platform is to offer the same rates for banking products and transactions on each channel.

At Garanti Bank, we track our customers' and their peers' financial habits and background data. Based on target-oriented research, customer-specific products & campaigns are offered to relevant customers. Furthermore, we are working on offering one-click and proactive products to our customers. These offers are customer-specific products that are available one-click away. For example, one-click loans will be offered to customers, who will be able to activate their offers by a simple click, if they wish to do so. Proactive offers are customer-specific offers prepared based on the customers' financial backgrounds. Advanced analytics and big data are considered within our products and services in order to understand customer needs and wishes, and to offer them desirable products at the right time from the right channel. Thus, analytics tools are highly used in order to offer proactive and customizable services to our customers. Moreover, digital payment is also a popular trend that we follow and plan to integrate with our services in the future, though there are certain infrastructural changes that need to be finalized in the Turkish market.

We also take customers' channel usage into consideration, in order to keep customers engaged and offer services that best fit their needs. This is crucial in terms of migrating customers to digital channels. If a customer is a digital

customer, tailor-made offers and features are proposed on digital channels. If a customer is a potential digital customer, Garanti draws a path to convert the customer to digital (from branch to ATMs, from ATM to online and from online to mobile) with smart offers at each level by starting to communicate with the customer offline (at the branch) and then moving to online. Offers proposed to customers are shaped according to Garanti's segmentation model which is based on a customer's engagement level depending on various criteria such as investment portfolio, deposit account, GPL disbursement, whether they have a salary account and so on. The smart combination of channel usage and segmentation model enables us to decide what to offer, how to communicate, when to communicate and how to behave. This way, customers can benefit offers that fit their needs the best on our channels.

To sum up, offering the best user experience across all channels, taking customer needs into consideration in digital channels and designing products based on those needs, leading innovation, being in the customers' daily lives and engaging with customers through smart offers are key in implementing our digital strategy for empowering customers through digitalization.

#### INTERNET BANKING

To provide its customers with the opportunity of managing their personal finances over the internet, Garanti offers interfaces which enable customers to follow their assets and liabilities in product-based graphs and their income, expenditures and cash flows with need-oriented notifications and alerts through

its Internet Banking website.

Garanti Internet's dashboard was renewed with a simplified design in terms of content, function and visuals in January 2017. It offers;

- Enhanced Personal Financial Management modules,
- Account and card balance information on the main page/dashboard,
- Specific transactions such as payments and money transfer reached with less clicks,
- Unified notification center and campaign management menu,
- One-click products on the dashboard,
- Mobile browser responsive design.

We have a customized website for our Personal, SME and Commercial customers. Once the user has logged in to the secure site, the customer type is remembered the next time the user visits the public site. The banners that are displayed on the site are then chosen from a pool of banners that have been created for that specific customer type.

On all pages, we feature useful tools and useful links that we have implemented to make our customers' lives easier. Through these links, the visitors can easily access other information related to the page they are on. For example, the loan calculator is available in the useful tools section on all loan pages or the "card comparison" function is accessed through the useful tools on card pages.

We improved our Help & Advice section on the new site. All product pages have a section where the top FAQs are displayed along with a short answer. These FAQ

fields are populated automatically (and updated when a new question enters the database) by matching tags of product pages and questions. A similar function is also available on the detailed question page, where related questions are offered to the user. Under every detailed answer, we have a "is this answer useful for you" section to improve help and advice based on feedback from the visitors. We have a search function special to "Help and Advice" section, so that customers can search only in FAQs.

### MOBILE BANKING

The number of monthly transactions carried out with Mobile Banking is more than 18 million. Active customer base increased to 5.0 million while mobile-only customers significantly grew to 3.5 million. Garanti Mobile Banking has 58% share of non-cash financial transactions. The number of active mobile banking customers grew by 38% in the twelve months to end-2017. Evaluated for mobile functionality benchmark by Forrester, Garanti was named best in class in Europe. (2014)

In February 2017, we have integrated login via Eye Scanning into Garanti Mobile. This new method enables users to login easily, securely, and quickly by recognizing the structure of their eyes. In this method, users set-up eye scanning in a few seconds, by looking into their cell phone camera and the next time they login, they can use Login via Eye Scanning. This method has been used more than 8.5 million times since its initial launch in February 2017 by over 415 thousand unique customers.

In addition, we enabled donations to over 85 institutions, and launched Title Deed Tax Payments in the Garanti Mobile Banking app.

Turkey's first youth mobile application GarantiOne addresses the youth segment between the ages of 18-25 incorporating special functions and campaigns totally overlapping with the lifestyle of the youth. Digital gifting enables users to send P2P digital gifts such as digital subscriptions, gaming credits, coffees, etc. The number of customers using GarantiOne, which was launched exclusively for the youth towards the end of 2017 reached nearly 800 thousand.

### PARAMATIK ATMs

The Paramatik network reached 5,003 ATMs in 2017. The ratio of cash deposits to cash withdrawals from Paramatik ATMs increased further to 110%. While 300 million transactions per year were carried out from Paramatik ATMs, more than 27 million transactions were carried out using the cardless menu. In addition to Turkish Lira deposit & withdrawal via QR code, foreign currency money withdrawal & deposit functions have been launched.

### ALO GARANTI - CALL CENTER

Recognizing the importance of quality and consistent service delivery, Garanti Bank Call Center analyzes customer needs timely and accurately, and offers its customers easily accessible services targeted at first call resolution.

Besides creating added value beyond its targets owing to its service approach that makes a difference, its financial products portfolio positioned in line with the Bank's strategies, and its qualified

human resource of 1,120 people, the Call Center maintains its leading position in the sector, successfully handling 15.7% of all the calls in the sector with an average response time of 33 seconds.

Garanti Bank Call Center, Turkey's largest financial call center with the number of customer contacts that rose to 77.4 million in 2017, keeps making a difference with a call response performance at a rate of 98.2% which is the key service performance indicator in this field.

By periodically increasing the Call Steering system's performance, which was launched in previous years, Call Center succeeded to direct its customers to the related service point, almost with a %100 Correct Routing Rate.

Continuing to produce customer-centric solutions through its innovations in technology, Garanti Bank Call Center invested in voice technologies once again in 2017. By launching Free Speech, Call Center started to authenticate its customers during the conversation. Along with this new feature, Call Center accomplished to render its service to customers much faster, easier and reliable.

Garanti Bank Call Center instantly brings the customers together with the expertized sales and service specialists that customers are interested in thanks to the Smart Sales and Dynamic Offer Systems developed with the "Right Product and Service Offer to the Right Customer" concept. Thus, maximum efficiency has been achieved in the fulfillment of customer needs.

With 37 financial products on its portfolio, Garanti Bank Call Center broke a new record with 4.2 million high added-value financial products sold in 2017.

In 2017, Garanti Bank Call Center once again retained its long-standing title as the leader of the loan telesales by making a significant contribution to Garanti Bank's total loan volume, in the marketing and sales of general purpose loan, mortgage and auto loans through the dedicated hotlines at 444 0 335, 444 EVIM and 444 OTOM.

One of the largest sales channels in total credit card sales for the Bank with a share of over 16%, the Call Center centrally and solely managed the retention efforts for all Garanti Bank credit cards.

#### BONUSFLAS

Garanti launched BonusFlas in 2015, a first in the credit card sector. Giving access to all cards and a large number of transactions unavailable on mobile applications until then from a single platform, BonusFlas also analyzes spending habits and sends Push notifications regarding the campaigns that best suit the customers. Having a considerable impact on digital transformation of card customers, BonusFlas has a satisfactory download and engagement trend with more than 4.4 million downloads. It has become the main channel for campaign enrollments with 12.9 million enrollments coming through the app, and it has a significant impact on customer satisfaction as it enables tracking all card information, loyalty campaigns and card products. More than 100.5 million transactions were generated to check card information by the users.

Holding a very strong position and accepted as a benchmark product in the market, BonusFlas is being enhanced consistently via addition of new product features and improvement of the existing ones targeting customer needs and feedbacks. Payment in car in BP gas stations via BonusFlas without leaving the car, tracking every step of card & limit applications transparently, authentication with eye verification are the latest digital solutions BonusFlas offers.

Moreover, GarantiPay fulfills the need for secure and fast checkout solution for e-commerce transactions without registration and sharing any card information with merchants. It is available at more than 575 merchants, and it is the only solution accepted on the Revenue Administration website, enabling Garanti cardholders to make tax payments conveniently.

#### GARANTI'S NEW SERVICE MODEL

Garanti recently launched its new service model, which captures the benefits of the emerging digital world. With the pilot program started in May 2017, the roll-out will be completed by the end of 2018. ~180 branches were converted in 2017. In this new model, Garanti reflected digitalization in branches.

With the aim of creating seamless, omni-channel experience to reduce branch dependency and ensuring similar customer experience across all channels, Garanti also launched the "digital approval platform" where customers can approve product/service agreements with Two Factor Authentication (via internet banking through corporate tablets or mobile devices) in branch processes as

well, where paperwork and time spent to complete sales/transactions are reduced.

STEP, a mobile application platform designed to provide customers with an uninterrupted and high quality banking experience in branch and non-branch environments, allows work forwarding to Abacus operations center, monitoring sales processes, and more efficient tracking of customers' cash flows.

Having surpassed 5,000 active users, the platform has served to increase customer visits by 62% with the same sales force. Smoothly running on tablet and desktop PCs, the STEP platform continues to act as the cornerstone of Garanti's new operational system.

We believe that acquiring/co-innovating with fintech startups is essential for Banking-as-a-Service (BaaS). Today, banks are no longer just financial players, and offer different services by establishing collaborations with third parties. Finance and innovation seem to contradict with each other; however building a culture of innovation within the bank is vital for an open innovation point of view. Thus, co-innovating with fintech startups is very important in terms of imposing startup culture into our and others' way of doing business. Therefore, as Garanti we act in accordance with the notion of supporting new entrepreneurs, products and projects in all areas. By collaborating with various third parties, we think that the market can be transformed and external disruptions can be turned into opportunities.

The change brought on by technology is picking up speed across all economic

sectors, and banking is no exception. Open innovation is one of the key elements of the bank's transformation to adapt financial services to customers' new needs. The concept stemmed from keeping up with the rapid pace of change that companies are undergoing. The connection with the innovation ecosystem and entrepreneurs is essential. At this point, Open Talent has evolved from a unified competition for technological companies to one divided into categories that supports all kinds of entrepreneurs in innovation from many countries. Garanti Bank is cooperation under the open umbrella of open innovation with BBVA.

## OUTLOOK

Garanti Digital Channels has been providing users with greater convenience and peace of mind, by offering pioneering digital solutions. In 2017, customer penetration and digital sales targets have been exceeded, and a substantial digital transformation has taken place in consumer loans and credit accounts.

Going forward, we will strive to expand the scope of application of mobile and internet banking exponentially. With an End to End Digitalization perspective and a zero-based mindset, products will be re-invented within a digital context. Customer journeys will be continuously monitored to boost NPS and to offer best-in-class UX.

We will also seek out partnership opportunities and create a range of APIs to integrate with 3<sup>rd</sup> parties. Not only will this expose the Bank to a much wider range of new technologies, but it will also help Garanti become the leading financial institution in the fintech ecosystem.

Garanti will maintain its leadership in digital channels by continued monitoring and implementation of new technologies, and will put mobile channels at the heart of this experience.

Having positioned in line with the Bank's digitalization strategies, Garanti Call Center has taken on an important role in expanding the use of Mobile Banking, BonusFlas and GarantiOne applications by Garanti customers. In 2018, Garanti Bank Call Center will continue to enrich its service and product range with novelties that will offer powerful customer experiences, in line with its goal of further increasing the value it creates, all the while keeping digital innovations, customer satisfaction and service quality in its focus, its unchanging top priority under any circumstance.

## DIGITALIZATION FOR SECURE AND UNINTERRUPTED SERVICE

Increased digital use leads to greater exposure to cyber security risks, and the improved threat profile results in elevated effect of the diversified risks of the digital environment. Constantly investing in technology, uninterrupted processing capacity, infrastructure security, cost efficiency and energy saving in light of corporate governance and international standards; Garanti, through its subsidiary Garanti Technology (GT) since 1981, sharpens its monitoring effectiveness. The company allows the Bank to put measures in place more rapidly and to become aware of global threats at an earlier time via networks that GT belongs to. Garanti's internet access architecture is restructured with a risk-based perspective. With its strategy, "Better IT, Better Business",

Garanti continuously invests in cloud technology and microservices in order to ensure cost saving and introduction of solutions at a faster pace, and positions its application architecture and security layers so as to support these technologies. Through these initiatives, Garanti targets to better adjust to the new business models presented by the constantly digitizing world, and to deliver its clients a better customer experience by transforming Big Data infrastructure investments into business intelligence solutions and open application platforms.

The opportunities offered by digitalization also transform issues regarding data protection and security into one of the most significant risks. Taking precautions against all risks, which could prevent secure and uninterrupted service, particularly cyber threats, ensuring information security and informing customers on related issues are among the material issues, both for Garanti and its stakeholders.

Garanti carries out efforts ensuring continued awareness of compliance with laws and corporate standards, and development of processes that guarantee management of IT/information security and IT related risks, in order to effectively manage reputational risk across the Bank. In terms of governance, the Information Security Committee headed by the EVP responsible for Technology, Operations, Central Marketing and Product Development coordinates all efforts within the Bank to guarantee information security and monitors policies, procedures, regulations and is responsible with respect to necessary updates.



Adopting an “enterprise external fraud prevention” approach within the framework of customer protection principles, Garanti centrally monitors incidents of fraud involving card transactions, account transactions, POS transactions and loan product applications carried out through any branch or non-branch channel.

Within the scope of monitoring and controlling operational risks that Garanti is exposed to, the Anti-Fraud Monitoring Department is charged with the development of strategies to proactively monitor, detect, control and prevent acts of external fraud. The Department takes rapid, efficient and customer-centric actions that give the foreground to customer experience against constantly changing fraud trends. Through analyses of fraud incidents, the Department works to minimize the potential losses of the Bank and the customers that may arise due to acts of external fraud.

Furthermore, the Department formulates views and suggestions on the Bank’s new product and service developments upon assessing the same with respect to external fraud risks. The Department also carries out all necessary examination and investigation about acts of external fraud, sharing related information within the Bank and with other banks. In addition, the Anti-Fraud Monitoring Department aims to improve communication channels with customers in order to achieve a more frictionless transaction environment. Garanti also cooperates with its stakeholders to increase anti-fraud initiatives across the sector, as well as those between different sectors, against fraud events. In addition to this, Garanti

also has a continuous acknowledgement and training approach about external fraud for its employees. The Department carries out training and awareness programs to help Garanti employees understand the importance of prevention of fraud risks and to establish this culture throughout the Bank.

In keeping with its fraud prevention, monitoring and system development functions, the Department closely follows up technological developments to increase the security of products and services provided via digital delivery channels, as well as those of card-based payment systems, and to prevent credit card and consumer loan application frauds and attempts of account takeover.

Garanti strengthens fraud monitoring systems with integrated, advanced technology and software in parallel to the customer-centric strategy.

### WHAT WE DID IN 2017

Garanti secures all IT assets including people, processes and technology so that the organization can focus on business targets without suffering an interruption due to security related issues by concentrating on Confidentiality, Integrity and Availability. We are continuously following up the latest and the most advanced security systems and striving to offer the most effective security solutions to protect our clients’ information. We perform regular penetration tests and vulnerability assessments to find and eliminate security risks. Garanti Bank follows the COBIT framework, internal security policies, procedures, and ISO 27001 with specific scope.

Garanti provides various security-building practices for its customers in line with its approach determined by security and privacy policies. Tokenization (Şifrematik application & device for generating one-time passwords), SMS OTP, Mobile Notification, Voice Biometric Verification and Eye Biometric Verification are used for the authentication of customers. In order to increase security of digital channels’ usage; Security Picture, Security Software for both mobile and PC are available for customers. Transactions are automatically analyzed and if necessary, additional verification is implemented to prevent fraud events. As a result, There has not been any data breach regarding customer privacy.

Through its website and Alo Garanti, Garanti offers its customers security information regarding digital banking. Warning its customers against possible situations, Garanti also explains additional security precautions that customers can take, particularly with the “6 Golden Rules” for security, such as creating and protecting passwords, situations when private information is requested, viruses spread via e-mails, fake prize notifications or requesting personal banking information via SMS or by telephone, phishing attacks, suspicious money transfers and requests for information. Also, Garanti provides customers with information on the protection of mobile devices and computers on which they use Garanti’s internet banking. Garanti furthermore advises to use utility programs such as anti-virus, spyware scanner and firewall.

In 2017, Garanti carried on with its anti-fraud activities in line with its strategy.

With customer protection as the major motivator, customer-centric fraud management tools were upgraded to the latest available versions in order to keep the anti-fraud capabilities up-to-date and respond to the potential fraud patterns in a dynamic manner. As fraudulent attempts rise in Turkey, Garanti focuses on dynamically monitoring and precluding these trends. In doing so, the main objective is to prevent both the Bank's and the customers' potential financial and reputational losses.

In 2017, data-theft and/or social engineering related fraudulent attempts were the major trends. Garanti aimed to manage these trends with a customer-centric approach by keeping the optimum balance regarding the customer experience and fraud detection performance.

In line with the aim of getting customers on board while fighting against fraud, Garanti continued to enlighten its customers about contemporary fraud trends by using various channels.

In 2017, Garanti strengthened its fraud intelligence processes with the contribution of related global teams of BBVA. In addition to this, global experiences are also shared in terms of fraud management.

## **OUTLOOK**

For 2018, Garanti will keep focusing dynamically on fraud patterns and on protecting the customers. It is also always a major goal to achieve competent customer experience by strengthening fraud monitoring systems with contemporary technology and skills in parallel to the customer-centric strategy of Garanti.



## 2017 PERFORMANCE & OUTLOOK



# INVESTING IN HUMAN CAPITAL

Human Capital is the driving force behind all progress at Garanti. Garanti employees are therefore one of the main pillars of Garanti’s strategy. The Bank builds systems to recruit, train and develop a first-class workforce, and provides a working environment that encourages full utilization of employees’ skills, offering a wide range of opportunities and ensuring recognition and rewarding of their accomplishments.

Garanti provides a workplace environment that is safe, modern and respectful of human rights, and is dominated by equal opportunities and diversity. To ensure work-life balance, Garanti supports its employees with policies and practices to increase their welfare level, and focus on their happiness.

For this purpose, the Employee Committee, headed by the CEO and formed of members from the Board and Senior Management, is responsible

for developing Garanti’s HR policies, carrying out and coordinating activities in order to improve employee engagement and satisfaction, monitoring results and developing action plans when needed. With the support of the management, the Committee also aims to promote learning in order to enhance the Bank’s development and tracks how training reflects on business.



By focusing on the professional development and giving all our employees equal opportunities we are actively contributing to Sustainable Development Goal 4: Quality Education, Goal 5: Gender Equality, Goal 8: Decent Work and Economic Growth, Goal 16: Peace, Justice and Strong Institutions.



Garanti invests in its employees in order to maximize their performance, increase their productivity and well-being, and proactively engage them to develop and implement sustainable initiatives in their day-to-day activities, both at and outside work.

Garanti’s HR processes including recruitment, career planning, performance appraisal, and training and development programs are in accordance with its competency model.

The human resources policy of Garanti can be summarized as putting employees first by continuously investing in them. We give priority and importance to our employees, by deploying sufficient resources for training and implementing programs. We try to maximize participation by leading an environment of open communication and by displaying a fair and objective attitude. We therefore think we create an environment that complies with international standards.

## VALUE DRIVER

Invest in our employees focusing on their development, satisfaction and wellbeing

Form teams possessing team spirit, acting with shared wisdom, social responsibility and delivering results

Embrace a fair and transparent management policy based on performance, focused on equal opportunities, diversity and promoting from within

Garanti develops human resources practices in accordance with the Bank's strategies. Efforts are made to improve motivation and create open communication forums in which employees are allowed to express themselves freely. We provide "career consulting" for employees in line with their competencies, knowledge, skills, and needs.

Garanti became the first company in Turkey to be awarded the Investors in People (IIP) Gold Certificate for the second time. Garanti will keep investing in its human resource and carry on with its implementations based on its "people-oriented" management concept.

## WHAT WE DID IN 2017

### LEARNING AND DEVELOPMENT

Garanti identifies the requirements in training and development programs by analyzing needs through one-on-one interviews, workshops or surveys conducted within all departments and branches.

As Garanti, we have realized all the development and learning activities that we have designed and planned in our bank with the vision of raising the best human resources of the financial sector and seeing development as continuous investment and development as an investment tool.

In 2017; with Garanti Learning Culture, we had our new training model - "Faculty Model", which we aimed to create an effective development environment that would respond to the needs of our employees and proliferate them professionally.

INDICATOR	PERFORMANCE	
	2017	2016
Hours training per FTE	36	36
Digital training/Total learning hours	27%	17%
High performer turnover	2.3%	2.1%
Employee engagement score	65%	66%
Programs related to employee well-being	10	9
Total ideas received from employees	22,172	20,859
Benchmark Investors in People Performance (IIP)	<b>GOLD CERTIFICATE</b>	<b>GOLD CERTIFICATE</b>
Female employees	56%	57%
Salary ratio of men vs. women	0.98	0.97
Women ratio in the Bank's senior/middle level management	41%	40%
Bloomberg Gender Equality Index	<b>QUALIFIED</b>	-

We have supported this with technology-based approaches where one takes responsibility for development in line with career goals, guiding the person, providing various ways for holistic development, supporting business results, measuring learning with reliable standards, and receiving feedback on the results. Within our faculty system, we placed our trainings under five different faculties according to their subjects. These are;

- Customer Experience and Sales
- General Banking
- Credit
- Investment
- Leadership

In 2018, our sixth faculty, Digital, will be added to our model. Parallel to our approach, Garanti introduced the new "Garanti Corporate Learning" platform that is plain, easy to understand, innovative and compliant with UX standards. The new platform, allows our employees to easily follow up their development histories, future trainings, credits they earn and levels in the Faculty Model. Meanwhile, managers can monitor their teams' development areas and accordingly, suggest various training solutions to them.

"Garanti Learning Technologies" offers access to various platforms including live broadcasts, simulations, videos, e-library and mobile learning through mobile devices anytime, anywhere.

A dedicated Sustainability E-Learning Program was established in 2012, which includes trainings regarding sustainability criteria in the credit appraisal processes, thematic trainings regarding financing solar power projects, carbon pricing, and environmental and social impact management in the loan processes. Total

duration of trainings provided under the Sustainability E-learning Program during 2017 was 1,490 hours.

Every year, managers attend the Garanti Leadership Academy that is established to build on managerial skills along with joint management culture. As identified each year before the program starts, the theme of the Academy for 2017 was "change".

In 2017, Garanti provided approximately 36 hours of training per employee. The ratio of digital training increased by 9 percentage points and reached 27% in 2017. While the main topics consisted of customer experience, digitalization, compliance, big data analysis and leadership development, it is intended to increase the weight of digital trainings versus classroom sessions.

### MANAGING HUMAN CAPITAL

Garanti employs various objective, competency-based measurement and evaluation tools and methods specific to each position in order to match the right person with the right job.

During 2017, 61 people joined Garanti under the Management Trainee & Sales Trainee Programs. 100 university students were given the chance to do internship at branches, regional offices and HQ business units. Full transition to online interview and test implementation has been realized for recruitment processes.

Standard criteria (experience, seniority, performance, competency evaluation, tests, interview, etc.) are established for all internal promotions and transfers between positions. They are transparently announced throughout the Bank via career maps, while employees are guided and supported in line with their chosen career path.

By creating an employee-centric career-planning model, the employee meetings are structured in line with the coaching model and the communication frequency is increased to enhance employee communication and communication quality. 2,048 branch visits and 728 regional office visits were conducted. 1,702 career meetings with employees were held.

Within our new branch service model, career maps, performance criteria, compensation and benefit studies have been completed. Human Resources Consultants held informative meetings during the transition process. 179 branches were transformed in 2017. 827 Customer Representatives and 408 Customer Service Representatives were assigned to new positions.

A new career management system has been implemented, which provides career development alternatives, enables progress in the relevant field of specialization, and provides a common framework to ensure consistency in career management. In this new system, the employee is the owner of his/her career management and development. The system creates a title structure that reflects the qualities of the role and enables management of career movements in an open and transparent manner.

Based on more objective criteria, the new performance system aims to create a system that is in line with the BBVA's and the Bank's strategies, and responds not only to 'What?' but also to 'How?'. While targets and competencies are assessed together in this new system, the employee's target and competency results serve as inputs for remuneration, career and development.

## EMPLOYEE DIALOGUE, PARTICIPATION IN MANAGEMENT AND SATISFACTION

In order to ensure that employees take active role in the decision-making mechanism and to benefit from innovative opinions, Garanti keeps dialogue channels bi-directional. Making systematic use of various channels, including employee opinions, the intranet, employee satisfaction questionnaire, and the voice of employee platform GONG, Garanti aims to increase employee satisfaction and employee engagement.

Garanti carries out an Employee Engagement Survey each year to gather employees' opinions on work-life balance, performance management, remuneration and training & development opportunities. In 2017, Employee Engagement score was 65%.

360 Degree Feedback collects employee opinions and aims to contribute to managers' behavioral patterns by determining their competencies, as well as their strengths and improvement areas.

Suggestion and Idea Platforms Önersen, GONG, and Atölye and the "Ask/Share"-section of the intranet portal serve as a means for employees to submit their suggestions and ideas. "Önersen" (You Suggest) has been instrumental in collecting 1,313 suggestions in 2017 and more than 22,000 in the aggregate since 2007. Through GONG, the voice of employee platform about HR practices and the working environment, 305 opinions were gathered in 2017.

Insight studies on employee engagement, career opportunities, meal cards and appointment processes were conducted, 99 employees were interviewed and improvements were

made taking into consideration the suggestions made for each topic.

Each year, through the Managers' Summit and the Future Meeting, the CEO and the executive team involve the total employee base and share & assess Garanti's current outlook and its strategy, goals & objectives for the year ahead.

As part of employer brand management efforts, Garanti carries out a Work-Life Balance program Work Life Integration (İYİ) in order to enhance employee satisfaction and ensure a richer working experience. Average number of events and services per employee went up from 9 in 2014 to 29 in 2017.

Garanti established the Domestic Violence Platform in order to support employees' family lives, to lend a hand to employees suffering from domestic violence whenever they need it, and to provide guidance to managers about the effects of domestic violence on the workplace. Garanti also launched the Domestic Violence Hotline offering service 24/7 exclusively to Garanti employees and their next of kin.

## EMPLOYEE BENEFITS

In order to enhance its employees' quality of life, Garanti offers various products and services. Garanti employees have Private Health Insurance and Life Insurance, and can benefit from the Bank's Retirement and Social Assistance Fund services for health expenses not covered by private health insurance, such as dental treatment, prescription glasses and contact lenses. There are fitness centers and internal nutritionists present in Garanti's Zincirlikuyu and Güneşli Head Offices.

The Garanti Bonus System (GPS), which was implemented for branch and regional employees in 2016, has also been implemented for our Headquarters and Regional Credits employees in 2017.

This new system is easy to calculate, integrated with our performance management system and not only takes individual success into account but also the success of BBVA Group and our Bank. The system also differentiates the premium amounts of our high-performers.

Internal Customer Survey is performed to evaluate the services employees receive and it gives them the opportunity to convey their suggestions.

## OUTLOOK

Based on its employee-centric approach, Garanti will keep involving employees in designing consultation and processes at a higher extent through systematic use of various channels, including employee opinions, the intranet, employee satisfaction questionnaire and idea platform GONG in order to enhance HR practices and the working environment.

Garanti Human Resources will continue to focus on accurately positioning its employer brand for its existing and potential employees. Garanti HR will keep organizing İYİ services and events to enhance the work experience, and using digital tools more frequently (like the online interview platform with business partners, live broadcasts with top management etc.) for communicating with the employees to support the efficiency of internal communication.

Managers' communications with their subordinates for employee satisfaction

purposes will be one of the vital concentration points for Garanti HR.

Transformation of the branches into the new service model is planned to be completed in 2018.

## OFFERING A FAIR AND TRANSPARENT WORKING ENVIRONMENT

Garanti aims to establish a fair and transparent working environment that is dominated by equal opportunities and diversity.

Garanti's approach to human capital is in accordance with its ethical values and the "equality principle". The Bank and our employees observe fair treatment in business relations regardless of language, race, gender, political ideology, philosophical belief, religion, sect and the like, sexual orientation, family responsibilities, disabilities, age, medical conditions, and union membership. The Bank and our employees respect human rights.

## WHAT WE DID IN 2017

### EQUAL OPPORTUNITY AND DIVERSITY

USD 250 billion incremental GDP could be created by 2025, if the rate of women's participation in workforce in Turkey would increase to the OECD average of 63% from 33% where it presently stands. Garanti considers equal opportunity and diversity as a fundamental value and a driving force of its corporate culture, as well as a contributor to economic growth. Garanti encourages employees to respect different thoughts and differences among them.

At Garanti, women employees comprise 56% of all employees, and 41% of senior/

middle level management. As a result of the importance Garanti gives to gender equality and women's empowerment, Garanti was one of the first to implement the Equal Opportunities Model (FEM). Also Garanti is the first bank in Turkey as one of the signatories of the Women's Empowerment Principles (WEPs).

Garanti designed the Gender Equality Training Program that is compulsory for all employees. The training focused on the gender roles imposed by the society and how they affect the work environment. Garanti also broadcasted a video on gender equality where Executive Vice Presidents Ebru Dildar Edin and Cemal Onaran informed Garanti employees about the Bank's projects on the topic. Furthermore, Garanti created a video series called "Believe in Yourself" to inspire the women of Garanti.

In order to raise strong women leaders who are aware of their competencies and capable of managing the challenges in business life, Garanti signed a cooperation agreement with the UN Women Program in 2016. Within this framework, Garanti organized Women Leadership Trainings for women at the middle management level in 2017.

In 2016, Garanti established the Women Executives Initiative, which consists of top-level women executives, aiming to contribute to the development and cooperation of women at middle and top-level positions. In 2017, the Initiative held 13 events, where inspirational speakers appeared to instill self-confidence to women executives within the Bank. Garanti's women executives also came together to discuss gender equality issues, designed development and awareness programs and created networking environments, namely The

Women Leadership (14 groups/177 participants) and Remarkable Women Programme (1 group/20 participants). The Women Leadership Program was supported by UN Women. The Remarkable Women Programme is designed to enhance women leadership ability through experimental learning and powerful new techniques.

The Gender Equality Working Group, which includes male and female representatives from the Executive Vice President level to the manager level, has been active since 2015 under the Sustainability Committee in order to ensure coordination of programs, processes and initiatives aimed at the Bank's employees or all the external stakeholders in the areas of the inclusion of women in the financial system, women's empowerment and gender equality.

Under the committee, there are sub-working groups dealing with HR, society and customer projects, which get together quarterly to evaluate the projects and come up with new ideas.

Garanti Training Center has made a GETKurs (includes 3 videos) about gender equality in workplace and society for all employees in 2017. Furthermore, a training program focused on domestic violence was initiated.

For all these initiatives concerning gender equality, Garanti became the first and only company from Turkey to be listed in 2017 Bloomberg Financial Services Gender Equality Index.

Garanti CEO, Mr. Ali Fuat Erbil became a founding member of 30% Club Turkey for greater representation of women in executive management, launched in March 2017.



### FAIR & TRANSPARENT REMUNERATION

Garanti's Compensation Policy has been formulated for the Bank's employees in accordance with the banking and capital market legislation, and it has been approved by the Board of Directors. The policy encourages fair, transparent, measurable and sustainable success among employees and is in alignment with the Bank's risk principles. The compensation structure consists of fixed income and variable income items. The Remuneration Committee and the HR Department authorized by this Committee are responsible for reviewing and duly executing the compensation policies.

*Read more on the Remuneration of the Board of Directors and Senior Management in the Corporate Governance Principles Compliance Report.*

In line with its target of being the employer of choice, Garanti applies a competitive, market-sensitive salary system, which aims to improve employees' life standards. Garanti's compensation policy is essentially based on "equal pay for equal work" and "pay for performance" principles. In addition to individual performance, Garanti keeps a close eye on general macro-economic circumstances, the current inflation rate in Turkey and the trends in the sector. At Garanti, the salary package is comprised of various components including the monthly salary, annual bonus payments and premium payments, meal vouchers, foreign language payments and other benefits with variations depending on the level of seniority or the scope of work and the location of the services. Garanti always monitors its compensation system so that it is fair, transparent, measurable, based on balanced performance targets, and it encourages sustainable success.

The compensation system of the Bank is built on job-based remuneration; employees who are employed in similar jobs receive similar compensation. Jobs are evaluated according to objective criteria such as required competency, the risk involved and the number of employees supervised. The Bank's Remuneration Policy established within this framework has been approved by the Board of Directors and presented for the information of shareholders at the Ordinary General Shareholders' Meeting. Presently, the policy is available to the public on the Bank's website pursuant to corporate governance principles. The performance evaluation system at Garanti measures employee performance depending on objectives and the extent of their attainment. Systematic bonus and performance models are major and effective management tools for achieving cost management and efficiency, while ensuring fairness among the employees that is supported by concrete and measurable criteria in the assessment.

In this context, customer satisfaction, service quality and efficient management of human resources are among the basic factors affecting the performance-based remuneration. Garanti monitors the competitiveness of its salaries through annual survey of salary levels in the sector. Job descriptions, performance criteria and bonus system criteria of all positions in the Bank are announced transparently to all employees via the Intranet.

The portion of 13.03% of the total personnel expenses figure for the benefits provided in 2017 to the Bank's employees including the Board members and senior management in the financial statements results from the performance-based

bonuses of all employees and variable salary payments.

The ratio of the average remuneration of female employees to that of male employees is 0.98. Insignificant differences can be explained by previous experiences, performance evaluation results and other factors aside from gender that affect pay level.

### MATERNITY LEAVE

Garanti employees are entitled to additional rights in maternity leave beyond the practices recognized by the laws. 96% of the 791 women employees who used maternity leave during the reporting period are still working at Garanti.

### RETIREMENT

Retirement is among the most important rights of employees. As of their first day of work at our Bank, employees automatically become a member of "T. Garanti Bankası A.Ş. Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı" (Retirement and Social Assistant Fund) established as per the provisional article 20 of the Social Security Law no. 506. For every employee and his or her dependent spouse and children, a health certificate is issued.

### OCCUPATIONAL HEALTH AND SAFETY

In line with local regulations on Occupational Health and Safety (OHS), Garanti formed a specialized OHS Team in 2013 under HR and gave momentum to efforts in this field. Renamed the OHS Division in 2015, the unit carries on with its work throughout Turkey with a team of 41 (OHS experts, occupational physicians, occupational nurses). The Head Office OHS Division coordinates OHS requirements of all locations.

In coordination with its lines of business, Garanti ensures uninterrupted OHS communication by way of monitoring findings and recommendations on OHS, and collecting the opinions of employees through the OHS Employee Representatives in the locations.

In 2017, OHS experts, occupational physicians and occupational nurses provided 40,968 hours of service.

Garanti developed the OHS software in use, thereby exhibiting our distinction from other financial services institutions in Turkey.

In 2017, Garanti Bank began computerized monitoring for all its applications and started to use a number of modules such as Non-Conformity Management, Incident Management and Risk Assessment in coordination with related business lines.

In the Risk Assessment process, the risks identified so far at all Garanti Bank locations have been audited and an institutional roadmap format has been created. Corrective and preventive activities of this format are also monitored through Non-Conformity Management. In 2017, a total of 1,920 corrective or preventive activities were carried out to create a healthier and safer working environment at Garanti Bank locations.

Workplace accidents that occurred in all locations, findings that were established, and suggestions that were received were tracked together with the relevant units also during 2017. Ongoing activities included the provision of OHS experts and On-site Physician services at 21 locations with 50 and more employees, regular quarterly OHS Committee Meetings

and the updating of risk assessments to reflect the changes in workplace conditions.

In 2017, many OHS trainings were continued and a more interactive learning process was planned with the new OHS training design. Employee awareness was enhanced, especially through seminars and simulations on safe driving. 135,767 hours of OHS Training were provided to employees across the Bank in 2017.

In 2017, Garanti developed the Patient Appointment System (PAS) within the scope of Occupational Health practices, allowing its employees to get a doctor's appointment through the system, thereby securing efficient use of time and delivery of quality healthcare service. This initiative also ensures more organized performance of new-hire and periodic examinations and better structured execution of outpatient services.

Improvements in reporting of the Patient Appointment System in 2017 increased system efficiency and provided the necessary infrastructure for its use in the headquarters.

In addition, in 2017, the Emergency Management process, which had previously been under the responsibility of the Disaster Recovery and Business Continuity Service of the Internal Control Unit, was handed over to the OHS Division. Evacuation drills were carried out especially after the task development in the emergency teams.

Within the context of compliance projects of subsidiaries, activities continued in line with the regulatory requirements regarding OHS. In addition to the processes in some health applications,

affiliates have become able to use the same OHS software in the coordination of the OHS Division.

Documents such as Internal Directive, Training Procedure, Near Misses and Work Accident Procedure, which convey the implementation details within the scope of the OHS Management System documentation, were created.

#### WORK-RELATED ACCIDENTS

In the reporting period, there were 265 work-related incidents of injury.

#### TOTAL LOST WORKING DAYS

The total lost working days were 41,758 days for women and 18,980 days for men in 2017. The total lost days data is collected on the basis of medical reports of sickness leave and injuries.

*The Social Performance Data is available on Garanti Investor Relations website.*

#### OUTLOOK

In the coming years, we will carry on with networking activities and build sub-communities among branches. Internal communication programs, trainings such as women leadership program and initiatives to reinforce perception towards gender issues will stay as key elements of our internal awareness raising efforts. Volunteering programs on gender equality will continue to be a part of the governance structure since it brings enthusiasm to HR initiatives.

Within our Health and Safety facilities, the efficiency of the Emergency Management processes will be increased by the utilization of digital tools.



## 2017 PERFORMANCE & OUTLOOK



# RESPONSIBLE AND SUSTAINABLE DEVELOPMENT

Mobilizing financial, human and intellectual capital to support responsible and sustainable development is one of the strategic objectives of Garanti.

We want to be a model to our stakeholders in mobilizing capital to contribute to SDGs with a focus on material issues. As our stakeholders expect, we encourage the private sector to operate with due regard to the 2030 Agenda.

We diversify financial instruments provided for low-carbon and inclusive growth, and cooperate with international finance institutions for low cost funding. As climate change continues to be one of the most significant global issues in the 21<sup>st</sup> century, our responsible finance approach is tailored to address climate change issues in addition to societal challenges such as fostering employment through supporting SMEs in growing their business.

We believe that a strong economy is conceivable only through strong communities and individuals. To this end, we create shared value through our strategic community programs focusing on material issues such as skills gap, education, cultural development and environment.



By focusing on the responsible and sustainable development we are actively contributing to Sustainable Development Goal 4: Quality Education, Gola 6: Clean Water and Sanitation, Goal 7: Affordable and Clean Energy, Goal 8: Decent Work and Economic Growth, Goal 11: Sustainable Cities and Communities, Goal 12: Responsible Consumption and Production, Goal 13: Climate Change, Goal 14: Life Below Water, Goal 15: Life on Land, Goal 17: Partnerships for the Goals.

## VALUE DRIVER

Drive positive change through strategic partnerships

Create shared value through lending based on impact investment principles

Focus on community investment programs which deliver impactful outcomes on material issues

## INTRODUCE NEW SUSTAINABLE PRACTICES THROUGH PARTNERSHIPS

The Sustainable Development Goals emphasize the importance of cooperation in reaching the 2030 targets.

We practice our understanding of leadership and transforming the sector by engaging and building partnerships with key stakeholders to implement sustainability initiatives.

For many years, Garanti has been participating in local and international organizations, which allowed for widespread, high-leverage engagement of the business community with numerous national and international organizations, including governments and policymaking bodies.

These included participating in the annual general meetings of the United Nations Environment Program Finance Initiative (UNEP FI), and at least semi-annual Working Group meetings of the Global Compact Türkiye, the Turkish Business Council for Sustainable Development (BCSD Turkey), the Banks Association of Turkey (in Turkish: TBB) Role of the Financial Sector in Sustainable Growth Workgroup and Carbon Pricing Leadership Coalition (CPLC).

*More information on the list of initiatives and organizations supported by Garanti Bank is available in the Supported Initiatives section on Garanti Investor Relations website.*

INDICATOR	PERFORMANCE	
	2017	2016
Participation in sustainability related initiatives and memberships	27	22
Engagement platforms	36	25
Sustainability indices in which Garanti is included	6	6
Policies/Position Papers Garanti contributed	8	14
Total Sustainability Funds utilized from IFIs (million TL)	841.7	663.5
Sustainable products/credit lines	32	28
Amount of impact investment (billion TL)	9.3	8.0
Market share in WPPs	30.2%	32.1%
SDGs contributed via E&S risk management of loans	10	10
Avoided GHGs through renewable portfolio* (tonnes of CO <sub>2</sub> e)	5.4 MILLION	5.0 MILLION**
Scope 3 footprint of greenfield energy production portfolio (in new PF commitments)	0	0
Issues addressed by community programs	3	3
Amount of investment in community programs (million TL)	20.3	20.8
Renewables in greenfield energy production portfolio (in new PF commitments)	100%	100%
SROI of community programs	NOT AVAILABLE <sup>1</sup>	Education and Skills Gap Projects: 2.49 Entrepreneurship Projects: 2.19 Culture and Art Projects: 2.46

<sup>1</sup> Will be revised in 2018

\* of HEPP, SPP and WPP that Garanti has participated in financing based on the total operational installed capacity

\*\* The avoided emissions for 2016 has been restated since the methodology to calculate avoided emissions has been updated with lower emission factors in 2017.

*Please refer to Materiality, Corporate Governance and Risk Management sections for more about the governance of sustainability issues and how Garanti Bank engages with stakeholders.*

## WHAT WE DID IN 2017

In 2017, we continued to support the fifth Sustainable Finance Forum organized in cooperation with the BCSD Turkey, The United Nations Environment Program Finance Initiative (UNEP FI), and Global Compact Turkey. The main theme of this year's Forum was "The Role of Finance Sector in Combating Climate Change", and a groundbreaking declaration, namely Declaration on Sustainable Finance, was launched. The Declaration, prepared under the leadership of the Global Compact Türkiye, aimed to integrate the environmental and social risks, including the consideration of the cost of carbon in emission-intensive projects, in lending processes. Garanti has been one of the leading contributors to the development of this Declaration undertaken by the Sustainable Finance Working Group of Global Compact Türkiye, as the Working Group chair.

We declared our support to Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) and its Recommendation Report for climate-related risk&opportunity management; also became a member of Carbon Pricing Leadership Coalition (CPLC), an initiative led by IFC for carbon pricing. Garanti Bank's stewardship on carbon pricing was also published as a case study by IFC.

We also hosted the 3<sup>rd</sup> Sustainability and Risk Management Workshop, where corporate customers from energy and infrastructure industries were informed on cutting edge sustainable business topics such as TCFD recommendations, carbon pricing and disruptive technologies. We attended the CPLC High Level Assembly held in Washington, D.C. and were included in the 2016-2017 Carbon Pricing Leadership Report.

In 2017, gender equality remained as a key social issue that Garanti Bank addressed through advocacy. Garanti CEO, Mr. Ali Fuat Erbil became a founding member of 30% Club Turkey for greater representation of women in executive management, launched in March 2017. We attended the WEPs Forum, a joint convening of the U.S. Chamber of Commerce Foundation, United Nations Office for Partnerships, UN Women, and the UN Global Compact, which was held in New York at the UN headquarters in March and promoted the Gender Gap Tool developed under the Turkish network of WEPs.

We have been recognized by a variety of sustainability indices and programs with our pioneering approach to responsible and sustainable banking. In 2017, Garanti has been a constituent of the Dow Jones Sustainability™ Emerging Markets Index, FTSE4Good Emerging Markets Index, Bloomberg Gender-Equality Index, as well as BIST Sustainability and Corporate Governance Indices.

Building on its efforts to support CDP Turkey's Water Program, Garanti Bank has extended the scope of its support and became the main sponsor of the CDP Turkey Program. Garanti was also entitled to receive the "CDP Turkey 2017 Climate Leadership Award" and became the only financial institution worldwide to be listed in the CDP 2017 Water A List.

As a member of the global IIRC Business Network, Garanti Bank has proactively supported the establishment of the Turkish IIRC Network and a variety of awareness raising and capacity-building programs on integrated thinking in Turkey.

## OUTLOOK

Garanti Bank is aware of the need to collaborate and engage with its peers and suppliers on a global level to identify new opportunities, capture emerging best practices and products, and remain a sustainability leader in Turkey. Garanti Bank will continue to engage with different stakeholders at the national and international levels to follow the latest developments and include their views into decision-making processes. The Bank will mainly focus on enhancing non-financial risk management approaches within the Turkish Banking Sector. Additionally, Garanti Bank will support activities to boost public-private sector partnerships.

## CREATE SHARED VALUE FOR ALL THROUGH IMPACT INVESTMENT

We diversify financial instruments provided for low-carbon and inclusive growth, and cooperate with international finance institutions focusing on sustainable development. By developing products and services for diverse needs, we pay attention to providing financial solutions facilitating transition to a sustainable economy.

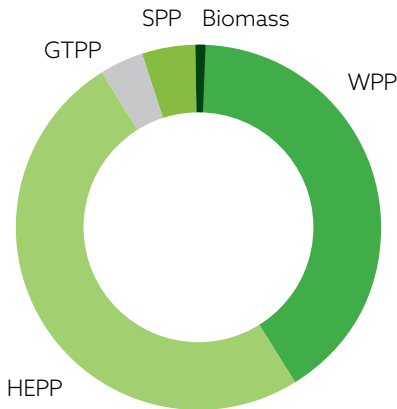
### WHAT WE DID IN 2017

#### FINANCING THE TRANSITION TO A LOW CARBON ECONOMY

One of our primary objectives is to provide the necessary financing for the renewable energy industry which is making exponential progress with global scientific developments, and contribute to utilization of renewable energy potential of our country.

To date, we maintained a 30.2% share in Turkey's operating installed wind power capacity. The amount of cumulative financing provided to renewable energy investments exceeded USD 4.9 billion.

Also, in 2017, the total avoided emissions of operational solar power plants, wind power plants and hydro power plants projects that we have participated in financing was 5.4 million tCO<sub>2</sub>e based on the current average grid emission factor for Turkey.



As of 31 December 2017, Garanti Bank has allocated:

- USD 2.35 billion to Wind Power Projects (WPP) which will have a total installed capacity of 2,109 MW once fully operational,
- USD 2.10 billion to Hydropower Projects (HEPP) which will have a total installed capacity of 3,295 MW once fully operational,
- USD 204 million to Geothermal Power Plant Projects (GTPP) which will have a total installed capacity of 202 MW once fully operational,
- USD 201 million to Solar Energy Projects (SPP) which will have a total installed capacity of 250 MW once fully operational, and
- USD 15 million to Biomass to Energy Projects, which will have a total installed capacity of 24 MW once fully operational.

In 2017, all of the project finance loans the Bank provided for greenfield power plants have been allocated to renewable energy projects.

In 2017, Garanti continued to diversify its financial instruments to contribute SDGs and cooperated with international finance institutions on this area. The Bank signed the first-ever residential mortgage covered bond agreement with IFC in Turkey to support Green Mortgages in 2017.

Garanti Bank also launched its Green Auto Loan in 2016 for the financing of hybrid and electric automobiles, that provide fuel efficiency and stand out with their environmental features. We believe there is strong potential moving forward given the international pledges and developments in this area.

The momentum for climate action is strengthening across the financial sector, with pension funds, banks and asset managers embedding climate change impacts into mainstream financial activities.

In line with these developments, Garanti published its Climate Change Action Plan in October 2015, which focuses on carbon pricing, reducing deforestation, managing climate-related water risks and implementing green office standards and made Garanti the first bank in Turkey to commit to UN Global Compact's Business Leadership Criteria on Carbon Pricing.

With this Action Plan, Garanti also pledged that a minimum of 60% of the total funds allocated to greenfield energy production facilities will be directed to renewable investments through internal carbon pricing. In 2016, Garanti Bank took its pledge a step further and committed to a renewable energy share at a minimum of 70% of the greenfield power sector financing to be provided by 2020 in new project finance transactions.

In 2016 and 2017, Garanti Bank far exceeded its goal of prioritizing renewables in project finance as 100% of the total resources allocated to greenfield energy investments was allocated to renewable investments.

### SUPPORTING WOMEN ENTREPRENEURS

We support active participation of women in employment and economic life, with the understanding that an inclusive economy where all individuals make use of opportunities equally will be more efficient and can grow faster. Our commitment to gender equality means developing our country in a way that it is beneficial for everyone beyond our Bank.

We increased the loan amount provided to women customers, whom we categorize as a special customer group in SME Banking, by 28% compared to the previous year, and raised it to TL 4.1 billion by the end of 2017.

As well as financing, through our Women Entrepreneurs Executive School, we provide entrepreneurship trainings for women and support women entrepreneurs in developing their businesses by building knowledge and experience sharing environment.

*You may find all programs and other practices we developed specifically to meet the needs of women entrepreneurs under the Customer Experience Section.*

### FOSTERING EMPLOYMENT THROUGH SUPPORTING SMEs AND ENTREPRENEURSHIP

Making up 74% of the total employment in the country, SMEs are important contributors to the economy, domestic

development, and inclusive and value-added growth. At Garanti Bank, we support SMEs in increasing their financial resilience and making value-added production that will benefit the economy. In 2017, Garanti worked to satisfy the diverse needs of SMEs and increased its share in the sector.

Please refer to Customer Experience Section for more information on our support to SMEs and entrepreneurship. As a result, Garanti SME Banking attained the following results<sup>2</sup>:

- Total lending to women entrepreneurs to date reached TL 4.1 billion.
- Installment commercial loan rate extended to small and medium businesses grew by 32%.

*2 Calculated according to the official Small and Medium Sized Enterprises (SME) definition (enterprises employing less than 250 people annually and not exceeding TL 40 million either in annual net sales proceeds or financial balance sheet). Unless otherwise specified, the numbers cited are based on the SME definition of Garanti Bank.*

### PARTNERING WITH FINANCIAL INSTITUTIONS

We cooperate with international finance institutions in financing renewable energy projects. In October 2016, we signed a loan contract of EUR 100 million with Proparco for 12 years to be used in financing energy efficiency and renewable energy projects.

We also signed a goodwill letter for the "Financing and Consulting Support Program for Establishments Managed by Women" initiated by the EBRD, European Union Delegation to Turkey, Republic

of Turkey Ministry of Labor and Social Security and Turkish Business Council. With this program, we are involved in a EUR 300 million loan package that will be used to finance companies managed by women. Additionally, we provided businesswomen in Turkey with USD 60 million in loans with the Women in Business project run in cooperation with the EBRD. For detailed information of these funds allocated particularly to women SME owners or managers, please see the EBRD's official web site.

### OUTLOOK

Garanti will continue financing activities that create positive impact. We will expand our green products and services to support Turkey's transition to a low-carbon economy and contribute to the global 2-Degree target. In that respect, we will continue to prioritize renewable investments and take more ambitious actions regarding carbon-intense sectors in our portfolio.

Garanti will also advance in supporting entrepreneurs and SMEs through various programs and initiatives, which eventually will contribute to creating employment opportunities and providing the sustainable growth of the Turkish economy.

Garanti pursues a prudent external funding strategy, which is an important pillar underpinning a sustainable and well-diversified funding base. The Bank targets to expand its correspondent network in different geographies and meet the client needs for international transactions. Garanti aims to provide customized trade finance solutions for its clients and enter into new cooperation in this area with correspondent banks and export credit agencies.



## COMMUNITY INVESTMENT PROGRAMS

### EDUCATION AND SKILLS GAP

Addressing the global challenge of expanding educational opportunities and closing the skills gap are fundamental to achieving the UN SDGs.

The Teachers Academy Foundation (ÖRAV), established by Garanti Bank in 2008, has been the first and the only non-governmental organization focusing on the development of teachers in Turkey.

The educational program "Math-Science Learning with Fun" developed by the Educational Volunteers Foundation of Turkey (in Turkish: TEGV) to improve primary school students' math and science skills and problem solving capabilities was launched in 2015 with the sponsorship of Garanti.

"Code the Future with Garanti" project, which aims to introduce children aged 8-13 to coding, robotics and design-oriented thinking, has been launched by the collaboration of Garanti and Bahçeşehir College in 2016.

Carrying out its activities with the support of Garanti, Tohum Autism Foundation's Continuous Education Unit has been providing theoretical and practical education about autism to special education teachers, parents with autistic children, related experts and university students.

Sports and physical education can motivate children and youth to attend and engage in formal and informal education, as well as improve academic performance and learning outcomes. Sports can teach

transferable life skills and key values such as tolerance, inclusion and can lead towards learning opportunities beyond school. Sports can advocate for gender equality, address constricting gender norms, and provide inclusive safe spaces.

From this perspective, Garanti has been the main sponsor of 12 Giant Men (National Men's Basketball Team) since 2001, Pixies of the Court (National Women's Basketball Team) since 2005, 12 Brave Hearts (National Men's Wheelchair Basketball Team) and 12 Magical Wrists (National Women's Wheelchair Basketball Team) since 2013. With this inspiration drawn from the 12 Giant Men, the 12 Giant Men Basketball Academies was initiated aiming for the basketball culture to be adopted by larger audiences and popularized.

### ENTREPRENEURSHIP

Garanti is the main sponsor of the Entrepreneurship Foundation, namely Girvak, working to drive the culture of entrepreneurship and to encourage youth to experience entrepreneurship by learning from their inspirational role models, taking part in various entrepreneurship activities and networking since 2014. Each year, the Foundation admits a set number of university students aged 17-25 to the Fellow Program.

As explained in the Customer Experience Section, Garanti Bank also conducts educational and skills development programs such as Women Entrepreneurs Executive School in order to support its customers in the SME segment. These programs allow Garanti Bank to create positive impact on social dilemmas such as gender equality.

Furthermore, Garanti started its GarantiPartners program in 2015 in order to support entrepreneurs in all aspects of their new ventures. *Please refer to the Customer Experience Section for details of the program and GarantiPartners website.*

### CULTURE

Cultural aspects, including active participation in cultural life, the development of individual and collective cultural liberties, the safeguarding of tangible and intangible cultural heritages, and the protection and promotion of diverse cultural expression are core components of human and sustainable development.

Garanti Bank aims to stimulate cultural and creative industries through supporting research and production in those areas. SALT, which was established as an authentic, autonomous and continuously developing cultural institution by Garanti, is making such activities accessible to all parts of the society since 2011. The Institution plays an important role in creating memory and awareness on national cultural heritage in Turkey.

Garanti has also been striving to make cultural activities that take place in limited communities become widespread. As the main sponsor of Istanbul Jazz Festival for 21 years, Garanti has been supporting the leading jazz music venues in Istanbul under the brand named "Garanti Jazz Green".

### INCLUSIVE COMMUNITIES

The project "İşe Katıl Hayata Atıl" (Join the Workforce Join Life) was launched in October 2014 under the patronage of

the Ministry of Family and Social Policies and with the support of Garanti. Under the initiative, people with disabilities are assisted with job selection according to their capacity, skills and preferences, and with adjustment to the working environment and social life under the "supported employment" model established for the first time in Turkey.

### ENVIRONMENT

Garanti has been the main sponsor of WWF-Turkey for 25 years with the slogan Garanti for Nature. WWF is one of the largest wildlife protection associations in the world, with 13,000 projects conducted annually around the world and 6,200 employees in more than 100 countries. Garanti also supports the Earth Hour movement organized by the WWF every year in order to point out the world's environmental problems.

As previously explained, Garanti is the main sponsor of CDP Turkey, Turkey office of the world's most powerful green non-governmental organization.

### SOCIAL IMPACT ANALYSIS

Garanti conducted a Social Impact Analysis with the Social Return on Investment (SROI)<sup>3</sup> method in order to assess the value and the social impact of 10 ongoing projects in 2016. According to the results of the analysis, the SROI values are 2.49 for the Bank's education & skills gap projects, 2.19 for entrepreneurship projects, and 2.46 for culture and arts projects.

### WHAT WE DID IN 2017

ÖRAV reached 10,576 teachers in 81 cities, and the number of active users of the website (eKampüs) reached 119,314 in 2017.

Within the scope of the mathematics project in the "Math & Science - Learning with Fun" program carried out by TEGV (Educational Volunteers Foundation of Turkey) with Garanti's support, in 2017, we reached 97,612 children with the support of 2,149 volunteers. We hosted more than 400 children at the "Code the Future with Garanti" workshops in 2017.

We reached 4,713 people with the work carried out by Tohum Autism Foundation with our support in 2017.

The "12 Giant Men Basketball Academies" (12 DABO) Project reached 1,600 students in 41 locations in 2017.

After receiving 6,400 applications for the program in its debut year that rocketed up to 30,000 in its second year, Girvak attracted 94,000 applications from 81 provinces in Turkey in 2017. At Girvak that currently has 80 Fellows from 32 universities and 96 Alumni, 32 startups pursue their operations presently.

SALT Beyoğlu, SALT Galata and SALT Ulus hosted eight exhibitions, while 16,708 participants attended the public programs, and 58 screenings and nine performances were made. In the same timeframe, SALT Beyoğlu, SALT Galata and SALT Ulus welcomed a total of 185,351 visitors free of charge in 2017.

Within the scope of the Join the Workforce Join Life project, 282 individuals with disabilities in Ankara, Sakarya, Samsun, Gaziantep, Istanbul and Izmir have been employed under guidance from their professional business coaches in 2017.

2017 was a proud year for the Turkish basketball; all national teams, which have

Garanti as their main sponsor, played in the European Championships; Pixies of the Court held 5<sup>th</sup> place in EuroBasket Women, 12 Giant Men represented Turkey in EuroBasket 2017, where Turkey was the host and Garanti was the event sponsor, and 12 Brave Hearts became the European Champion.

To this end, Garanti invested TL 20.3 million\* for community investment programs in 2017.

### OUTLOOK

We aim to align our community investments and their outcomes with material issues that will allow us to create shared value. In 2018, we will continue to invest in the fields of education & skills gap, entrepreneurship, and culture & arts, which are in line with the Bank's material issues and have high social impact. Also we will take our programs a step further and focus on digitalization and financial education issues within the framework of our ongoing programs. In addition to that, we will conduct a social impact analysis to measure the social values of our programs.

*3 Social Return on Investment (SROI): SROI is an approach created to measure social impact of projects. According to technical literature, projects with an SROI value higher than 1:1 are considered as successful projects in terms of social return, whereas projects within financial sector with an SROI value higher than 2:1 are accepted as very successful.*

*\* Jazz festival and basketball sponsorships are not included.*



## CORPORATE GOVERNANCE & RISK MANAGEMENT

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# SUMMARY OF THE BOARD OF DIRECTORS' ANNUAL REPORT

In 2017, portfolio inflows to emerging economies continued backed by the global risk appetite that has been increasing since the beginning of the year and the search for high yield. Along with the increased risk appetite and the partial decline in economic policy uncertainty in advanced economies, stock market indices have performed notably well in emerging economies and the US. The mitigated uncertainty in economic policy was mainly driven by the fact that the elections in several EU countries as well as the UK were over and the monetary policy normalization of the Fed has become slightly clearer in terms of balance sheet downsizing. Despite the fact that towards the end of 2017 net portfolio flows slightly decelerated, they remained stronger than expected for the year. Such resiliency, particularly in emerging market assets, was backed by global factors such as stronger than expected macroeconomic outlook, higher oil prices - mainly driven by rising global demand - and subdued financial volatility despite monetary normalization. The year ended with investors having a healthy appetite for risk - more optimistic than early in the year and less euphoric than over the summer.

For Turkey, the positive surprise came in as higher than expected GDP growth. Supported by the government stimulus, economic activity was strong through private consumption & also by increasing investments. Additionally, net exports contributed positively backed by the

recovery in tourism revenues and the higher growth rates in Europe. The main challenge for the economy was the worsening inflation outlook. High growth rates, lagged impact of currency depreciation and relatively higher oil and food prices were the factors that pushed up inflation in 2017. Accordingly, the CBRT has tightened its monetary policy since the beginning of 2017 and is expected to maintain its current policy stance unless a new shock arises. On the fiscal policy front, Turkey sustained her commitment to fiscal discipline. Although 2017 was a year of counter-cyclical policies, which resulted in a worsening in budget performance, the pick-up in central government budget deficit was a mere 50 bps YoY, up to ~1.5% of national income, and the EU defined government debt stock remained below Maastricht criteria.

In 2017 that was characterized by mixed market dynamics -that is, quite positive on growth while challenging on high rate environment-, Garanti retained its pioneer position in the Turkish banking sector backed by its customer-centric & innovative business model focused on sustainable growth, optimal capital utilization, effective risk management & governance and operational efficiency.

In the reporting period, consolidated net profit of Garanti reached TL 6 billion 388 million after TL 860 million of free provisions set aside within the year. The Bank's return on average equity (RoAE) increased to 16.6% while return

on average assets (RoAA) rose to 1.9%. The most striking in profitability was the "further strengthened" core banking income, which registered an annual growth of 49%. The contribution of the increase in Garanti's core banking income to asset return was at its highest since 2015, and is also the highest level among peers.

Garanti's consolidated total assets increased by 14% on an annual basis and reached TL 356 billion. The Bank's asset growth remained customer-driven and was increasingly higher yielding. Securities portfolio was strategically managed as a hedge against volatility.

Garanti recorded a disciplined growth in loans with an increase of 14% YoY. TL loans were the key driver behind the credit growth. TL loans increased by 20%, exceeding the guidance for 2017. The Credit Guarantee Fund (CGF) scheme was a significant impetus in TL lending growth. Garanti was the first to act on this front with its agile sales team and system integration. As a result, TL business banking loans increased by 28% YoY.

With its effective delivery channels and successful relationship banking, Garanti maintained its focus on consumer products as well. The Bank recorded 15% YoY growth in total consumer loans. Preserving its rational pricing stance, Garanti managed to register healthy market share gains in consumer loans among private banks. Garanti,

the Mortgage Expert, maintained its leadership in mortgages among private banks with an annual 10% growth. While supporting its customers in a growing economy with a young population, Garanti booked a 19% annual growth in consumer GPLs. Noteworthy was the significant increase in digital sales within total GPL sales - the ratio increased to 78%.

Garanti commands a leading position in payment systems and credit cards. It has the largest POS network and dominates the market with a market share of 18.6%. Garanti manages the broadest credit card customer base with 10.2 million credit cards and 9.6 million plastic cards. Customers of 10 other banks can use Turkey's lovemark Bonus brand. Besides, Garanti continued to be the leader in e-commerce volume with a 21.75% market share. Backed with these capabilities, Garanti preserved its pioneer position in acquiring and issuing volumes with market shares of 19.2% and 19.3%, respectively.

In 2017, investment appetite remained weak due to ongoing global and domestic uncertainties.

Accordingly, the Turkish banking sector, along with Garanti, realized shrinkage in FC loans. Lack of demand combined with Garanti's risk-reward priorities and rational pricing focus was reflected on the Bank's foreign currency loan portfolio. Having a large base of FC loans and due to heavy redemptions, FC loans shrank by 3% YoY. The change in the landscape led to a decrease in the public-private partnership projects (PPPs) in the pipeline for 2017, even in renewable energy & real estate sectors. However, Garanti maintained its pioneering position in project finance,

corporate and commercial banking by remaining the primary business partner of its customers.

Garanti has a proactive and prudent approach to risk assessment, which assures its sound asset quality. In 2017, government stimulus was also supportive, in the sense that it helped liven up the economy and resulted in lower than expected net new non-performing loan inflows. Garanti ended the year with a clear beat to its operating plan guidance, registering an NPL ratio of 2.6%, which has consistently been preserved below sector, and a net Cost of Risk of 74 bps. Additionally in 2017, Garanti further strengthened its coverage ratio to 137% from 131% in 2016.

Garanti preserved its liquid balance sheet composition in 2017 with the help of its well-diversified funding mix. Funding base of the Bank continued to be largely composed of deposits. The growth rate in customer deposits of 14% was in line with the loan expansion. Garanti preserved the high share of "sticky and low cost customer deposits" within its deposit base. Additionally, its demand deposit base registered a growth of almost 16% YoY and the share of demand in total deposits, in 2017, went up to its highest historical level of 27.59%. Garanti deliberately avoids irrational pricing competition and relies on its strength in relationship banking and on its customer-focused business model. Prioritizing its focus on enhancing customer experience, the Bank has been working to improve its Net Promoter Score (NPS). Aligned with this focus, Garanti has been the leader in Net Promoter Score (NPS), among peers, for two consecutive years.

With the aim of managing the asset-liability duration gap and optimizing funding costs, Garanti continued to support its funding base by actively tapping alternative funding sources. During 2017, the Bank issued its first Basel III compliant subordinated debt at the lowest cost ever attained by a bank in Turkey. This issuance served as a hedge against currency volatility and supported Garanti's best in class solvency ratios. Furthermore, Garanti reinforced its asset liability management through two syndications with 100% roll-over ratios in 2017. It is a testament to Garanti's intrinsic financial strength and solid banking relationships. Garanti issued Turkey's first mortgage covered bond in local currency to fund Green Mortgages in collaboration with International Finance Corporation (IFC) and EBRD. All in all, total issuance in 2017 was \$5.6 billion, of which \$1.9 billion was fresh.

In a challenging year, Garanti successfully defended its Net Interest Margin (NIM) supported by its dynamic asset liability management. Disciplined loan pricings and actively managed funding costs helped the Bank preserve its spread. When TL funding costs went up by nearly 450 bps, Garanti delivered a 23 bps NIM expansion with the contribution of its hedged balance sheet. The Bank maintained its highest NIM among peers, even in an increased rate environment.

Garanti maintained its leadership in net fees and commissions income by sustaining its double-digit growth momentum on top of its highest fee base in the Turkish Banking Sector. With a diversified fee base, Garanti recorded an annual growth rate of 18% in fees and commissions.

Digitalized processes fostered Garanti's fee income generation capacity while focusing on further penetration of the existing customers and increased cross-sell opportunities. Garanti's number of digital customers increased to 22% in 2017 and reached 6 million, marking the largest digital customer base in Turkey. Consequently, the share of digital in non-credit linked fees increased up to 40%.

Paying the utmost attention to stakeholder satisfaction, Garanti launched its new service model. The Bank aims to further improve operational efficiencies while empowering its employees to be more skilled and agile. The new service model is a transformation project, which brings flexibility to the sales force to increase revenue generation capacity and cost efficiencies.

In 2017, Garanti recorded an OPEX growth of 8%, which is below the inflation and in line with its guidance.

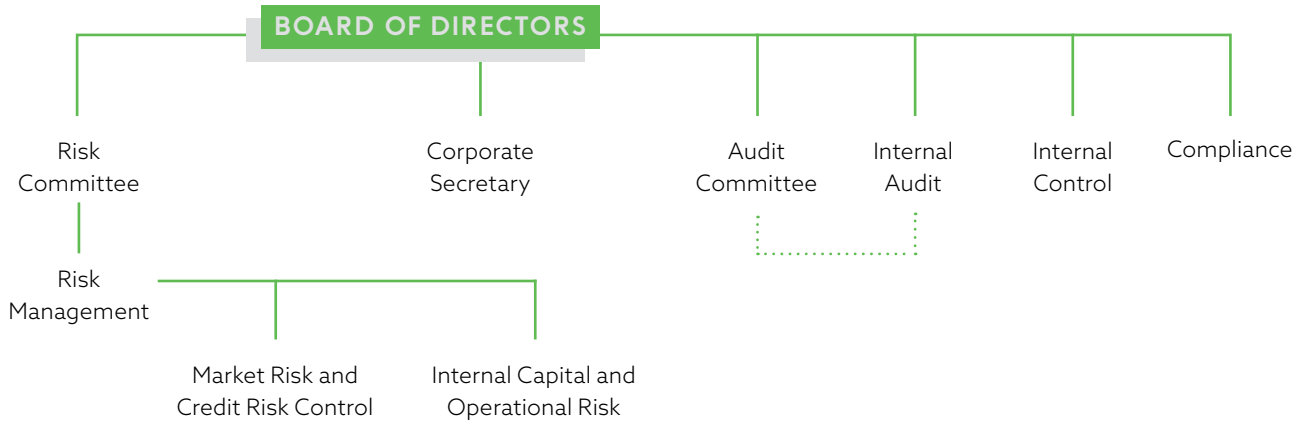
Additionally, Garanti preserved its focus on cost/revenue synergies and improved its Cost/Income ratio by 11 pp and ROAE ratio by 4 pp since 2015.

In 2017, Garanti further strengthened solvency on the back of its capital generative growth strategy. The Bank reported a Basel III compliant Capital Adequacy ratio of 16.8% and a Common Equity Tier I ratio of 14.7%. At Garanti, common equity Tier-1 corresponds to 88% of total shareholders' equity. With strengthened solvency ratios, the Bank delivered a dividend payout ratio of 27%.

As Garanti, we strive to create value for our customers, employees and all our stakeholders. We qualified for the FTSE4Good Emerging Index with our performance in environmental, social and governance areas. We became the first and only company from Turkey to be listed in the Bloomberg Gender Equality Index, with our HR practices and the support we provide to women for their increased role in business life and higher contribution to the economy. We became the only financial institution worldwide to be included in the 2017 CDP Water A List. Disclosing climate change strategies using the CDP platform, we also retained our score at the climate change program and sustained our position among CDP Turkey Leaders. We became the only company from Turkey qualified to be included in the Dow Jones Sustainability Emerging Markets Index for three consecutive years.

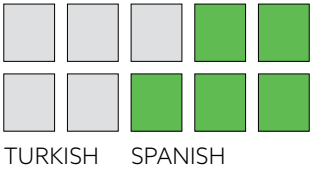
Garanti's recurring strong performance comes not as a result of ad-hoc steps, but of a long-lived and well-planned journey. Also in the period ahead, Garanti will be making decisions with an eye on the needs of future generations, and will keep fulfilling its share of the responsibility for a sustainable future.

# ORGANIZATIONAL STRUCTURE

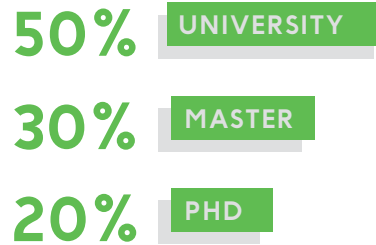


# BOARD OF DIRECTORS

## NATIONALITY



## EDUCATION

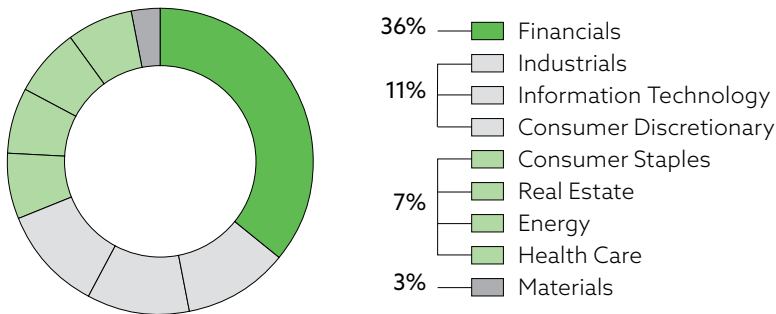


## AVERAGE TENURE



## EXPERIENCE COMPOSITION

Chart is prepared in accordance with the Global Industry Classification Standard (GICS). The Global Industry Classification Standard (GICS) is an industry taxonomy developed by MSCI and Standard & Poor's (S&P) for use by the global financial community.



## AVERAGE EXPERIENCE



Süleyman Sözen is a graduate of Ankara University Faculty of Political Sciences and has worked as a Chief Auditor at the Ministry of Finance and the Under secretariat of Treasury. Since 1981, he has held various positions in the private sector, mainly in financial institutions. Having served on the Board of Directors of Garanti Bank since 1997, Mr. Sözen was appointed as the Vice Chairman on July 8, 2003 and then as the Chairman on September 19, 2017. Mr. Sözen holds a Certified Public Accountant license and serves as the Chairman of Doğuş Bilgi İşlem ve Teknoloji Hizmetleri A.Ş. and İstinye Yönetim Hizmetleri ve Ticaret A.Ş.,



**SÜLEYMAN SÖZEN**  
Chairman

Vice Chairman of Doğuş Holding A.Ş. and Doğuş Sportif Faaliyetler A.Ş., Board Member of Gürel İlaç A.Ş., Görüş YMM A.Ş., Doğuş Croatia d.o.o and Board of Trustees in Teachers Academy Foundation. Mr. Sözen has 35 years of experience in banking and business administration.



Jorge Sáenz-Azcúnaga earned his BS in Business Administration from Universidad Deusto. He has developed his entire career in BBVA starting as Research Analyst. He then worked as Corporate Strategist, Head of CEO Office, Business Development (Commercial&Institutional Banking in Spain), Head of Strategy (Wholesale Banking&Asset Management), Head of Strategy and Planning (Spain&Portugal) and between years 2013 and 2015 as Regional Manager for the North of Spain. As of 2015, he served as the Head of Business Monitoring Spain, USA and Turkey. In July 2016 he was appointed Head of Country Monitoring and member of the Global



### JORGE SÁENZ-AZCÚNAGA CARRANZA

Vice Chairman,  
Independent Board Member

Leadership Team in BBVA. Mr. Sáenz-Azcúnaga is member of the Board of Directors of BBVA Compass in the US, BBVA Bancomer in Mexico and Vice Chairman. He has been serving as the Board Member of Garanti Bank since March 24, 2016 and since his appointment as an Audit Committee member of T. Garanti Bankası A.Ş. on March 31, 2016, he is deemed as an Independent Board Member of Garanti Bank in accordance with the relevant regulations of the Capital Markets Board of Turkey. He was appointed as Vice Chairman on September 19, 2017 and has 23 years of experience in banking and business administration.

Ergun Özen earned his BA in Economics from New York State University and is a graduate of the Advanced Management Program at Harvard Business School. He started his banking carrier in Treasury department in 1987 before joining Garanti in 1992. Having served as the President & CEO at Garanti Bank between April 1, 2000- September 2, 2015, Mr. Özen is a Board Member of Garanti Bank since May 14, 2003. Mr. Özen is the Chairman of Doğuş Mobicel Dijital Hizmetler A.Ş., Pozitif Müzik A.Ş. and Boyner Holding A.Ş. and a Board Member of Doğuş Holding A.Ş., Doğuş Bilgi İşlem ve Teknoloji Hizmetleri A.Ş., Doğuş Sportif Faaliyetler



### ERGUN ÖZEN

Board Member

A.Ş. and Atom Bank. In addition, Mr. Özen serves as a Board Member of the Istanbul Foundation for Culture and Arts (IKSV), Turkish Industry and Business Association (TUSIAD) and since 2010 as the Board Member of the Trustees of Turkish Education Association. Mr. Özen has 30 years of experience in banking and business administration.

M. Cüneyt Sezgin received his undergraduate degree from Middle East Technical University Department of Business Administration, his MBA from Western Michigan University and his Ph.D. from Istanbul University Faculty of Economics. He served in executive positions at several private banks and in 2001, Mr. Sezgin joined Garanti Bank. He is a Board Member and the Chairman of Corporate Assurance and Sustainability Committee at Garanti Bank. In addition, Mr. Sezgin is a Board Member and Audit Committee Chairman at Garanti Bank S.A. (Romania), Garanti Pension and Life and Garanti Securities. Also a Board of



### M. CÜNEYT SEZGİN PH.D

Board Member

Trustees Member at Teachers Academy Foundation and World Wildlife Foundation Turkey, Mr. Sezgin has been serving as a Board Member of Garanti Bank since June 30, 2004 and has 29 years of experience in banking and business administration.

Sema Yurdum graduated from Boğaziçi University, Faculty of Administrative Sciences in 1979 and completed the Advanced Management Program at Harvard Business School in 2000. After working in a private sector company between 1979-1980 as a human resources expert, she had her career in banking sector between 1980-2005. She worked as an Executive Vice President of Garanti Bank and held Audit Committee membership in various subsidiaries between 1992-2005. Ms. Yurdum has been engaged in senior consultancy services for companies since 2006. She has been serving as an Independent

Jaime Saenz de Tejada Pulido holds undergraduate degrees from Universidad Pontificia de Comillas (ICADE) in both Law & Economics and Business Sciences and completed Programa de Dirección General (PDG) at IESE Business School in 1999. Mr. Saenz de Tejada joined BBVA in 1992 and in 2000 he was appointed as the Director of Corporate and Investment Banking in America. Subsequently, he served as the Managing Director of BBVA Banco Continental in Peru until his return to Spain as Territorial Director at the end of 2007. In 2011 he was appointed as the Director of Business Development of Spain and Portugal and in May 2012,

Ali Fuat Erbil graduated from the Middle East Technical University Department of Computer Engineering, earned his MBA from Bilkent University and his PhD in Banking and Finance from Istanbul Technical University. After working as an executive at various private companies and banks, he joined Garanti Bank as the Senior Vice President of Distribution Channels in 1997. Mr. Erbil was appointed as the Executive Vice President on April 30, 1999 and was responsible of several areas such as Retail Banking, Corporate Banking, Investment Banking, Financial Institutions and Human Resources as an EVP. Since September 2, 2015, Erbil



**SEMA YURDUM**

Independent Board Member

Board Member of Garanti Bank since April 30, 2013. Ms. Yurdum has 37 years of experience in banking and business administration.



**JAIME SAENZ DE TEJADA PULIDO**

Board Member

he became a member of the Executive Committee of the Group. After serving as the Director of Strategy & Finance in 2014, in May, 2015, Mr. Saenz de Tejada was appointed to his current role, the CFO at BBVA Group. He has been serving as the Board Member of Garanti Bank since October 2, 2014 and has 24 years of experience in banking and business administration.



**ALİ FUAT ERBİL**

President & CEO

has been serving as the Board Member, President & CEO. He is also the Chairman of the Board of Directors at Garanti Bank S.A. (Romania), Garanti Securities, Garanti Pension and Life, Garanti Factoring, Garanti Leasing, Garanti Payment Systems and Garanti Technology. Mr. Erbil also serves as the Board Member in the Banks Association of Turkey and has 25 years of experience in banking and business administration.

Javier Bernal earned his Law Degree from University of Barcelona, and his MBA from IESE Business School, University of Navarra. After working in Barna Consulting Group as Partner and in Promarsa as General Manager, he worked in BBVA between 1996-1999 as the Segment Manager of Retail Banking (Spain). During 2000-2003, he founded and managed an internet business. Since 2004, he has been working in different areas at BBVA; 2004-2006, as Head of Innovation and Business Development, reporting to the CEO, 2006-2010 as Head of Business Development Spain & Portugal, 2011-2014 as Head of Global Business Development, 2014-2015 as Head of Business Alignment of BBVA and Garanti. He has been a member of



**JAVIER BERNAL DIONIS**  
Independent Board Member

the BBVA Group Executive Committee between 2007-2010 and Spanish and Portugal Executive Committee between 2010-2011. He was Chairman of BBVA Insurance Spain. He has been serving as a Board Member of Garanti Bank since July 27, 2015 and he is also a Board Member at Garanti Pension and Life, Garanti Bank S.A. (Romania), Garanti Leasing, Garanti Securities and Garanti Payment Systems. Since his appointment as an Audit Committee member of Garanti Bank on March 31, 2016, he is deemed as an Independent Board Member in accordance with the relevant regulations of the Capital Markets Board of Turkey. Mr. Bernal has 27 years of experience in banking and business administration and he is responsible of BBVA-Garanti coordination.

Ricardo Gomez Barredo earned his B.S. degree in Economics and Business Management from Universidad Autonoma de Madrid and graduate degree in Tax Consultancy from ICADE. He also completed PDA program in IESE Business School. After working in a global consultancy firm in Tax & Legal Department and in an industrial company as the Head of Tax Consultancy, he joined BBVA in 1994 as Director of Tax Advice Mortgage Banking. He has occupied several top management positions in BBVA, such as Tax Advice Private Banking, Director of Tax Advice Argentaria, Deputy Director of Tax Consulting, Head of



**RICARDO GOMEZ BARREDO**  
Board Member

Financial Analysis and Planning, Head of Financial Planning and Management Control and the Head of Global Accounting & Information Management. In 2016, he was appointed to his current role as Head of Accounting & Supervisors. As of May 8, 2017, Mr. Barredo is a Board Member of Garanti Bank and has 25 years of experience in banking and business administration.

Rafael Salinas Martínez De Lecea holds a B.S. degree in Economics and Business Management from Universidad de Alicante and graduate degrees from the Center for Monetary and Financial Studies of the Bank of Spain (CEMFI), MSc in Econometrics and Mathematical Economics of London School of Economics and MBA from the Graduate School of Business of University of Chicago. He joined BBVA in 1991 as the Director of Derivative Products in BBVA Interactivos, S.V.B and developed all his professional career at the BBVA Group. Between 1998-2000, he worked as the Deputy Director of Assets and Liabilities



**RAFAEL SALINAS MARTINEZ DE LECEA**  
Board Member

of the BBVA Group. After working as the Head of Capital Base Management of BBVA, he was appointed as the CFO of Banco de Credito Local de Espana (BCL) in 2003. Between 2006-2015, he served as the Director of Risk & Portfolio Management of the Corporate and Investment Banking unit of BBVA and since 2015, he is the Global Chief Risk Officer of the BBVA Group. Mr. Salinas has been serving as a Board Member of Garanti Bank since May 8, 2017 and has 27 years of experience in banking and business administration.

# SENIOR MANAGEMENT

ALİ TEMEL



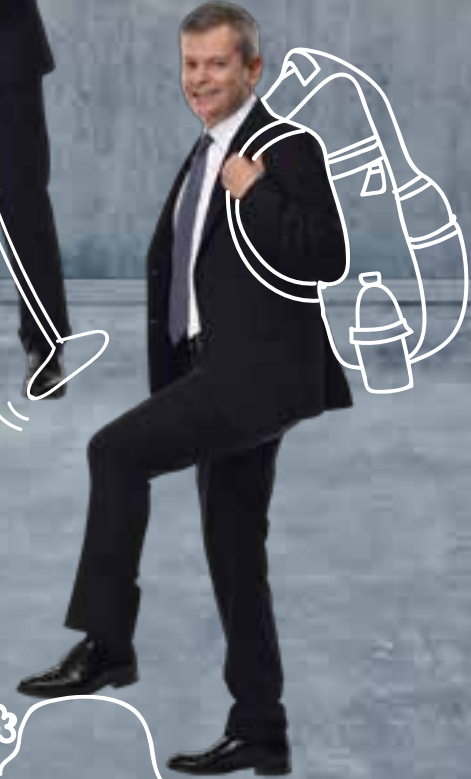
AYDIN GÜLER



MAHMUT  
AKTEN



CEMAL  
ONARAN



EBRU  
DİLDAR  
EDİN



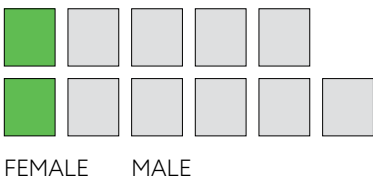
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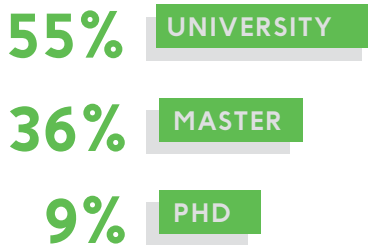
DİDEM  
DİNÇER  
BAŞEROSMAN  
TÜZÜNALİ FUAT  
ERBİLAYDIN  
DÜREN

# SENIOR MANAGEMENT

## GENDER



## EDUCATION



## AVERAGE EXPERIENCE



## ALİ FUAT ERBİL

President & CEO

Ali Fuat Erbil graduated from the Middle East Technical University Department of Computer Engineering, earned his MBA from Bilkent University and his PhD in Banking and Finance from Istanbul Technical University. After working as an executive at various private companies and banks, he joined Garanti Bank as the Senior Vice President of Distribution Channels in 1997. Mr. Erbil was appointed as the Executive Vice President on April 30, 1999 and was responsible of several areas such as Retail Banking, Corporate Banking, Investment Banking, Financial Institutions and Human Resources as an EVP. Since September 2, 2015, Mr. Erbil has been serving as the Board Member, President & CEO. He is also the Chairman of the Board of Directors at Garanti Romania, Garanti Securities, Garanti Pension and Life, Garanti Factoring, Garanti Leasing, Garanti Payment Systems and Garanti Technology. Mr. Erbil also serves as the Board Member in the Banks Association of Turkey and has 25 years of experience in banking and business administration.

## DİDEM DİNÇER BAŞER

Executive Vice President  
Digital Banking, Customer Solutions and Experience

Didem Başer graduated from Boğaziçi University Department of Civil Engineering and earned her graduate degree from University of California, Berkeley College of Engineering. She started her career in 1995. Before joining Garanti Bank, she worked for a global management consulting firm for 7 years and lastly as an Associate Partner. Ms. Başer joined Garanti Bank in 2005 and worked as the Coordinator of Retail Banking Business Line during her first 7 years. Ms. Başer was appointed to her current position in 2012 and is also a Board Member of Garanti Payment Systems, Garanti Pension and Life and Garanti Technology. With 22 years of experience in banking and business administration, Ms. Başer's areas of responsibility are Digital Banking, Corporate Brand Management and Marketing Communications, Customer Experience and Satisfaction, Insurance and Pension Coordination and Call Center.

## MAHMUT AKTEN

Executive Vice President  
Retail Banking

With an undergraduate degree from Boğaziçi University in Electrical and Electronics Engineering and graduate degree in Business Administration from Carnegie Mellon University, Mahmut Akten started his career in 1999 in the USA. After having served in various positions in the Finance and Treasury departments of a global construction materials company, he joined a global management consulting firm in 2006. Between the years 2006-2012, after having worked in Boston and Istanbul offices and lastly as an Associate Partner, he joined Garanti Bank on July 1, 2012 as the Senior Vice President responsible for Mass Retail Banking Marketing. As of January 1, 2017, Mr. Akten was appointed Executive Vice President responsible for Retail Banking and is a Chairman of Garanti Mortgage. In addition, Mr. Akten serves as Board Member of Garanti Securities, Garanti Payment Systems, Garanti Technology and Garanti Pension and Life. With 17 years of experience in banking and business administration, Mr. Akten's areas of responsibility are Retail Banking Marketing, Mass Retail Banking Marketing and Affluent Banking Marketing.

## OSMAN TÜZÜN

Executive Vice President  
Human Resources and Support Services

Osman Tüzün graduated from the Middle East Technical University with a B.S. in Computer Engineering and earned his MBA from Bilkent University. He started his banking career in 1992 and served in various branches and head office departments for 7 years. He joined Garanti Bank in 1999 as the Senior Vice President responsible for Branchless Banking. Between the years 2000-2005, he served as the Senior Vice President of Retail Banking. During 2005-2008, he was the CEO of a private sector company. In 2008, Mr. Tüzün returned to Garanti as the Coordinator responsible for Human Resources and on August 19, 2015 he was appointed to his current post. Mr. Tüzün is the Chairman of the Board of Directors of Garanti Bank Retirement and Provident Fund Foundation. With 25 years of experience in banking and business administration, Mr. Tüzün's areas of responsibility are Human Resources, Learning and Development, Construction and Premises, Purchasing and Corporate Security.

## AYDIN GÜLER

Executive Vice President  
Finance & Accounting

Aydın Güler graduated from Istanbul Technical University Department of Mechanical Engineering and joined Garanti Bank Fund Management Department in 1990. After working at different Head Office departments for 10 years, in 2000 he was appointed Senior Vice President responsible for Risk Management and Management Reporting. Between the years 2001-2013, Mr. Güler served as the Senior Vice President responsible for Financial Planning & Analysis and was appointed as Coordinator in 2013. On December 21, 2015, Mr. Güler was appointed as the Executive Vice President in charge of Finance and Accounting and he is furthermore a Board Member of Garanti Bank Pension and Provident Fund Foundation, Garanti Mortgage, Garanti Leasing and Garanti Fleet. With 27 years of experience in banking and business administration, Mr. Güler's areas of responsibility are Assets & Liabilities Management, Financial Planning and Analysis, Cost Management and Efficiency, Investor Relations, General Accounting, Consolidation and International Accounting, Tax Operations Management, BBVA Finance Coordination and Credit Cards and Member Merchant Coordination.

## ALİ TEMEL

Executive Vice President  
Chief Credit Risk Officer

Ali Temel earned his undergraduate degree from Boğaziçi University Department of Electric-Electronic Engineering and started his carrier in banking in 1990 at a private bank. Mr. Temel joined Garanti Bank in 1997 and after working as the Senior Vice President in charge of Cash Management and Commercial Banking departments, he served as the Executive Vice President responsible of Commercial Banking between 1999-2001 and as the Executive Vice President responsible of Loans between 2001-2012. On December 10, 2015, Mr. Temel was appointed as the Chief Credit Risk Officer. Furthermore, Mr. Temel is a Board Member of Garanti Leasing and Garanti Factoring. With 27 years of experience in banking and business administration, Mr. Temel's areas of responsibility are Wholesale Risk, Retail Risk, Risk Planning, Monitoring and Reporting; Risk Analytics, Technology and Innovation; Regional Loans Coordination.

## HÜSNÜ EREL

Executive Vice President  
Technology, Operations, Central  
Marketing & Product Development

Hüsnü Erel graduated from Istanbul Technical University Department of Electronics and Communications Engineering and served as an executive at various private companies and banks. In 1994, he joined Garanti Technology as General Manager. On June 16, 1997, he was appointed to his current position. Mr. Erel is a Board Member of Garanti Payment Systems and the Vice Chairman of the Board of Directors at Garanti Technology. With 42 years of experience in banking and business administration, Mr. Erel's areas of responsibility are Organization and Process Development, Customer Analytics, Innovation and Product Development , Anti-Fraud Monitoring, Abacus Operations Center and Garanti Bank Technology Center.

## RECEP BAŞTUĞ

Executive Vice President  
Commercial Banking

Recep Baştuğ graduated from Çukurova University Faculty of Economics and joined Garanti Bank Audit Committee in 1989. Having worked as Corporate Branch Manager during 1995-1999, Commercial Regional Manager during 1999-2004, Commercial Banking Coordinator during 2004-2012, Mr. Baştuğ was appointed to his current position on January 1, 2013. Furthermore, Mr. Baştuğ is Vice Chairman of Garanti Leasing and Garanti Factoring and Board Member of Garanti Fleet.. With 27 years of experience in banking and business administration, Mr. Baştuğ's areas of responsibility are Commercial Banking Istanbul and Ankara Marketing, Commercial Banking Anatolian Marketing and Consumer Finance.



## CEMAL ONARAN

Executive Vice President  
SME Banking

Cemal Onaran graduated from Middle East Technical University with a B.S. in Public Administration in 1990 and started his career as Assistant Auditor in Garanti Bank at the Audit Committee in the same year. Between years 2000-2007, he worked as the Regional Manager in various regions of Garanti Bank in Istanbul. After the establishment of Garanti Mortgage in October 2007, he was appointed General Manager of Garanti Mortgage. After having served as the General Manager of Garanti Pension & Life since August 1, 2012, Mr. Onaran was appointed Executive Vice President of Garanti Bank in charge of SME Banking on January 1, 2017. Mr. Onaran is a Chairman of the Board of Directors at Garanti Fleet, Vice Chairman at Garanti Mortgage and a member of the Board of Directors at Garanti Pension & Life, Garanti Leasing, Garanti Technology, Garanti Factoring and Garanti Romania. With 26 years of experience in banking and business administration, Mr. Onaran's areas of responsibility are SME-Small Enterprise Banking Marketing and SME-Micro Enterprise Banking Marketing.

## AYDIN DÜREN

Executive Vice President  
Legal Services and Collection

Aydın Düren graduated from the Faculty of Law at Istanbul University and earned his graduate degree on International Law from the American University, Washington College of Law. After serving as an associate, partner and managing partner for over 18 years at international private law firms in New York, London and Istanbul, Mr. Düren joined Garanti Bank on February 1, 2009 as Executive Vice President in charge of Legal Services. Furthermore, Mr. Düren is Vice Chairman of Garanti Bank Pension and Provident Fund Foundation, Garanti Bank International N.V. and Board Member of Garanti Payment Systems, Teachers Academy Foundation and Garanti Mortgage. Since June 2015 Mr. Düren is also serves as the Corporate Secretary of the Bank. With 23 years of experience in banking and business administration, Mr. Düren's areas of responsibility are Legal Advisory Services, Legal Collections, Litigation, Garanti Payment Systems Legal Services, Legal Operations, Wholesale Recovery and Retail Collections.

## EBRU DİLDAR EDİN

Executive Vice President  
Corporate and Investment Banking

Ebru Dildar Edin graduated from Boğaziçi University Department of Civil Engineering and started her career in 1993. She joined the Corporate Banking Department at Garanti Bank in 1997. In 1999, she took part in the establishment of the Project Finance Department. After leading the department for 6 years as Senior Vice President, Ms. Edin became Project and Acquisition Finance Coordinator in 2006 and was appointed to her current position on November 25, 2009. A member of the Sustainability Committee since 2010, Ms. Edin also took responsibility of the coordination of the Sustainability Team, which was established in 2012 to implement the decisions of the aforementioned Sustainability Committee. Furthermore, Ms. Edin is the Vice Chairman of the Board of Directors of Business Council for Sustainable Development Turkey and UN Global Compact Local Network. She is also a Board Member of Teachers Academy Foundation. In addition, Ms. Edin serves as Vice Chairman of Garanti Securities and a member of the Board of Directors at Garanti Romania. With 23 years of experience in banking and business administration, Ms. Edin's areas of responsibility are Project Finance and Sustainability, Global Markets, Global Markets Sales and Financial Solutions, Global Markets Business Solutions, Financial Institutions, Corporate Banking Coordination and Cash Management/ Transaction Banking.

# COMMITTEES

There are a number of committees set up at the Bank to fulfill the supervisory function. The Board of Directors oversees and audits the entire Bank via the Credit, Remuneration, Corporate Governance, Audit and various risk management committees. The committees organized under the Board of Directors are Credit, Audit, Corporate Governance, Remuneration and Risk Committee.

In addition to these, there are committees whose members are composed of the Board of Directors members (Employee Committee, Customer Committee, Garanti Assets & Liabilities Committee, Weekly Review Committee, Cost Management and Efficiency Committee, Sustainability Committee, Personnel Committee, Consumer Committee, Integrity Committee, Volcker Rule Oversight Committee, New Business and Product Committee, Responsible Business Committee, Corporate Assurance Committee) and/or the Bank's executives (Risk Management Committee, Disciplinary Committee, Information Security Committee, Wholesale Credit Risk Committee, Credit Admission Committee, Retail Credit Risk Committee, Risk Technology and Analytics Committee, Local Benefits Committee, IT Risk Committee).

## CREDIT COMMITTEE

In accordance with the Banking Law, the Board of Directors of Garanti Bank

has delegated a certain amount of its loan allocation authority to the Credit Committee. The Credit Committee holds weekly meetings to review appropriate loan proposals from among those sent by the branches to the Head Office but exceed the loan authorization limit of the latter. The Credit Committee reviews these loan proposals and decides on those that are within its authorization limits, and submits those others it deems appropriate but are outside of its authorized limits to the Board of Directors for finalization.

In 2017, the Committee held 28 meetings with the required quorum.

Committee Members:

Rafael Salinas Martinez De Lecea (Board Member), Jaime Saenz de Tejada Pulido (Board Member), Javier Bernal Dionis (Independent Board Member), Ali Fuat Erbil (President & CEO), Jorge Saenz Azcunaga Carranza (Independent Board Member)

## AUDIT COMMITTEE

The Audit Committee was set up to assist the Board of Directors in the performance of its audit and supervision functions. The Committee is responsible for:

- Monitoring the effectiveness and adequacy of Garanti Bank's internal control and risk management and internal audit systems; and

overseeing the operation of these systems and accounting and reporting systems in accordance with applicable regulations, and the integrity of resulting information,

- Conducting necessary preliminary evaluations for the selection of independent audit firms, appraisal and support services providers, and regularly monitoring their activities,
- Ensuring that the internal audit functions of consolidated entities are performed in a consolidated and coordinated manner,
- Developing the audit and control process in order to ensure ICAAP adequacy and accuracy,
- Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 5 meetings with the required quorum.

Committee Members:

Javier Bernal Dionis (Independent Board Member), Jorge Saenz Azcunaga Carranza (Independent Board Member)

## CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is responsible for monitoring the Bank's compliance with corporate governance principles, undertaking improvement

efforts, nominating the independent board members, and offering suggestions regarding the nominees to the Board of Directors.

Within the frame of the CMB Communiqué No: II-17-1 on Corporate Governance that is currently in force, the Committee:

- Monitors whether corporate governance principles are implemented at the Bank, determines the grounds for non-implementation, if applicable, as well as any potential conflicts of interest arising from failure to fully comply with these principles, and presents suggestions to the Board of Directors for the improvement of corporate governance practices.
- Oversees the activities of the Investor Relations Department.
- Evaluates the proposed nominees for independent Board membership, including those nominated by the management and investors, considering whether the nominees fulfill the independence criteria, and presents its assessment report to the Board of Directors for approval.
- Makes an assessment for election of independent members to the seats vacated due to a situation that eradicates independence and the resignation of a Board member who loses his independence, so as to re-establish the minimum number of independent Board members through temporarily elected members who will serve until the immediately following General Assembly Meeting to be held, and presents its written assessment to the Board of Directors.
- Works to create a transparent system for the identification, evaluation

and training of nominees who are appropriate for the Board of Directors and managerial positions with administrative responsibility, and to determine related policies and strategies.

- Makes regular assessments about the structure and efficiency of the Board of Directors, and presents suggested changes to the Board of Directors.

In 2017, the Committee held 3 meetings with full participation of its members.

Committee Members:

Javier Bernal Dionis (Independent Board Member), Jorge Saenz Azcunaga Carranza (Independent Board Member), Sema Yurdum (Independent Board Member), Handan Saygin (Director)

## REMUNERATION COMMITTEE

The Remuneration Committee started activities on January 1, 2012 in accordance with the Regulation on the Banks' Corporate Governance Principles published by the Banking Regulation and Supervision Agency. The Committee's responsibilities are as follows:

- Conducting the oversight and supervision process required to ensure that the Bank's remuneration policy and practices comply with applicable laws and regulations and risk management principles,
- Reviewing, at least once a year, the Bank's remuneration policy in order to ensure compliance with applicable laws and regulations in Turkey, or with market practices, and updating the policy, if necessary,
- Presenting, at least once a calendar year, a report including the findings and proposed action plans to the

Board of Directors,

- Determining and approving salary packages for executive and non-executive members of the Board of Directors, the CEO and Executive Vice Presidents,
- Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 1 meeting.

Committee Members:

Sait Ergun Özen (Board Member), Jorge Saenz Azcunaga Carranza (Independent Board Member)

## RISK COMMITTEE

The Risk Committee is responsible for:

- Monitor and oversee the strategy and general risk policies of the Bank and to review the risk appetite declaration and core metrics, risk tolerance levels, limit structure, and metrics, taking into consideration the strength of the Bank's capital and the overall quality of risk management, measurement and reporting,
- Review and approve, as appropriate, the corporate risk policies for each risk type, and the yearly limits for each risk type and business area with the level of detail that may be deemed appropriate at the time,
- Review and approve, as appropriate, measures to mitigate the impact of identified risk, should these materialize,
- Monitor the evolution of the global risk profile and the Bank's risk exposure, by type of risk, business line, product, or customer segment,

and how these compare to the risk strategy and policies and the risk appetite,

- Assess the adequacy of the risk information and risk internal control systems in the Bank to guarantee the appropriate functioning of risk management as well as the suitability of the structure and working of risk management in the Bank,
- Monitor that pricing of investment and deposit products offered to clients fully take into consideration the business model and risk strategy of the Bank, including a remediation plan should it be necessary,
- Verify that the Bank takes the necessary steps to guarantee the availability of systems, staffing and general resources adequate for the management of risks,
- Analyse and assess the appropriate working of asset valuation, asset classification and risk estimation of the company,
- Promote the continuous development and improvement of advanced risk management model and practices, whilst closely monitoring requirements and recommendations of regulators and supervisors,
- Receive and review reports on capital planning, capital adequacy and provide effective challenge of the enterprise risk management and capital planning processes.

In 2017, the Committee held 11 meetings.

Committee Members:

Rafael Salinas Martinez De Lecea (Board Member), Javier Bernal Dionis (Independent Board Member), Süleyman Sözen (Chairman)

## GARANTI ASSETS AND LIABILITIES COMMITTEE

The main goal of Garanti Assets and Liabilities Committee (ALCO) is to assist the CEO with decision-making processes concerning assets and liabilities management (including liquidity and funding, interest rates and exchange rates) and capital. The Committee is structured around the following objectives:

- Coordinate and review the implementation of policies for managing the sources and utilization of funds that should provide an appropriate level of profitability consistent with planned growth within acceptable levels of risk,
- Monitor and analyze the profitability and net interest income,
- Allow senior management to thoroughly understand, efficiently develop and refine the ALM and capital policies by assisting them in overseeing and supervising the management activities of the Finance Department,
- Follow-up limits to control the balance sheet and capital risks, as well as the risk profiles defined by Garanti's Board of Directors,
- Assess the status of financial markets and macro variables,
- Monitor that individual business lines are aligned in terms of overall objectives and proactively controlled, with regard to the prudential risks under the ALM and capital function control,
- Review and assess the impact of changes in market and other variables on the ALM risk and capital profile,
- Evaluate the strategies presented by the Finance Department and revise

the execution of previously approved actions,

- Monitor regulatory capital adjusted profitability measures,
- Challenge and regularly monitor medium-term capital and liquidity plans for base scenarios and adverse or severely adverse scenarios,
- Analyze extraordinary liquidity and funding situations that require the Committee to be summoned (if deemed appropriate, the Asset Liability Committee will activate the Liquidity Contingency Plan. The Liquidity Contingency Plan activation will be informed to Corporate Asset Liability Committee),
- Approve the Procedure for Hedge Accounting Transactions Process,
- Approve Funds Transfer Pricing Methodology,
- Approve Assumptions or Methodology or Structural Risk Measurement Techniques,
- Approve internal framework documents for ALM and Capital Management,
- Monitor the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 11 meetings with the required quorum.

Committee Members:

Ali Fuat Erbil (President & CEO), Alvaro Ortiz Vidal-Abarca (Emerging Markets-Chief Economist), Ali Temel (Chief Credit Risk Officer), Aydın Güler (EVP), Mahmut Akten (EVP), B. Ebru Edin (EVP), Recep Baştuğ (EVP), Cemal Onaran (EVP), Ebru Oğan Knottnerus (Head of Risk Management), Metin Kılıç (Director), Semra Kuran (Director)

## WEEKLY REVIEW COMMITTEE

The Weekly Review Committee is charged with managing the assets and liabilities of the Bank. Its objective is to assess interest rate, exchange rate, liquidity and market risks. Based on these assessments and taking into account the Bank's strategies and competitive conditions, the Committee adopts the decisions to be executed by the relevant units in relation to the management of the Bank's balance sheet, and monitors their implementation.

In 2017, the Committee held 50 meetings.

Committee Members:

Ali Fuat Erbil (President & CEO), M. Cüneyt Sezgin, Ph.D. (Board Member), Javier Bernal Dionis (Independent Board Member), Alvaro Ortiz Vidal-Abarca (Emerging Markets - Chief Economist), H. Hüsnü Erel (EVP), Recep Baştuğ (EVP), Cemal Onaran (EVP), Mahmut Akten (EVP), Didem Dinçer Başer (EVP), Ali Temel (Chief Credit Risk Officer), B. Ebru Edin (EVP), Aydın Güler (EVP), Işıl Akdemir Evlioğlu (CEO, GÖSAŞ), Alpaslan Özbey (EVP, GÖSAŞ), Yeşim Şimşek (Director), Mustafa Sağlık (Director), Alper Eker (Director), Gökhan Koca (Director), Kerem Ömer Orbay (Director), Ceren Acer Kezik (Director), Metin Kılıç (Director), Vahan Üçkardeş (Director), Handan Saygın (Director), Ebru Oğan Knottnerus (Head of Risk Management), Batuhan Tufan (Director), Fulya Göyenci (Director), Kıvanç Fidan (Director), Demet Yavuz (Director), Sinem Edige (Director), Çiğdem Yılmaz (Director), Tekinel Özdemir (Director)

## COST MANAGEMENT AND EFFICIENCY COMMITTEE

The objective of the Cost Management Committee is to support the Board of Directors in controlling costs within the context of real revenue performance (operating efficiency) and securing savings by optimizing budget implementations over the course of the year. The Committee is also responsible for:

- Determining the efficiency areas of the Bank and providing a platform to discuss improvement areas,
- Informing committee members about cost developments in the future and evaluating saving suggestions,
- Providing a platform to discuss and making decisions related to new ideas and alternatives about efficient cost management by taking consideration into Bank's strategies,
- Approving expense or investment projects and proposals received from the units within the established limits of delegation,
- Clarifying the corresponding budget allocations,
- Ensuring local or regional implementation of corporate models, standards and specifications,
- Monitor the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and take action to keep them up-to-date.

In 2017, the Committee held 6 meetings.

Committee Members:

Ali Fuat Erbil (President & CEO), Javier Bernal Dionis (Independent Board Member), Aydın Güler (EVP), Osman Tüzün (EVP), Mahmut Akten (EVP), H. Hüsnü Erel (EVP), Didem Dinçer Başer

(EVP), Ali Temel (Chief Credit Risk Officer), B. Ebru Edin (EVP), Recep Baştuğ (EVP), Cemal Onaran (EVP), Aydın Düren (EVP), Oğuz Acar (Director), Hazal Özgüven (Director), Burak Yıldırım (Director), Vahan Üçkardeş (Director), Burçin Bıkmaz (Director), Işıl Akdemir Evlioğlu (CEO, GÖSAŞ)

## SUSTAINABILITY COMMITTEE

The Sustainability Committee is responsible for:

- Overseeing the efforts for assessing potential risks resulting from the Bank's energy consumption, waste management, etc.
- Supervising the efforts for assessing potential risks arising from indirect environmental and social impact resulting from financed projects and other loans, and providing necessary opinions to relevant decision-making parties,
- Monitoring the efforts on managing the risks which can impact the Bank's reputation and/or other activities negatively in the field of environmental, social and governance issues,
- Ensuring conformity of all decisions made and all projects carried out within the framework of the sustainability structure created within the Bank with other policies and related regulations of the Bank,
- Managing the efforts to allow the Bank to offer products and services that support sustainable development,
- Supervising the efficiency of sustainability efforts,
- Providing information to the Board of Directors on the Committee's activities when needed,
- Monitoring the policies, procedures, regulations and similar documents

under its responsibility with respect to necessary updates, and taking action to keep them up-to-date,

- Coordinating the integration of sustainability policy and strategy into the Banks operations, products, services and decision-making mechanisms.

In 2017, the Committee held 1 meeting with the required quorum.

Committee Members:

M. Cüneyt Sezgin, Ph.D. (Board Member), Ali Fuat Erbil (President & CEO), Osman Tüzün (EVP), B. Ebru Edin (EVP), Ali Temel (Chief Credit Risk Officer), Cemal Onaran (EVP), Aydın Güler (EVP)

## RESPONSIBLE BUSINESS COMMITTEE

The Committee ensures that Responsible Business is integrated into the banking functions and into the strategic priorities of the Bank, also systematically ensures that Garanti puts stakeholders at the center of the decision-making. The Committee's responsibilities are as below;

- To monitor Responsible Business trends globally and the development of Responsible Business within the BBVA Group, then to evaluate how these trends and developments could be aligned and performed at Garanti, and to give direction on developing the general Responsible Business approach at Garanti Bank,
- To give direction on the preparation of the Responsible Business Plan (RBP), its KPIs and to approve them,
- To monitor updates on all initiatives within the RBP, their KPIs, to request

and review changes within the RBP throughout the year if needed,

- To ensure the correct and timely execution of the actions plans within the RBP,
- To review and approve of the general Community Investment Plan and the RB Communications Plan,
- To monitor the TCR Plan and its accomplishments, to make proposals to the TCR plan to be reviewed by the Customer Committee,
- To give direction on developing the Responsible Business Policies and Strategy, to approve these policies and strategy, the Responsible Business Policies and Strategy, to review and approve the Responsible Business Report and/or the Responsible Business-related sections of the Annual Reports.

In 2017, the Committee held 1 meeting.

Committee Members:

M. Cüneyt Sezgin, Ph.D. (Board Member), Ali Fuat Erbil (President & CEO), Didem Dinçer Başer (EVP), B. Ebru Edin (EVP), Cemal Onaran (EVP), Osman Tüzün (EVP), Aydın Güler (EVP), Aydın Düren (EVP), Burçin Bıkmaz (Director), Elif Güvenen (Director), Hülya Türkmen (Director), Emre Hatem (Director), Mustafa Sağlık (Director), Handan Saygın (Director), Nazlı Çakıroğlu Boysan (Manager)

## NEW BUSINESS AND PRODUCT COMMITTEE

The purpose of the Committee is to review all new business, products and services as well as evaluate the ability of the various Garanti business units and subsidiaries (or third parties) in offering, servicing or administering the various aspects of a

new business, product or service. The Committee's responsibilities are;

- To ensure that all new business and new products fit into Bank's strategy and target risk profile, and approves/ rejects new business and new product proposals and submits them to the Board of Directors approval when necessary,
- To conduct an ongoing review of each new product at least 12-month period following implementation to ensure that it has been carried out properly (in this context, the Committee shall revoke approval of a previously approved Product, or an existing product or service, or block the implementation of a Product or continued use of a Product),
- To summarize and inform on its actions and deliberations, as appropriate, to members of senior management, managers within affected business lines and Board Risk Committee,
- To monitor the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 7 meetings.

Committee Members:

M. Cüneyt Sezgin, Ph.D. (Board Member), Aydın Güler (EVP), H. Hüsnü Erel (EVP), Aydın Düren (EVP), Ali Temel (Chief Credit Risk Officer), Ebru Oğan Knottnerus (Head of Risk Management), Barış Gülcan (Director), Emre Özbek (Director), Beyza Yapıcı (Director), Osman B. Turgut (Head of Internal Audit)

## EMPLOYEE COMMITTEE

The Employee Committee is responsible for developing Bank's HR policies, carrying out and coordinating activities in order to improve employee engagement and satisfaction, monitoring results and developing action plans when needed. With the support of management, the Committee also aims to promote learning in order to enhance Bank's development and tracks how training reflects on business.

In 2017, the Committee held 4 meetings.

Committee Members:

Javier Bernal Dionis (Independent Board Member), Ali Fuat Erbil (President & CEO), M. Cüneyt Sezgin, Ph.D. (Board Member), Mahmut Akten (EVP), Didem Dinçer Başer (EVP), B. Ebru Edin (EVP), Cemal Onaran (EVP), H. Hüsnü Erel (EVP), Aydın Güler (EVP), Ali Temel (Chief Credit Risk Officer), Aydın Düren (EVP), Recep Baştuğ (EVP), Osman Tüzün (EVP), Işıl Akdemir Evlioğlu (CEO, GÖSAŞ)

## CUSTOMER COMMITTEE

The Customer Committee is established to discuss customer experience efforts and convened under the chairmanship of CEO. Bank's customer experience strategies are defined by the Committee. It is also responsible for realizing and ensuring continuous effort such as projects which aim to enhance customer experience at every touch point and improve Net Promoter Score. The Committee monitors the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 4 meetings.

Committee Members:

Ali Fuat Erbil (President & CEO), Javier Bernal Dionis (Independent Board Member), Ali Temel (Chief Credit Risk Officer), Aydın Düren (EVP), Didem Dinçer Başer (EVP), B. Ebru Edin (EVP), H. Hüsnü Erel (EVP), Cemal Onaran (EVP), Mahmut Akten (EVP), Osman Tüzün (EVP), Recep Baştuğ (EVP)

## CONSUMER COMMITTEE

The Consumer Committee works to ensure that matters and practices regarding retail products and services, which may lead to risks and/or dissatisfaction on the part of consumers and/or applicable regulations, are addressed, considered, and necessary actions for their solutions are planned. The Committee is responsible for;

- Providing information on findings referred to the Committee by the Internal Audit Department, Internal Control and Compliance units, and planning actions for those deemed necessary upon due consideration,
- Providing information on improvement areas resulting from analyses based on customer notifications (complaints, objections, etc.) and planning actions for those deemed necessary upon due consideration,
- Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 4 meetings.

Committee Members:

M. Cüneyt Sezgin, Ph.D. (Board Member), Mahmut Akten (EVP), Aydın Düren (EVP), Didem Dinçer Başer (EVP), Osman B. Turgut (Head of Internal Audit), Hülya Türkmen (Director), Barış Gülcan (Director), Emre Özbek (Director), Kerem Ömer Orbay (Director), Ceren Acer Kezik (Director), Hazal Özgüven (Director), Berna Avdan (Legal Counsel), Bora Uludüz (Director), Demet Yavuz (Director), Eray Kaya (EVP, GT), Işıl Akdemir Evlioğlu (CEO, GÖSAŞ), Murat Hamurkaroğlu (Manager), Alpaslan Özbey (EVP, GÖSAŞ)

## CORPORATE ASSURANCE COMMITTEE

The purpose of the Committee is to inform the top management about the internal control problems which can prevent business lines and/or our Bank's goals due to their current or possible effects and to provide guidance from top management about the problems.

The scope of the Committee includes internal control findings and issues that are considered to have priority for the Bank, regarding their effect and urgency, fundamentally compliance, financial reporting, risk management, operational risk, reputation risk, technology and fraud. The Committee's responsibilities are;

- To provide standardization and top management coordination for the improvement needs of the internal control system by focusing on critical risks and controls that needs top management's monitoring,
- To discuss the internal control problems/issues within its agenda and responsibility area, and to evaluate the proposed measures and actions,

- To monitor mitigation of risks to a desired level by examining the action plans,
  - To make necessary coordination in case of a contribution need from different departments,
  - To inform the Board of Directors about the main internal control problems
- In 2017, the Committee held 3 meetings.

#### Committee Members:

M. Cüneyt Sezgin, Ph.D. (Board Member), Ali Fuat Erbil (President & CEO), Didem Dinçer Başer (EVP), Cemal Onaran (EVP), Recep Baştuğ (EVP), B. Ebru Edin (EVP), Osman Tüzün (EVP), H. Hüsnü Erel (EVP), Aydın Güler (EVP), Aydın Düren (EVP), Mahmut Akten (EVP), Ali Temel (Chief Credit Risk Officer)

## INTEGRITY COMMITTEE

The main objective of the Integrity Committee is to contribute to preserve the Corporate ethical integrity at Garanti. The primary function of the Committee is to guarantee that the Code are efficiently implemented within the frame of its responsibilities outlined below:

- Encouraging and monitoring efforts for creating a shared culture of integrity within Garanti Group,
- Making sure that the Code are implemented homogenously across Garanti; in this context, formulating and disseminating descriptive notes when needed,
- Implementing exclusion criteria with regard to compliance with certain provisions of the Code,
- Notifying matters deemed to be in contradiction to the Bank's disciplinary rules to the Disciplinary Committee, and obtaining information about the ongoing

- examinations procedures and actions taken for the issue,
- Reporting immediately any incidents and circumstances that may pose a material risk against Garanti to,
    1. Top Management,
    2. The individual in charge of preparing the financial statements accurately,
  - Following up the proposals of action agreed during the meetings,
  - Encouraging adoption of necessary measures for handling suggestions regarding compliance with the Code and implementation of the document, and behaviors creating doubts with respect to ethics,
  - Promote and monitor the operation and efficiency of the Complaint Channel at local level take necessary measures regarding updates and review where appropriate,
  - Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 2 meetings.

#### Committee Members:

M. Cüneyt Sezgin, Ph.D. (Board Member), Ali Fuat Erbil (President & CEO), Osman Tüzün (EVP), Aydın Düren (EVP), Didem Dinçer Başer (EVP), H. Hüsnü Erel (EVP), B. Ebru Edin (EVP), Osman B. Turgut (Head of Internal Audit), Emre Özbek (Director), Barış Gülcan (Director)

## PERSONNEL COMMITTEE

The Personnel Committee has been set up to determine the Bank's HR policy, finalize transfer and appointment decisions at manager level, make

proposals regarding the Bank's organizational structure, and contribute to the management of the HR budget and balance sheet. The Committee monitors the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and takes action to keep them up-to-date.

The Committee meets when it is needed. In 2017, the Personnel Committee held 4 meeting.

#### Committee Members\*\*:

Ali Fuat Erbil (President & CEO), Mahmut Akten (EVP), Recep Baştuğ (EVP), Cemal Onaran (EVP), Didem Dinçer Başer (EVP), Ali Temel (Chief Credit Risk Officer), Osman Tüzün (EVP), B. Ebru Edin (EVP), Aydın Düren (EVP), Aydın Güler (EVP), Alper Eker (Director), İlker Yavaş (Director), Burak Yıldırım (Director), Yeşim Şimşek (Director), Mustafa Sağlık (Director), Kerem Ömer Orbay (Director), Mustafa Tiftikçioğlu (Director), Çiğdem Yılmaz (Director), Ceren Acer Kezik (Director), Gökhan Koca (Director), Işıl Akdemir Evlioğlu (CEO, GÖSAŞ), Selahattin Güldü (Regional Manager), Eyüp Yıldırım (Regional Manager), Murat Özdemir (Manager), Görkem Kıran Dumlu (Manager)

\*\* Branch Managers and Regional Managers alternate in attending the committee.

## VOLCKER RULE OVERSIGHT COMMITTEE

Volcker Rule Oversight Committee is an internal body established under the provisions of the Volcker Rule Compliance Program that has been approved by the Board of Directors. It is formed to evaluate the conformity status of Garanti Bank's and its



subsidiaries' (Garanti) activities and of the Compliance Program to the Volcker Rule, and to supervise the effectiveness of the Volcker Rule Compliance Program. The Committee's main roles and responsibilities are;

- To provide the settlement of a sufficient Compliance culture,
- Evaluate the conformity of the Volcker Rule Compliance Program to the Volcker Rule,
- Assess declarations of compliance received from the subsidiaries, evaluate conformity of Garanti's operations to the Volcker Rule; make decisions on this subject, and communicate the decision to the related committee of the BBVA Group,
- Resolve the Volcker Rule related issues which are submitted to the Committee's agenda,
- Monitor necessities of document updates regarding the policies, procedures, regulations and take actions to ensure that they are updated.

In 2017, the Committee held 4 meetings.

Committee Members:

M. Cüneyt Sezgin, Ph.D. (Board Member), Ali Fuat Erbil (President & CEO), Aydın Güler (EVP), Aydın Düren (EVP), B. Ebru Edin (EVP), Eray Kaya (EVP, GT), Ali Temel (Chief Credit Risk Officer), Osman B. Turgut (Head of Internal Audit), Ebru Oğan Knottnerus (Head of Risk Management), Emre Özbek (Director), Barış Karaayvaz (Director), Çağlar Kılıç (Director), Metin Kılıç (Director), Berna Avdan (Legal Counsel), Hakan Özdemir (Director), Barış Gülcan (Director).

## RISK MANAGEMENT COMMITTEE

The purpose of Risk Management Committee is to develop the strategies, policies, procedures and infrastructures required to identify, assess, measure, plan and manage material risks faced by the Bank in the ordinary course of business, within its delegated authority. The Committee is responsible for:

- Development of the Enterprise Risk Management architecture, which includes the establishment of a risk appetite framework, a model governing the organization and governance of the function, a risk identification and monitoring model and the infrastructures and processes required to efficiently and transparently manage the risks,
- Identification, assessment, measurement, planning and management of risks the Bank is exposed to,
- Assessment of economic capital adequacy of the Bank both under normal course of business and in stress scenarios,
- Monitoring and analysis of all significant matters related to the Bank's risk on an ongoing basis,
- Guidance to the Bank's management concerning significant risk matters,
- Oversight of the risk framework and performance of the Bank's subsidiaries and affiliates,
- Promote and develop a risk culture throughout the organization,
- Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 32 meetings.\*

## WHOLESALE CREDIT RISK COMMITTEE

Wholesale Credit Risk Committee has been set up to define the framework for wholesale credit risk implementations, to integrate this framework into management practices and to monitor its performance. The Committee is responsible for:

- Approving wholesale credit risk strategies and policies or submitting them for approval,
- Monitoring the quality and performance of wholesale portfolios and evaluating risk strategies and policies with respect to their efficiency, profitability and productivity,
- Approving risk-related decisions or requests received from other units and/or regulatory authorities, or submitting them for approval,
- Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 14 meetings.\*

## CREDIT ADMISSION COMMITTEE

The Credit Admission Committee has been set up to approve, or propose for approval to Garanti Bank's governing bodies, credit proposals or financial programs in accordance with its delegated authority and the requirements stated in the Credit Risk Delegation Rule. The Committee is responsible for:

- Approving the credit proposals within its authorized limits, and submitting credit proposals that exceed the delegated authority of the Chief Credit Risk Officer to management bodies for approval,
- Overseeing whether the credit risks falling under its delegated authority are duly subjected to assessment and scoring process in line with the Bank's policies and procedures,
- Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 45 meetings.\*

### RETAIL CREDIT RISK COMMITTEE

The purpose of the Committee is to define the Bank's retail credit risk framework, to integrate the framework into management and to monitor its performance. The Committee is mainly responsible for:

- Approving, or proposing for approval, risk strategies and policies in relation to retail credits,
- Monitoring the performance of the retail portfolio; evaluating the efficiency of risk strategies and policies and their effect on profitability and productivity,
- Approving or proposing for approval risk decisions, or requests from/to other units or regulators,
- Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 11 meetings.\*

### RISK TECHNOLOGY AND ANALYTICS COMMITTEE

Technology and Methodologies Committee has been set up to develop a suitable framework for risk models and technology tools at Garanti Bank. The Committee addresses all risk types and the entire risk cycle. The Committee is responsible for:

- Ensuring the quality, adequacy and consistency of models and model parameters across the Bank,
- Monitoring risk tools roll-outs (including functional definitions and regulatory/economic milestones) as well as areas for improvement,
- Making sure that adequate technological infrastructure is in place to enhance the risk area and following up technology projects deemed appropriate by the Bank,
- Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 16 meetings.\*

### DISCIPLINARY COMMITTEE

The goals and responsibilities of the Disciplinary Committee are as follows:

- Reviewing and deciding on the matters referred to it based on the relevant articles of Garanti Code of Conduct and Personnel Regulation,
- Examining, sua sponte, any acts and practices, if any, that are established to be contrary to the laws, banking customs, Garanti Code of Conduct, Personnel Regulation,

the Bank's circulars, announcements or procedures (requesting an examination by the Internal Audit Department in cases where it deems necessary), and implementing the administrative sanctions set out in the Personnel Regulation,

- Ensuring that the personnel adheres to Garanti Code of Conduct, both in their behaviors and their practices, and undertaking the function of monitoring such adherence and acting as a safeguarded authority before the employees,
- Taking measures against all sorts of acts and practices that might lead to an erosion of the Bank's reputation and image in view of the laws, public opinion and our customers, and announcing these measures throughout the Bank,
- Ensuring that necessary measures are adopted by relevant units for remedying the systemic problems or hitches in work flow processes or general practices as observed in the files on its agenda, and guiding the concerned subsidiaries and overseeing the measures taken.

In 2017, the Committee held 3 meetings.\*

### INFORMATION SECURITY COMMITTEE

The goals and responsibilities of the Information Security Committee are as follows:

- Coordinating efforts to guarantee Information Security,
- Contributing to the formulation of the information security policy and other policies concerning the subdomains of information security; overseeing

the functionality of the system; and assessing and deciding on suggested improvements,

- Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 1 meeting with the required quorum.\*

### LOCAL BENEFITS COMMITTEE

The Local Benefits Committee aims to ensure that decisions regarding fringe benefits are made centrally, with the participation of HR, Finance areas and Risk representatives. The Committee is responsible for:

- Ensuring that decisions regarding fringe benefits are made centrally, with the concurrence of all representatives and in line with the Bank's business goals,
- Reporting the local committee's decisions to the global committee,
- Benchmarking against the market before a new fringe benefit proposal is approved and reviewing the same from the perspective of Finance, Risk and Compliance,
- Controlling the production of consolidated accounting reports of fringe benefits,
- Aligning the investment policy of Garanti Bank Retirement Fund with BBVA's standards,
- Monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates, and taking action to keep them up-to-date.

In 2017, the Committee held 1 meeting.

### IT RISK COMMITTEE

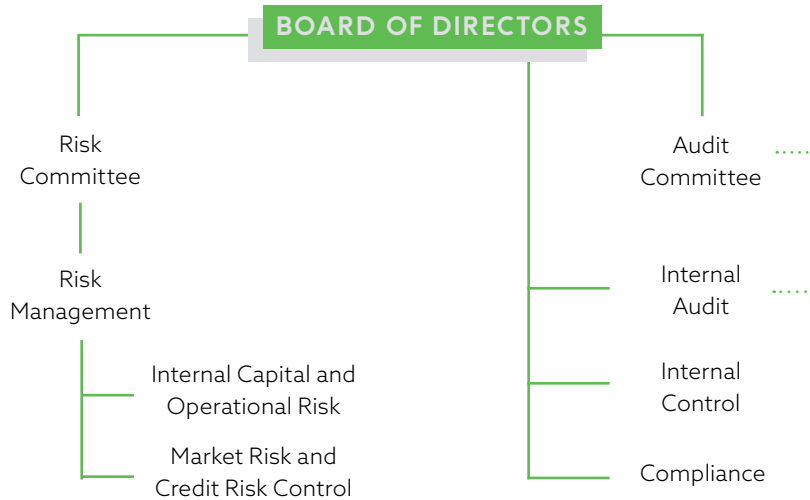
IT Risk Committee has been established to coordinate the tasks related with IT Risk Management. This committee contributes to the establishment of the IT Risk Management Policy and IT Risk Management process documents and also other needed processes, monitors the functioning of the IT risk management process and agrees on decisions by evaluating the improvement suggestions. The Committee's responsibilities are:

- Identification of IT risk management strategy,
- Identification of IT risk management scope and making related plans,
- Assessing the threats and risks that arise as a result of IT risk analysis, identification of actions to be taken,
- Assessment of IT risk management outputs and following the corresponding actions,
- Reviewing policies and procedures related to IT risk management, work on updating and compliance issues.

In 2017, the Committee held 2 meetings.\*

*\* For the committee members, please refer to Committees section under Corporate Governance on Garanti Investor Relations website.*

# INTERNAL SYSTEMS GOVERNANCE



The responsibilities of **INTERNAL CAPITAL AND OPERATIONAL RISK** Director are outlined below:

- Define operational risk and risk appetite principles approved by the Board of Directors,
- Coordinate the ICAAP business process,
- Conduct measuring, monitoring and analysis activities for risk appetite, operational risk and capital adequacy; report their results regularly to relevant units, committees and senior management,
- Monitor capital adequacy calculations,
- Carry out and report qualitative and quantitative validation activities for internal models,
- Carry out second line of defense risk internal control activities within internal control model.

The responsibilities of **MARKET RISK AND CREDIT RISK CONTROL** Director are outlined below:

- Define, review and update risk-based policies and procedures approved by the Board of Directors,
- Carry out risk-based measuring, monitoring and analysis activities; report their results regularly to relevant units, committees and senior management,
- Carry out monitoring and reporting of risk-based activities within the frame of ICAAP, stress tests and risk appetite, as well as of risk assessment

**THE RISK COMMITTEE**, formed by the members of the Board of Directors, is responsible for overseeing risk management policies and their implementation, including the alignment with its strategic objectives and management’s ability to assess and manage the various risks present in its activities, as well as capital adequacy and planning and liquidity adequacy.

“**RISK MANAGEMENT**” is composed of “Internal Capital and Operational Risk Department” and “Market Risk and Credit Risk Control Department” under the execution and management of Head of Risk Management.

The responsibilities of the Head of Risk Management are outlined below:

- To ensure that; risk management culture is recognized and risk management principles are widely embraced throughout the Bank and its affiliates, an integrated risk management system is established which pursues risk-return relationship, which measures all risks together and which is in compliance with applicable legislation, bank strategies and policies and where limits determined in connection with the risk appetite approved by the Board of Directors are not breached,
- To define, measure, monitor and report risks and to ensure that all control activities are conducted thoroughly and timely; to monitor and supervise results.

efforts and risk-based concentrations in relation to new business and products/services.

**THE AUDIT COMMITTEE**, formed by the members of the Board of Directors, was set up to assist the Board of Directors in the performance of its audit and supervision functions. The Audit Committee receives information from the units set up under internal control, internal audit and compliance systems, as well as from the independent auditor, with regard to performance of their activities. The Committee confirms that adequate methods are in place to identify, control and monitor Garanti Bank's risk exposure and regularly informs the Board of Directors of its activities and their results.

The Audit Committee also gives its opinion to the Board of Directors regarding activity results of the responsible departments, necessary actions and other issues it deems important for safe conduct of Garanti Bank's activities.

#### THE INTERNAL AUDIT DEPARTMENT

Annual audit plans are prepared based on a risk-oriented approach, and by taking the goals and strategies of the Bank and priorities determined by BoD and Audit Committee into account. It is aimed to provide maximum contribution to the Bank by determining scopes and frequencies of the audit works under the light of multi-factor horizontal and vertical analyzes.

The Internal Audit Department audits Garanti Bank's head office units, branches and consolidated subsidiaries by evaluating the effectiveness of the internal control systems with respect to the headings below:

- Compliance of activities with applicable legislation and internal regulations,
- Accuracy and reliability of financial and operational data,
- Effectiveness of asset protection practices,
- Effectiveness and efficiency of the activities performed in order to reach the defined goals.

As per the Regulation on the Internal Systems of Banks and Internal Capital Adequacy Assessment Process issued by the BRSA, parent banking companies are expected to perform and coordinate the internal audit activities of consolidated entities in a consolidated manner.

Accordingly, the Internal Audit Department audits the Bank's consolidated subsidiaries in line with the annual audit plan by taking prominent risks into account. Moreover, the Internal Audit Department oversees the activities for putting into life the group standards adopted within the frame of internal audit implementations at consolidated subsidiaries.

By way of inquiries and investigations covered among the activities of the Internal Audit Department, fraud, swindling and counterfeiting activities are prevented or noticed, upon which necessary managerial actions are taken immediately.

Within audit works performed, process audits are carried out on the basis of 11 different risk types, by covering general directorate units, domestic branches, foreign branches and subsidiaries:

1. Within the scope of business model risk audits, the areas of business model

viability, business model sustainability and strategy are focused on.

2. Internal governance environment and risk management audits focus on the areas of corporate governance, organizational framework and risk control framework, including procedures, duties and responsibilities.

3. Within the scope of capital risk audit, the areas of regulatory capital adequacy ratio and assessment of internal capital adequacy are focused on.

4. Within the scope of the credit risk audits, the areas of governance and risk management structure for credit risk, thresholds and limit structure and measurement are focused on and loan portfolios and outstanding credit processes are audited.

5. Within the scope of market risk audits, the areas of management framework, measurement, modeling and monitoring are focused on.

6. Within the scope of structural risks audits, the areas of management framework, measurement, modeling and monitoring regarding exchange rate risk, structural interest rate risk and liquidity risk are focused on.

7. Within the scope of operational risk audits, the areas of banking processes, non-banking processes, enterprise processes, operations, channels, data governance and data quality, digital transformation and CIB are focused on, and onsite and both remote audits performed in branches and in related general directorate units.

8. Within the scope of legal risk audits, the areas of regulations, tax legislation, labor law, other regulations and contractual risks regarding financial reporting and financial statements are focused on.

9. Within the scope of compliance risk audits, the areas of the compliance risk management model, ethical standards and legal regulations, such as money laundering and financing of terrorism, customer protection and personal data protection are focused on.

10. Within the scope of technology risk audits, the areas of IT infrastructure, IT operations, management of IT emergent risks, software development, business continuity & systems recovery, information security and cybersecurity are focused on.

11. Within the scope of extended enterprise risk audits, the areas of support services organizations, procurement processes, and outsourcing management are focused on.

#### THE INTERNAL CONTROL UNIT

Internal Control Unit is responsible for the establishment and coordination of a sound internal control environment within Garanti Bank. The unit ensures that banking activities are carried out in accordance with the management strategies and policies in a regular, efficient and effective manner within the existing rule and regulation framework.

Within the applied internal control model which is structured according to three line of defense principles, necessary control activities have been identified by taking the relevant risks into consideration by the first line of defense teams in the business units. A process in which the

results of control activities are reported from business units to the relevant second line of defense functions has been constituted. In this model, Internal Control Unit ensures the proper execution of control activities performed within the Bank by implementing a common methodology.

On-site control activities are carried out at the branches (including branches abroad) and regional directorates. Regarding the head office departments; the related control activities which are conducted within the business/support units are monitored and challenged in order to ensure that those control activities are performed timely and accurately.

The IT Controls team, set up within the Internal Control Unit, monitors the secure performance of IT functions in accordance with the guidelines set by the Bank. The team defines internal control steps for IT processes, and subjects the control items so defined to control activities in accordance with the methodology and tools. Findings and systemic deficiencies identified on the basis of control activities are analyzed, the outcomes are interpreted, and new systemic controls are set up.

The recommendations regarding the identified gaps are reported to relevant parties and actions are followed up.

#### THE COMPLIANCE DEPARTMENT

Working with the purposes of managing the potential compliance risks of the Bank and of identifying and preventing these risks before implementation, the Compliance Department aims to help improve the compliance culture constantly and establish a world class compliance culture across the Bank. The

Compliance Department carries out the following tasks:

The Compliance Officer performs the following duties as also stipulated by the regulations governing prevention of money laundering and countering the financing of terrorism:

- Carry out all necessary efforts to achieve Garanti Bank's compliance with the regulations issued to prevent money laundering and countering the financing of terrorism and provide necessary coordination and communication with the Financial Crimes Investigation Board (in Turkish: MASAK),
- Ensure that the Compliance Program is carried out; develop policies and procedures within this scope; execute risk management, monitoring and control activities; follow up the results of internal audit and training activities,
- Lay down the efforts related to the training program about prevention of money laundering and countering the financing of terrorism for the approval of the Board of Directors, and ensure that the approved training program is carried out effectively,
- Look into and evaluate information on potentially suspicious transactions that he/she receives or becomes aware of sua sponte; report any transaction that he/she deem to be suspicious to the Financial Crimes Investigation Board,
- Manage relations with relevant governmental or private agencies.

In terms of compliance activities regarding customer products and services, assessments are made on the compliance of products and processes to applicable regulations. Activities are carried out in relation to compliance controls in

accordance with the requirements of Article 18 of the Regulation on the Internal Systems and Internal Capital Adequacy Assessment Process of Banks. The control mechanisms in place are monitored and coordinated with respect to compliance of the Bank's current and planned activities, new transactions and products with the laws, internal policies and guidelines, and banking practices. The processes are monitored for any necessary revisions according to regulatory changes, related employees are notified on such changes, and opinions are formed prior to introduction of new products and transactions.

With respect to corporate compliance activities, the Compliance Department is responsible for promoting awareness of the "Garanti's Code of Conduct" approved by the Board of Directors in 2015, encouraging its application, ensuring development and dissemination of the procedures to be formed in the context of the Code and helping resolve any doubts that may arise during the interpretation of the document. Announced with a message from the CEO, the document is available on the intranet accessible to all employees and on Garanti Investor Relations website publically. In Garanti's Code of Conduct, the employees' responsibilities towards customers, other employees, business and the society are defined comprehensively. Assigned as a mandatory training to all Garanti employees, to date 35,166 hours of "Garanti Code of Conduct Training" were delivered.

The Compliance Department manages the Whistleblowing Channel established to report the noncompliance to Garanti's Code of Conduct forms an essential part of our compliance system. The channel is

also a resource to assist the employees to report transgressions that they observe or which are reported to them by their team members, customers, suppliers or colleagues. Communications through this channel include, but are not limited to the reporting of suspicious illegal conduct or professionally unethical conduct. In case of an actual or suspected breach of Garanti's Code of Conduct, the incident should be reported immediately via the Garanti Whistleblowing Channel, by e-mail at [etikbildirim@garanti.com.tr](mailto:etikbildirim@garanti.com.tr) or by telephone at +90 212 318 2375. The Compliance Department, responsible for managing the Whistleblowing Channel, processes all reports received carefully and promptly, ensuring they are investigated and resolved, in accordance with the Whistleblowing Channel management procedures. Information is analyzed objectively, impartially and confidentially. The identity of the person who reported is kept confidential. The information is made known only to those departments whose cooperation is necessary for the investigation process. The result of the investigation is communicated to the departments which need to take appropriate measures to correct the transgression, as well as to the person being reported and the reporter, as appropriate. During the investigation process, personnel are expected to cooperate with the Compliance Department and other related parties, and are required to maintain confidentiality about their involvement in the process and any information about the subject. Nobody, who reports any facts or activities through the Whistleblowing Channel in good faith, will be the target of reprisal nor will they suffer any other adverse consequence as a result. Garanti's Code of Conduct includes incidents of conflict of interest and aspects which would prevent

employees' Professional behaviors from being affected by conflicts of interest.

Securities compliance activities encompass examination of suspicious transactions within the scope of the Capital Markets Board (CMB) Communiqué on Obligation of Notification Regarding Insider Trading and Manipulation Crimes. Procedures are being established regarding own-account trading and use of privileged information by the Bank employees who may have insider information or periodic information about capital market instruments or issuers, due to performing their jobs, professions and tasks. In addition, relevant legislation and internal guidelines are also monitored.

With respect to subsidiaries' coordination activities, the Compliance Department monitors the compliance activities at the Bank's subsidiaries and overseas branches. In this respect, meetings are held regularly with those who are responsible for the compliance function at the related subsidiaries and overseas branches. In line with the related legislation, an employee is assigned at each of the consolidated subsidiaries and overseas branches for monitoring compliance with local regulations; these employees submit periodic reports to the Compliance Department.

In performing all of its duties and responsibilities outlined above, the Compliance Department continues to work in coordination primarily with the Internal Audit Department, Internal Control Unit, Training Department, Anti-Fraud Monitoring Department and Legal Department, as well as other relevant units and people.

# RISK MANAGEMENT

## MATERIAL CLUSTERS

Garanti Bank measures and monitors its risk exposure on consolidated and unconsolidated bases by using methods compliant with international standards, and in accordance with the applicable legislation. Advanced risk management tools are utilized in measuring operational risk, market risk, asset and liability risk, counterparty credit risk and credit risk.

The Bank's risk management strategy, policies and implementation procedures are reviewed within the frame of regulatory changes and the Bank's needs.

Our risk management process is set up in a way, that the material themes and strategic objectives are linked and are the basis for the risks and opportunities identified.

Through the risk appetite framework, the Bank determines the risks that it is

prepared to take based on the predicted capability of safe handling of risks so as to achieve the goals and strategic objectives as defined by the Board of Directors. Risk-based limits and metrics pertaining to capital, liquidity and profitability, which have been created as per the risk appetite framework are monitored regularly.

Risk Management coordinates the concerned parties and thus handles the preparation of the ICAAP report, which will be submitted to the BRSA. In addition, the stress test report is submitted to the BRSA, which addresses how the potential negative effects on macroeconomic data might alter the Bank's three-year budget plan and results within the frame of certain scenarios, as well as their impact upon key ratios including the capital adequacy ratio.

Customer Experience

Financial Performance

Digital Transformation

Investing in Human Capital

Responsible and Sustainable Development

## IDENTIFIED RISKS & OUR RESPONSE

### REPUTATIONAL RISK

The Bank identifies, evaluates and manages its reputational risk, avoiding all kinds of transactions and activities that would cause reputational risk in the eyes of, customers, legal authorities and other stakeholders. Trainings are held with the aim of raising awareness about reputational risk throughout the Bank and

encouraging all employees to fulfill their duties and responsibilities.

In order to ensure efficient management of reputational risk across the Bank, it is aimed to monitor the Bank's reputation and reputational risk through a methodological approach and take all necessary precautions before the reputational risk occurs. Through this methodology, the Bank regularly defines and reviews a map in which it prioritizes



## VALUE DRIVERS

- Offer our customers an excellent experience by placing them at the center of all our activities and efforts
- Always be transparent, clear and responsible towards our customers
- Design our processes from our customers' perspective, vesting them in a swift, easy and plain format
- Help our customers in making informed decisions through supporting financial literacy, health and inclusion in solutions that we offer
- Have long-lived relationships with our customers that is built on trust by exceeding their expectations and enhancing their satisfaction
- Offer innovative solutions and advise our customers to grow their businesses in a sustainable manner

- Use capital effectively so as to maximize the value to be created
- Focus on disciplined and sustainable growth on the basis of true banking principle
- Strict adherence to solid asset quality
- Constantly improve business model and processes with operational and environmental efficiency point of view
- Cost and revenue synergies

- Constantly invest in digital platforms so as to provide unrivaled customer experience, transaction convenience, and pioneering solution suggestions
- Expand our digital customer base and increase the share of digital channels in our sales
- Taking precautions against all risks which could prevent secure and uninterrupted service (e.g. cyber threats) ensuring information security.

- Invest in our employees focusing on their development, satisfaction and wellbeing
- Form teams possessing team spirit, acting with shared wisdom, social responsibility and delivering results
- Embrace a fair and transparent management policy based on performance, focused on equal opportunities, diversity and promoting from within

- Implement an advanced corporate governance model that promotes our core values
- Act with the principles of trust, integrity, accountability and transparency against all stakeholders
- Effective risk management through world-class integrated management of financial and non-financial risks
- Create shared value through lending based on impact investment principles
- Drive positive change through strategic partnerships
- Focus on community investment programs which deliver impactful outcomes on material issues

## MAIN RISK AREAS

### REPUTATIONAL RISK

### ENVIRONMENTAL & SOCIAL RISK

### OPERATIONAL RISK

### COUNTRY RISK

### MARKET RISK

### STRUCTURAL INTEREST RATE RISK

### STRUCTURAL EXCHANGE RATE RISK

### LIQUIDITY RISK

### CREDIT RISK

### COUNTERPARTY CREDIT RISK

### CONCENTRATION RISK

### RELATED PARTY RISKS

the reputational risks it faces, together with a set of action plans to mitigate these risks. It defines key risk indicators for each risk factor to regularly monitor the strength of the risk mitigation. The risks and risk factors are defined in dimensions such as customer-centeredness, workplace, ethics and citizenship, finances and leadership.

Additional efforts carried out to monitor reputational risk include monitoring the media, the press and social media platforms with respect to the Bank's reputation, conducting a regular reputation analysis and managing potential impacts; ensuring continued awareness of compliance with laws, corporate standards, Codes of Conducts and best practices, and development of processes that guarantee management of IT/information security and IT-related risks.

Reputational risk factors cover many aspects from marketing practices, customer service to products terms and are governed through the relevant committees within the Bank's extensive committee structure. *Please refer to Committees Section for detailed information.*

### ENVIRONMENTAL AND SOCIAL RISK

Banks, in particular, face risks associated with financing activities that could result in adverse impacts on the environment and society. Failure to address these risks in a timely and appropriate manner may result in reputational damage and consequently a loss of investor support and customer loyalty, among other challenges.

Garanti Bank sees its proactive management of these risks, such as arising from climate change, not only as

critical to its success but also as one of its most essential duties to its stakeholders. Through its effective approach to sustainability embedded throughout its organization, Garanti Bank monitors a variety of environmental and social indicators, benchmarks itself against best practices worldwide, takes steps to close the gap, raises the awareness of employees and collaborates with its peers, financial institutions, customers and business associations.

Garanti also implements an Environmental and Social Risk Assessment Process in line with international best practices to help drive improvement across its loan portfolios.

Within the scope of ESIAP, Garanti Bank ensures that the projects financed by the Bank satisfy the social and environmental standards required by legislation and the Bank's policies. If necessary, the Bank also ensures that the project owners undertake an impact assessment, take prescribed measures and establish effective control mechanisms.

Garanti has a full-time Sustainability Team which comprises of 5 full-time members and is responsible of embedding sustainability criteria into core business. Reporting to the Sustainability Committee chaired by a Board Member, the Team's responsibilities on environmental and social risk management is to: verify environmental and social risk management policies, strategy and implementation principles, ensure that risk management principles are widely embraced throughout Garanti and its subsidiaries; through hard and soft controls, provide technical and implementation support on E&S risk-related measures to other departments

as well as customers. Garanti Bank's Corporate and Commercial Loans Risk Management Unit is also responsible for ensuring the effective implementation of ESIAP.

*For detailed information on ESIAP and sustainability governance, please see the Environmental and Social Loan Policies section on Garanti Investor Relations website.*

### OPERATIONAL RISK

Operational risk is managed on the basis of the three lines of defense approach within the frame of risk management policies approved by the Board of Directors. The Board of Directors issues the risk appetite for operational risk and related limits, and senior management ensures consistent and efficient implementation and maintenance of the operational risk management framework in relation to all activities, processes and products.

First line of defence; composed of the business and support areas, responsible for the primary management of operational risk in their products, activities, processes and systems within the frame of the Bank's policies and implementation principles.

Second line of defense; consists of the Operational Risk Management, Internal Control Unit, Compliance Department, Anti-Fraud Monitoring Department, Internal Risk Control and Internal Financial Control. Operational Risk Management that takes place in the second line of defense establishes policy and procedures (loss data, scenario analyses, risk indicators and self-assessment, new product and outsourcing assessment process) as part of operational risk measurement and management, and

provides the necessary guidance and coordination for their use. Operational Risk Management uses the data obtained by measurement tools to generate reports.

Third line of defense; Internal Audit Department, performs internal audit activities and independently reviews all aspects of operational risk management framework.

The definition of Operational Risk includes the following risk types: Processes, External and Internal Fraud, Technological, Human Resources, Business Practices, Disasters, Suppliers.

**MARKET RISK**

Market risk is measured in accordance with applicable regulations, Garanti Bank’s policies and procedures, employing internationally accepted methodologies that are aligned with the Bank’s structure, and they are evaluated within a continuously improving structure. Market risk is managed by measuring and limiting risk in accordance

with international standards, allocating sufficient capital and minimizing risk through hedging transactions.

Market risk is defined as the risk Garanti Bank faces due to fluctuations in market prices in relation to the positions it maintains on or off its balance sheet for trading purposes, and is calculated daily using the Value-at-Risk (VaR) model. VaR is a measure of the maximum expected loss in the market value of a portfolio of a certain maturity as a result of market price fluctuations, at a specified probability within a certain confidence interval. VaR is calculated using historical simulation method and two-year historical data at 99% confidence interval. Regular backtesting is conducted to measure the reliability of the VaR model. The model is validated on an annual basis. Market Risk is managed through capital, VaR and stop/loss limits approved by the Board of Directors. Limit levels are determined according to annual profit/ loss targets. The limits set are monitored and reported daily by the Market Risk and Credit Risk

Control Departments. VaR stood at TL 4.74 million by the end of 2017.

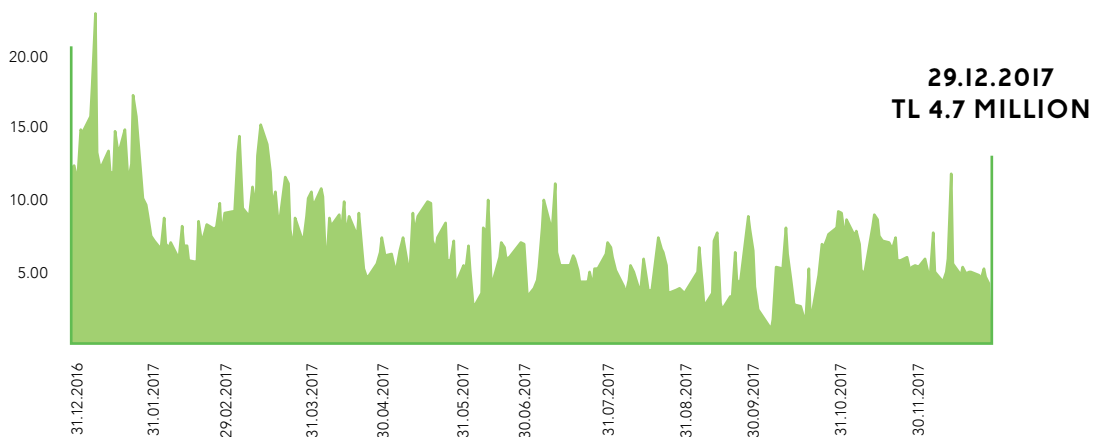
VaR does not constitute an important risk for the Bank given the amount of Garanti Bank’s shareholders’ equity. In order to identify the risks that might arise from major market volatilities, regular stress tests and scenario analyses are conducted using the VaR model.

**STRUCTURAL INTEREST RATE RISK**

To determine and manage the Bank’s exposure to structural interest rate risk arising from maturity mismatches in its balance sheet, duration gap, economic value of equity (EVE), economic capital (ECAP), credit spread risk sensitivity, net interest income (NII), earnings at risk (EaR), available-for-sale (AFS) and held-to-maturity (HTM) portfolios are monitored by measuring market price sensitivity. The risk metrics calculated and the reports generated are used for managing balance sheet interest rate risk under the supervision of the Assets and Liabilities Committee (ALCO).

**2017 VaR TREND**

(TL Million)



Stress tests and scenario analyses are carried out within the framework of structural interest rate risk to measure the risks resulting from Bank-specific negative developments or major risks and vulnerabilities that may potentially arise in the economic and financial environment under stress, by supervising the regulatory and internal interest rate risk management requirements.

Results of stress tests are used as input for determining risk appetite, limit and budget-related works, for generating balance sheet management strategies, and for evaluating the need for capital. Within this framework, internal limits for EVE sensitivity, ECAP, NII sensitivity, earnings at risk, securities revaluation differences and securities EVE sensitivity are regularly monitored and reported. The interest rate risk in the banking book is measured on an unconsolidated basis, using the standard shock method; the regulatory limit is monitored and reported to the Banking Regulation and Supervision Agency (BRSA) on a monthly basis. It is ensured that subsidiaries set and monitor internal structural interest rate risk limits.

#### STRUCTURAL EXCHANGE RATE RISK

The potential impact of negative exchange rate fluctuations upon the capital adequacy ratio and FC risk-weighted assets are regularly followed up, monitored according to internal limits, and reported, in the case that the Bank performs material operations in currencies other than the local currency in its balance sheet or maintains positions for shareholders' equity hedging purposes. The analysis conducted in this framework are expanded to encompass potential sensitivities that may result from Bank-specific negative events or

changes in the market by supervising the regulatory and internal structural exchange rate risk management requirements. In addition, the Bank's FC position and the profit/loss movements resulting from this position are monitored and reported at regular intervals. It is ensured that subsidiaries set and monitor internal structural exchange rate risk limits. FX sensitivity of 12-month projected P&L are monitored.

#### LIQUIDITY RISK

Within the framework of liquidity and funding risk policies approved by the Board of Directors, liquidity risk is managed under the supervision of ALCO in order to take appropriate and timely measures in case of liquidity squeeze arising from market conditions or Garanti Bank's financial structure. Under the liquidity contingency plan approved by the Board of Directors, Garanti Bank monitors liquidity risk within the scope of stress indicators and thresholds anticipating potential liquidity stresses which could activate the liquidity contingency plan, activation of the communication procedure, predefined measures and action plans and roles and responsibilities in a stress situation. Liquidity risk stress test is performed in order to identify potential liquidity tensions and to ensure that the Bank has a sufficient liquidity buffer to face exceptional liquidity stresses. Liquidity risk is monitored by internal limits and alert levels in order to assess the funding structure and liquidity capacity based on maturity buckets and to manage short term funding sources effectively, while compliance with regulatory liquidity ratios is ensured. Core deposit and average life analyses are performed for deposits, which is an important balance sheet item in terms of liquidity

management. Concentrations in liquidity and funding risks are monitored. Within Internal Capital Adequacy Assessment Process (ICAAP), liquidity planning is performed annually. Stress test results for subsidiaries are monitored and it is ensured that subsidiaries which are concerned with liquidity risk establish and monitor internal liquidity and funding limits to assess the robustness of their liquidity and funding structures and have liquidity and funding risk policies approved by Board of Directors including liquidity contingency plan.

#### CREDIT RISK

Credit risk management is a process for consistently evaluating and monitoring credit risk, and covers all credit portfolios. Concentrations are monitored across the portfolio with respect to internal risk ratings, sectors, regions, groups and customers.

Under IAS 39 collective provision calculation is performed for the entire Bank. Risk adjusted return based limits are determined for retail and corporate portfolios, as part of asset allocation across the Bank. The adequacy of the Bank's internal capital is evaluated with stress tests and scenario analyses.

In order to rate customers using objective criteria with respect to corporate and commercial loans portfolio, outputs from internal risk rating models, which were developed using statistical methods on historical data, are incorporated into the relevant lending policies and procedures. Models are used for the evaluation of specialized lendings according to supervisory slotting criteria. The internal risk rating models calculate the probability of default for each customer and keep this data up-to-date. For the corporate

portfolio, ratings are actively used for credit allocation, authorization, internal capital and risk-based provision calculations, risk appetite indicator, limit creation for asset allocation, risk-based profitability calculations, budgeting concentration risk calculations and stress tests.

Basically, two rating systems are used in the lifecycle of retail receivables; an application score calculated at the time of the loan application so as to include external factors, as well, and a behavior score targeting to measure the credit risk periodically taking into consideration the behavioral characteristics of the customer / product following loan disbursement. In the allocation processes of general-purpose, auto, mortgage, commercial mortgage, home equity, overdraft loans and commercial credit cards and credit card portfolio, which undergo retail and SME lending processes, application score is utilized. In retail portfolio, the behavior score is used for the limit management of revolving products, internal capital calculations, risk appetite indicator, risk-based profitability calculations, budgeting and concentration risk calculations, stress tests and limit creation for asset allocation.

In IFRS9, together with other important explanatory variables, the output of internal credit decisioning systems as specified above (i.e. internal risk rating models, retail application and behavioral scorecards) are used as risk drivers as to determine the final score bucket and the corresponding probability of default. Expected credit loss is calculated using probability of default as well.

Collection performances of non-performing loans in any portfolio are analyzed, and loss given default ratios

are calculated in view of the time value of the money and costs incurred for making the collections, on the basis of segments in the case of commercial loans and of products and segments in the case of retail loans. Studies are carried out to predict the level of loss ratios at times of economic downturn. These ratios are used to calculate expected loss, limit creation for asset allocation, risk-based profitability and internal capital.

Qualitative and quantitative validation is performed in particular for credit risk models and methodologies that are primarily used for capital calculation.

Model monitoring activities are done and actions are taken if necessary.

#### COUNTERPARTY CREDIT RISK

Counterparty credit risk strategy, policy and implementation principles are defined in the policy document approved by the Board of Directors. The Bank measures, monitors and creates limit for this risk in line with this policy. The Bank uses the internal model method (IMM) to measure and report the counterparty credit risk for derivative transactions, repurchase transactions, security and commodity lending in addition to using Current Exposure Method (CEM) for regulatory purposes. Within this scope, the Bank employs risk mitigation techniques through framework agreements (ISDA, CSA, GMRA, etc.), obtaining collateral and complementing margins as part of counterparty credit risk management to the extent allowed by national and international legislation.

The Bank also calculates economic capital for counterparty credit risk by way of a model that uses parameters (Rating, PD, LGD) based on the internal model.

#### COUNTRY RISK

Under the country risk policy approved by the Bank's Board of Directors, methods compliant with international norms and local regulations are employed to evaluate and monitor developments in country risk on the basis of individual countries. Actions are taken to make sure that the Bank's country risk exposure remains within the set limits, and related reporting, control and audit systems are established as necessary.

#### CONCENTRATION RISK

The Bank defines and monitors any concentrations among different types of risks or in any individual risk, which might result in material losses that would endanger the ability to sustain fundamental activities or the financial structure or lead to a significant change in the risk profile, within the frame of the policy approved by the Board of Directors. Qualitative and quantitative assessments of concentrations on the basis of individual risks or among risks are addressed in reports produced according to risk-oriented policies and procedures.

#### RELATED PARTY RISKS

*For the detailed information regarding transactions with the Bank's risk group; lendings and deposits and other related party transactions outstanding as of 2017 year-end, and income and expenses from such transactions incurred during 2017, please refer to Financial Statements Section (unconsolidated 5.7).*

## INTERNAL SYSTEMS MANAGERS

**EBRU OĞAN KNOTTNERUS**

Head of Risk Management

Ebru Oğan Knottnerus received her degree in business administration from the Middle East Technical University. She worked as an executive at various privately-held companies and banks between 1991 and 2001. Having joined the Subsidiaries Risk Management Department of Garanti in 2001, and functioned as Garanti Bank's Risk Management Director from 2003 until 2016, Oğan has been serving as Head of Risk Management since April 2016.

The responsibilities of the Head of Risk Management are outlined below:

- To ensure that; risk management culture is recognized and risk management principles are widely embraced throughout the Bank and its affiliates, an integrated risk management system is established which pursues risk-return relationship, which measures all risks together and which is in compliance with applicable legislation, bank strategies and policies and where limits determined in connection with the risk appetite approved by the Board of Directors are not breached,
- To define, measure, monitor and report risks and to ensure that all control activities are conducted thoroughly and timely; to monitor and supervise results.

**BEYZA YAPICI**

Director, Internal Capital and Operational Risk

Beyza Yapıcı got his degree in labor economics from Marmara University. After joining Garanti Bank's General Accounting Department in 2001, he worked in the Risk Management Department from 2008 until 2016. Yapıcı has been serving as Internal Capital and Operational Risk Director since April 2016.

The responsibilities of Internal Capital and Operational Risk Director are outlined below:

- Define operational risk and risk appetite principles approved by the Board of Directors,
- Coordinate the ICAAP business process,
- Conduct measuring, monitoring and analysis activities for risk appetite, operational risk and capital adequacy; report their results regularly to relevant units, committees and senior management,
- Monitor capital adequacy calculations,
- Carry out and report qualitative and quantitative validation activities for internal models,
- Carry out second line of defense risk internal control activities within internal control model.

**SEMRA KURAN**

Director, Market Risk and Credit Risk Control

Semra Kuran got her degree in civil engineering from the Middle East Technical University. Having joined Garanti Bank in 1997, Kuran worked in the Risk Management Department from 2001 through 2016. She has been serving as Market Risk and Credit Risk Control Senior Vice President since April 2016.

The responsibilities of Market Risk and Credit Risk Control Director are outlined below:

- Define, review and update risk-based policies and procedures approved by the Board of Directors,
- Carry out risk-based measuring, monitoring and analysis activities; report their results regularly to relevant units, committees and senior management,
- Performs risk based studies which are presented within the scope of ICAAP, stress testing and risk appetite framework, risk assessment for new business and product/services, monitoring and reporting of risk based concentrations, impact analysis of regulation updates,
- Monitor affiliates' risk management activities in the scope of enterprise risk management framework.



### OSMAN BAHRİ TURGUT

Head of Internal Audit

Osman Bahri Turgut received his undergraduate degree in economics from Marmara University in 1990. He joined Garanti the same year as an Assistant Auditor, where he subsequently worked as Branch Manager, Assistant Director of the Internal Audit Department, Commercial Loans Senior Vice President, Internal Control Unit Manager and Head of Internal Audit and Control. He currently serves as the Head of Garanti Bank's Internal Audit Department. Turgut who has CMB certificates for Level 3(Advanced), Corporate Governance and Derivative Instrument Certificates is also a member of the Board of Directors and Audit Committee at Garanti Finansal Kiralama A.Ş. and Garanti Filo Yönetimi Hizmetleri A.Ş.; a member of the Board of Directors and Corporate Governance Committee at Garanti Faktoring A.Ş.; a member of the Board of Directors at T. Garanti Bankası A.Ş. Emekli ve Yardım Sandığı Vakfı and Garanti Kültür A.Ş.; and a member of the Audit Committee at Garanti Leasing SA, Garanti Consumer Finance SA and Garanti Ödeme Sistemleri A.Ş.

The responsibilities of the Head of the Internal Audit Department are outlined below:

- Set out internal audit policies and

procedures and implement these after obtaining the necessary approvals,

- Conduct the internal audit activities in accordance with audit policies and implementation procedures and with internal audit plans,
- Oversee and guide the supervision, auditing, policies, programs, processes and practices of internal audit activities, and annual risk assessment,
- Oversee investigations that will arise with notices, complaints or allegations,
- Ensure compliance of audit and investigation reports to Bank's internal policies and procedures including internal audit procedures and laws, decrees and official communiqués,
- Verify that Department members possess the qualifications required by their authorities and responsibilities, to supervise the development of professional knowledge, skills and abilities and to oversee whether audit engagements are performed independently and objectively under professional care and attention.



### EMRE ÖZBEK

Head of Compliance

Emre Özbek received his degree in business administration from Ankara University, Faculty of Political Sciences. He joined Garanti Bank as an Assistant Auditor in 1999. He was appointed as the Assistant Director of the Internal Audit Department in 2007, as the Senior Vice President of the Internal Control Unit in 2009 and as the Head of Internal Audit Department in 2014. Mr. Özbek, who holds CIA (Certified Internal Auditor) and CBRM (Certified Business Resilience Manager) certifications and has 18 years of banking experience, has been serving as the Compliance Director since August 01, 2015.

Mr. Özbek has the following responsibilities in the capacity of Compliance Director:

- Ensure that the Bank's compliance activities are carried out in accordance with applicable legislation and Garanti Bank's goals and policies,
- Carry out all necessary activities to achieve compliance with the regulations issued in relation to prevention of money laundering and financing of terrorism, and provide necessary coordination and communication with MASAK (Financial Crimes Investigation Board),



## BARIŞ ERSİN GÜLCAN

Head of Internal Control

- Develop the Bank's compliance policies, procedures and training programs in accordance with the legislation and ensure their effectiveness; carry out activities in relation to the identification and notification of suspicious transactions; provide the preparation of statistics on internal audits and trainings and inform MASAK, and fulfill the obligation of providing information and documentation to MASAK in conformity with the manner and methods defined by MASAK,
- Within the scope of compliance controls, ensure the compliance of the Bank's all current and future activities, transactions and products with the Banking Law and other applicable legislation, internal policies and rules, and with banking practices,
- Develop recommendations for defining and mitigating compliance risks that may arise from regulatory changes,
- Monitor compliance functions of all domestic/overseas subsidiaries and overseas branches as part of Subsidiary Coordination activities.

Barış Ersin Gülcan got his bachelor's degree in economics and his master's degree in HR management from Istanbul University. After starting his career as an Assistant Auditor at Garanti Bank in 1997, he served in the Internal Audit Department for 10 years. During his 20-year experience in the banking sector, he functioned as Compliance Officer and Assistant Head of the Internal Audit Department. He assumed the position of Internal Control Unit Director in March 2014. Mr. Gülcan is a CIA (Certified Internal Auditor) since 2004 and a CPA (Certified Public Accountant) since 2005.

The responsibilities of the Internal Control Unit Director are outlined below:

- Ensure the establishment of the Bank's internal control system in accordance with applicable legislation and Garanti Bank's goals and policies,
- Collaborate with senior management to define the principles and procedures governing the distribution of internal control tasks between operational employees and internal controllers of Garanti,
- Prepare the annual business plans of the Internal Control Unit and ensure that activities are performed in accordance with these plans,

- Verify that internal controllers possess the qualifications required by their authorities and responsibilities,
- Supervise that internal controllers perform their duties in an independent, diligent and unbiased manner.



## ANTI-FRAUD AND INFORMATION SECURITY MANAGERS



### KORCAN DEMİRCİOĞLU

Ph.D., Head Of Anti-Fraud Monitoring

Korcan Demircioğlu got his bachelor's and master's degrees in economics from Boğazici University and his doctorate degree in banking from Marmara University. He joined Garanti Bank as an Assistant Auditor in 2000 and rose to the position of Assistant Director of the Internal Audit Department in 2011. Serving as Senior Vice President of Anti-Fraud Monitoring Department since 1 July 2014, Mr. Demircioğlu has 17 years of experience in the banking sector.

The responsibilities of the Anti- Fraud Monitoring Director are outlined below:

- Develop and ensure the implementation of strategies for minimizing financial and non-financial losses that may arise from external fraud,
- Prepare the annual business plans of the Anti-Fraud Monitoring Department and ensure that the Department's activities are performed in accordance with this plan,
- Evaluate whether the Department employees possess the qualifications required by their authorities and responsibilities,
- Supervise that the employees of the Anti-Fraud Monitoring Department perform their duties in an independent, diligent and unbiased manner.



### AYDIN KÜÇÜKKARAKAŞ

Chief Information Security Officer

Aydın Küçükkarakaş got his bachelor's degree in Computer Engineering from Kocaeli University. Before joining Garanti Bank, he worked at a telecommunications company in several roles for 6 years. He joined Garanti Bank as an Information Security Specialist in 2007 and was appointed to the position of Unit Manager in 2014. He serves as the IT Security and Risk Management Director since October 2017. Mr. Küçükkarakaş has 18 years of professional work experience.

The responsibilities of the IT Security and Risk Management Director are outlined below:

- Ensure the development and implementation of information security policies, procedures and guidelines,
- Ensure business continuity planning and disaster recovery testing,
- Management of IT risks based on international standards,
- Design, implement and operate IT Security infrastructure,
- Design, implement and operate Security Operations Center (SOC) including threat management, security log management and security incident management,
- Supervise that IT Security and Risk Management employees perform their duties in an independent, diligent and unbiased manner.

# IMPORTANT DEVELOPMENTS REGARDING 2017 OPERATIONS

## INFORMATION ON SHARE BUYBACKS BY THE BANK

The Bank did not buy back any of its own shares in 2017.

## INFORMATION ON PRIVATE AUDIT AND PUBLIC AUDIT CONDUCTED DURING THE FISCAL YEAR

Under the applicable legislation, routine audits are conducted by supervisory authorities such as the Banking Regulation and Supervision Agency (BRSA), the Capital Markets Board of Turkey (CMB), the Ministry of Finance, the Undersecretariat of Treasury and the Central Bank of the Republic of Turkey (CBRT). Detailed information about the administrative fines imposed against the Bank in 2017 by supervisory authorities as a result of auditing is provided in the following sections.

## INFORMATION ON LAWSUITS FILED AGAINST THE BANK, WHICH MAY AFFECT THE FINANCIAL STATUS AND OPERATIONS OF THE BANK, AND THEIR POTENTIAL RESULTS

An investigation was initiated against the Bank in connection with an investigation on VAT evasion in relation to carbon emission trade in France on the grounds that accounts had been set up before

the Bank for two persons implicated in the investigation. The reason our Bank was included in the investigation is not directly related to the subject matter of the investigation, but to banking transactions performed by persons implicated in the investigation and by three Turkish legal entity customers that carried out money transfers with various foreign firms with which the former were linked. During the investigation process, while no action was deemed necessary for the three Turkish customers with respect to the investigation, our Bank was included in the investigation based on the opinion that our Bank had not achieved adequate compliance with the legislation with respect to account opening and transacting by two foreign customers. The trial was completed on 16 June 2017. The Court acquitted our Bank for the actions it had taken in 2008 and early 2009 at the time these individuals who had engaged in tax evasion had started opening accounts and making use of banking services in Turkey; however, the Court adjudged a judicial fine of EUR 8 million for account closure procedures by mid-2009, with total disregard of local legislation and regulations. In addition, the French Treasury asked for collection of the tax loss from all of the defendants of this litigation matter for the tax losses suffered because of tax evasion. Accordingly, the Bank will be subject to payment of damages up to EUR 25 million. Our Bank believes that the ruling is faulty and irrelevant, and has

taken all necessary action for appeal on 22 September 2017. The appellate review is in progress. The Bank's Management has taken all necessary steps that it was legally obliged to take in the said event. Our Bank believes that this unfair judgment that lacks any ground will be reversed by the appellate court, and it has set aside provisions in the amount of EUR 33,000,000 for the case on trial.

## INFORMATION ON ADMINISTRATIVE OR JUDICIAL SANCTIONS IMPOSED ON THE BANK AND ITS MANAGING MEMBERS DUE TO ANY PRACTICE CONTRARY TO THE LAWS AND REGULATIONS

During 2017, administrative fines levied by regulatory and supervisory authorities on our Bank amounted to TL 11,906,009.27; the Bank took advantage of the cash payment discount and paid TL 8,939,510.27.

Directorate General of Turkish Employment Agency, Istanbul Provincial Directorate of Labor and Employment Agency served an administrative fine of TL 10,338,915 against our Bank. The said administrative fine has been paid at the discounted amount of TL 7,754,186.25, taking advantage of the cash payment discount as per Article 17/6 of the Misdemeanor Law No. 5326.

## INFORMATION ON REGULATORY CHANGES THAT MAY HAVE A MATERIAL IMPACT ON THE OPERATIONS OF THE BANK

The "Decision Amending the Decision on Treasury Support to Credit Guarantee Institutions" that was passed by the Council of Ministers on 27 February 2017 and that went into force upon its publication in the Official Gazette dated 10 March 2017 increases the amount of guarantee that can be furnished by the Undersecretariat of Treasury to the Credit Guarantee Fund (KGF) from TL 20 billion to TL 250 billion, and the amount of funds from TL 2 billion to TL 25 billion.

As per the BRSA decision dated 10 February 2017, it was decided that Treasury-backed guarantees be regarded in the same way with direct guarantee of the Undersecretariat of Treasury within the scope of the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks. As of the date of the BRSA decision, the guarantee rates, which were set as 75% for non-SME users and 85% for users defined as SMEs, were updated as 85% and 90%, respectively, based on the "Decision Amending the Decision on Treasury Support to Credit Guarantee Institutions". Upon this change, 0% risk-weighting will be applied to the Treasury-guaranteed portion of KGF credits within the scope of CAR calculations, and thus, the capital requirements have been restricted for credits allocated within the scope of KGF.

The Public Oversight Authority (in Turkish: KGK) published the finalized version of the TFRS 9 - Financial Instruments, which superseded TAS 39, in January 2017. TFRS

9 came into force on 1 January 2018. In this context, it has become compulsory for banks to implement TFRS 9 from 1 January 2018 pursuant to the BRSA "Regulation on Procedures and Principles for Classification of Loans and Provisions to be Set Aside", which was published in the Official Gazette issue 29750, dated 22 June 2016. The Bank has made its transition to TFRS 9 practices as of January 2018.

Based on its decision dated 24 February 2017, the BRSA allowed banks to apply 0% risk-weighting, instead of the T.R. Central Government FC risk weighting, to required reserves that banks maintain as FC including gold before the CBRT due to their foreign currency obligations or within the frame of the reserve option mechanism, when calculating credit risk under the same regulation. Due to this practice, the Bank was able to offset the negative effect stemming from Turkey's downgraded sovereign rating assigned by Fitch in January 2017 thanks to the positive effect arising under CAR.

The "Regulation Amending the Regulation for Banks' Liquidity Coverage Ratio Calculations" published on 15 August 2017 by the BRSA raised the weighted value of required reserves from 50% to 100%.

As per the "Law Amending Certain Taxation Laws and Some Other Laws" published in the Official Gazette dated 05 December 2017, a tax rate of 22% will be applied to corporate earnings of corporations pertaining to 2018, 2019 and 2020 taxation years. In addition, the said law exempts the monies collected in benefit as a result of forwards and options contracts from banking and insurance transaction tax as of 01 January 2018.

The BRSA decision dated 23 January 2017 modified the upper limit of total exposure of retail portfolios within the scope of the "Regulation on the Measurement and Evaluation of Capital Adequacy of Banks". Accordingly, the retail loan limit set by the BRSA as TL 3,725,000 on 20 December 2016 was modified as TL 4,200,000.

# AUDIT COMMITTEE'S ASSESSMENT

## OF THE ACTIVITIES OF INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS

In accordance with its duties arising from the legislation, the Audit Committee continued to review the effectiveness and adequacy of internal systems, the operation of accounting and reporting systems in line with the applicable regulations, and the integrity of the resulting information, and continued to verify whether the internal audit system encompassed the Bank's current and planned operations and the risks resulting therefrom upon review of internal audit plans. Within this scope, the Audit Committee regularly monitored and evaluated the activities of the internal systems during the course of the year. Furthermore, the Committee also fulfilled its functions of overseeing the activities of external audit company, appraisal firms and support service providers that are designated by the Board of Directors, as well as evaluating the relevant external audit results. Accordingly, the Audit Committee has met 5 times and inform the Board of Directors regarding the activities of the Committee, the assessments for the external audit firms, appraisal firms and support services providers, and other matters during 2017.

The Internal Audit Department conducted audit engagements over The Bank's head office units, regional offices, branches and consolidated subsidiaries by evaluating the effectiveness of the internal control and risk management

systems. Within audit works performed, process audits were carried out mainly on the basis of 11 different risk types:

- Business model risk audits,
- Internal governance environment and risk management audits,
- Capital risk audits,
- Credit risk audits,
- Market risk audits,
- Structural risks audits,
- Operational risk audits,
- Compliance risk audits,
- Technology risk audits,
- Extended enterprise risk audits.

In 2017, audit engagements were diversified through deeper and widespread specialization, more intensive use of technology, and the results that contribute to the Bank's processes have been achieved.

By following up suggestions made as a result of the audit engagements at the top management of the Bank, the Audit committee and the Board of Directors, it has been ensured that corrective actions were taken at the time scheduled by auditees.

By way of inquiries and investigations covered among the activities of the Internal Audit Department, fraud, swindling and counterfeiting activities were prevented or noticed and it has

been ensured that necessary actions were taken. Scenario studies for suspicion regarding possible internal fraud were carried on by remote and on-site activities within this frame.

Internal Control Unit continued to challenge all control activities that are performed by the business and support units. In this regard, second level control activities were conducted in branches and head office departments. The existence of internal control models which are structured in line with the three-line defense principle in all financial subsidiaries of the Bank is also ensured.

Reporting flows have been implemented and periodic follow-up studies continued for remedying the findings determined during the controls.

Compliance Department carried on the activities of management of the Bank's potential compliance risks and kept working towards identifying and preventing these risks before implementation. The Department kept overseeing and coordinating the compliance of the Bank's ongoing and future activities, new transactions and products with the Banking Law, applicable legislation, internal policies and guidelines, and banking practices. With the aim of reinforcing the Bank's consolidated compliance policy, the

Department supervised the compliance activities of overseas branches and consolidated subsidiaries, taking steps towards promoting compliance awareness and culture. As part of corporate compliance activities, a training video on important issues of Code of Conduct was assigned and the training documents of sales people were re-evaluated.

In addition, sub procedures were established regarding conflict of interest. Notifications received by the Garanti Whistleblowing Channel were evaluated, upon which results were presented to the Integrity Committee. Within the scope of securities compliance function related to investment transactions, examinations were carried out within the frame of the CMB's Communiqué on Obligation of Notification Regarding Insider Trading or Manipulation Crimes. Procedures were established regarding own-account trading and use of privileged information by the Bank employees who may have insider information or periodic information about capital market instruments or issuers, due to performing their jobs, professions and tasks. Within the scope of anti-money laundering (AML) and countering financing of terrorism strategy (CFT), studies were carried out in order to achieve alignment with national and international regulations. Through the existing monitoring programs and other initiatives by the compliance officer team, risk management, monitoring and control activities have been carried out efficiently. Classroom training sessions, regional office visits and web-based AML and CFT training programs offered throughout the Bank served to secure higher awareness and consciousness of the matter among the employees.

As part of Risk Management activities, Internal Capital and Operational Risk Department provided the necessary internal coordination for ensuring regulatory compliance and handled regulations. In accordance with the regulations published by the BRSA, ICAAP activities, which also covers stress tests, carried out in parallel to the budget process including the Parent Bank and affiliates. In scope of risk appetite framework, risk appetite core metrics for solvency and profitability and operational risk limits were reviewed and thresholds were calibrated, thresholds for by type of risk metrics were determined for the first time and submitted for approval of the Board of Directors. Necessary coordination for monthly risk appetite reporting to Risk Committee of the Board was continued and in this scope, solvency and profitability core metrics and operational risk limits were monitored and reported. Also Technical Rule of Risk Appetite Framework is established. Operational risk measurement and management tools were developed. New Business and Product Committee has been gathered and functioned in accordance with Charter and Procedure. Operational Risk, Control and Self-Assessment activities were carried out. Meetings and trainings were held and information was provided to the Bank's staff to enhance awareness of the Bank's employees regarding Operational Risk Management. Qualitative and quantitative validations were performed regarding internal models. Under Market Risk and Credit Risk Control Department; provisions collectively for loan portfolios pursuant to Turkish Accounting Standards (IAS 39) was reported monthly basis. Limits were set for loan growth in view of risk-return balance. Internal capital

requirements were calculated. Risk based calculation and budgeting in terms of economic capital and expected loss were studied. Risk database creation process was supported. Studies were conducted regarding improvement areas related to risk models and for remedying the identified shortcomings. Bank and market data were followed up regularly for monitoring and managing market, structural interest rate, structural exchange rate and liquidity risks. New asset and liability risk measurement tool was implemented. FX sensitivity of 12 month projected P&L was monitored. Internal metrics were monitored along with regulatory limits, potential and worst-case risks that may arise from economic circumstances were assessed by stress tests. Limits and alert levels were monitored to determine the risk exposure, and taken actions for necessary situations were followed up.

# RISK COMMITTEE'S ASSESSMENT

## OF RISK MANAGEMENT POLICIES, THEIR IMPLEMENTATION, AND MANAGEMENT OF VARIOUS RISKS THAT THE BANK MAY BE EXPOSED TO

Risk management activities are carried out in consideration of its risk management model which is oriented to maintain a moderate risk profile that allows to keep strong financial fundamentals in adverse environments preserving our strategic goals, an integral view of risks, and a portfolio diversification by asset class and client segment, focusing on keeping a long term relationship with our customers.

These activities are conducted within the risk based policies, approved by the Board of Directors, which handles the principles regarding the risks that Bank is exposed and its risk appetite framework. Rule and procedures are also established under these policies which completes the Bank's risk management framework.

Risk management performs its measurement, monitoring and reporting activities in line with its risk appetite framework, which sets out the risks and exposure levels that the Bank is willing to assume to reach its business goals. Within this framework, risk-based limits and metrics pertaining to liquidity, solvency and profitability are monitored and managed embracing both Bank and affiliates. Risk Management continuously seeks to develop its measurement, reporting and management tools, where risks are measured via advanced methods, reported to relevant committees and senior management in order to determine strategies and

take decisions, in a way considering compliance with local and international standards and practices.

Risk management also conducts ICAAP and ILAAP including stress tests, that is coordinated throughout the organization and carried out in parallel to the budget process, integrated with its risk appetite structure. These activities includes both quantitative and qualitative elements covering all material risks to which the Bank is or might be exposed. ICAAP fosters the assessment of not only Pillar 1 risks but also Pillar 2 risks, also ensures a forward looking and dynamic risk management.

Within the scope of its responsibilities, Risk Committee continued to monitor the evolution of the Bank's risk exposure, by type of risk, business line, product or customer segment and how these compare to the strategy and the risk appetite through the regular reporting channels during 2017. Besides, the Risk Committee reviewed and approved, as appropriate, Bank's risk appetite statement, risk metrics and risk based policies before their submission for approval to the Board of Directors. The Committee also involved in capital and liquidity planning processes by receiving and reviewing reports related to capital and liquidity planning including but not limited to ICAAP and ILAAP reports. Based on their scope, the affiliates are reviewed by the Committee in order

to foster a risk culture throughout the organization that guarantees the coherence of the risk management at all levels of the organization. Consequently, the Risk Committee held 11 meetings in 2017 in order to assist the Board in overseeing the Bank's enterprise risk management policies and practices, including the alignment with its strategic objectives and management's ability to assess and manage the various risks present in its activities, as well as capital adequacy and planning and liquidity adequacy.

# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

## SECTION I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Türkiye Garanti Bankası A.Ş. ("Garanti Bank" or "Garanti" or "the Bank") complies with the corporate governance principles set out by the banking legislation, capital market legislation as well as the Turkish Commercial Code and other related legislations. Garanti Bank pays maximum attention to implement these principles. The Bank accordingly updates its annual reports and website, making them available to its stakeholders. The shareholders can access comprehensive information, get information about the latest developments and activities from the regularly updated Garanti Bank Investor Relations website, and can address their questions to the Investor Relations Department and to the Subsidiaries and Shareholders Service.

As a result of Garanti's commitment to the corporate governance principles, information about the Bank's compliance with non-mandatory principles under the Corporate Governance Communiqué numbered II-17.1 is provided under the related headings of this report.

The Corporate Governance Committee was established in February 2013 pursuant to the Regulation on the Banks' Corporate Governance Principles

published by the Banking Regulation and Supervision Agency ("BRSA") and the Communiqué Serial: IV-56 on the Determination and Implementation of Corporate Governance Principles issued by the CMB, which was effective at the time. The Committee is responsible for overseeing compliance with the corporate governance principles and for ensuring that relevant improvement efforts are carried out in the Bank. In 2017, the Committee held 3 meetings with full participation of its members. The Board of Directors considered that the activities performed by the Corporate Governance Committee in 2017 were efficient, appropriate, adequate and compliant with the relevant legislation. The activities of the Corporate Governance Committee are presented in detail in the Committees section.

On the other hand, Garanti, during 2017, achieved compliance with all of the mandatory principles of the Corporate Governance Communiqué No. II-17.1.

Garanti Bank received its first corporate governance compliance rating score in 2014. The Bank received a corporate governance compliance rating score of 9.14 in 2014, 9.20 in 2015 and 9.27 in 2016 and 9.51 in 2017. Since the Bank's compliance scores are above the (7) Threshold Score, Garanti continues to be included in the Borsa Istanbul Corporate Governance Index.

Based on the review performed in 2017, JCR Eurasia Ratings (JCR Avrasya Derecelendirme A.Ş.) upgraded the Corporate Governance Principles compliance rating score of the Bank from 9.27 assigned on a scale of 10 on December 10, 2016 to 9.51 on December 11, 2017 and preserved the outlook as Positive.

The corporate governance compliance rating score comprises four main sections with different weights as per the CMB's regulations relevant to this topic. These four sections and Garanti's current scores are as follows: Shareholders (25% weight, scored 9.22/10), Public Disclosure and Transparency (25% weight, scored 9.40/10), Stakeholders (15% weight, scored 9.57/10), Board of Directors (35% weight, scored 9.66/10).

The upgraded score in 2017 stemmed from Public Disclosure and Transparency (raised from 9.25 to 9.40), Stakeholders (raised from 9.23 to 9.57) and Board of Directors (raised from 9.34 to 9.66) headings.

The upgrade in Public Disclosure and Transparency was a result of disclosures made to the American over-the-counter market and upgrade in Stakeholders section was a result of (i) activities conducted by the Integrity Committee established in 2016 along with the Code of Conduct Trainings provided for

Bank's personnel (ii) notable progress made in the resolution of complaints through successful customer complaints management and the increased quality of service provision.

The upgrade in the Board of Directors section, on the other hand, was driven by (i) ongoing technological investments in recent years and significant progress made with respect to digitalization, (ii) detailed compensation policy regarding the "key personnel" which consists of managers occupying important roles within the Bank and in accordance with this policy, the salary rises and rewarding for 2016 was made, (iii) re-structuring of the internal audit department and the rise in the effectiveness of the internal audit function.

In addition to those, the outlook was maintained at Positive for the Public Disclosure and Transparency section, for which the report provided the following ground: "The Bank plans to adopt the integrated reporting model which systematically includes all financial and non-financial information and documentation as a whole. As it is concluded that this plan will be put into practice, the outlook of the main section of Public Disclosure and Transparency has been assigned as "Positive".

In addition, the report provided the following remark regarding the outlook for the Stakeholders section: "the new technological branch designs and greater digitalization of services provided for customer will positively affect customer satisfaction.

## SECTION II - SHAREHOLDERS

### 2.1. INVESTOR RELATIONS DIVISION

Pursuant to Article 11 of the CMB Corporate Governance Communiqué No: II-17.1 published in the Official Gazette issue 28871 dated 03.01.2014, the Investor Relations Division that establishes communication between companies and investors needs to be set up, and it must directly report either to the company's general manager or assistant general manager or to another equivalent director with administrative responsibility. The head of the Investor Relations Division must hold "Capital Market Activities Advanced Level License" and "Corporate Governance Rating Expertise License"; he/she must be employed as a full-time manager in the company and be appointed as a member of the corporate governance committee. Accordingly, the functions of the Investor Relations Division at Garanti Bank are fulfilled by the Investor Relations Department and Tax Operations Management Department - Shareholders and Subsidiaries Service. As disclosed on the Public Disclosure Platform following the Corporate Governance Committee meeting held in October 2015, Handan Saygin, Director of Investor Relations, who possesses "Capital Market Activities Advanced Level License" and "Corporate Governance Rating Expertise License", has been designated as the Head of the Investor Relations Division and Member of the Corporate Governance Committee.

The Investor Relations Department manages the relations with foreign institutional investors/shareholders, investment firms and rating agencies. The Investor Relations Department is mainly responsible for:

- Managing relations between foreign/ domestic institutional investors/ shareholders and the Bank, consistently and proactively providing information, responding to their written and verbal queries,
- Participating in investor conferences organized in Turkey and abroad; organizing targeted road shows; making presentations about the corporate structure and financial statements,
- Managing relations between brokerage houses' banking sector analysts and the Bank, consistently and proactively providing information, responding to their written and verbal queries,
- Within the scope of public disclosure obligations regarding the depositary receipts trading in international markets, uploading corporate disclosures in English to the relevant platforms,
- Managing relations with international rating agencies and corporate governance rating agencies, responding to their written and verbal information requests,
- Handling the entire publishing process of the Bank's annual and interim reports, including printing and web-based processes, coordinating the compilation of the content in compliance with the related regulations,
- Managing the contents of Garanti Bank Investor Relations website and the iPad and Android tablet PC applications, making sure that the website covers all the points specified in the Corporate Governance Principles, and keeping the data provided up-to-date.



In addition to satisfying its key responsibilities, the Investor Relations Department, in 2017, performed the following in keeping with its proactive, transparent and consistent communication strategy:

- Attended 33 national and international investor conferences held in 15 cities in Asia, USA and Europe with the participation of the senior management, in addition to one-on-one meetings with 717 international investment funds, within this context, the CEO participated to 7 of these conferences,
- In 2017, Garanti share attracted USD 280 million worth of foreign investments, and Garanti share outperformed Borsa Istanbul Banking Index by 10%,
- Held due diligence meetings with 4 rating agencies, during these meetings facilitated fair representation and assured good understanding of the fundamentals to result in highest rating possible,
- Managed the corporate governance rating process conducted by JCR Eurasia Rating; the distinctive compliance score of 9.27 assigned to Garanti in 2016 was raised to 9.51 in the report issued on December 11, 2017; with these results Garanti remained within the Borsa Istanbul Corporate Governance Index,
- Collaborated and cooperated with the sustainability team, as a result of which Garanti continued to remain in the DJSI - Dow Jones Sustainability™ Emerging Markets Index in 2017 as the only bank from Turkey for third consecutive years,
- Focused on the needs of the entire investment community and offered constant access to current information through the bilingual Investor Relations (IR) and iPad and Android tablet PC applications developed in Turkish and English, which provide easy access to any information sought by investors anywhere in the world,
- Conducted four live webcasts/teleconferences regarding the results of financial statements and posted the podcasts on the Investor Relations website and the iPad and Android applications,
- Issued quarterly interim reports, sharing detailed information and data about Garanti,
- Collaborated with Garanti Technology (GT) and used its own internal resources for a worldwide live broadcast of the meeting for announcing the 2018 budget conducted in teleconference and webcast format, which brought together the CEO and analysts from investment firms. Following the meeting, the video cast including the entire Q&A session was made available on its website and iPad and Android applications in a transparent manner, giving access to all stakeholders,
- Issued the "StockWatch Quarterly" newsletter 4 times a year, which provides brief information on the Turkish economy, the banking industry, the equity market and the position of Garanti in the sector, as well as on the Bank's operations, and published "Corporate Profile" booklets, by mid-year and at year-end, by digitalizing the "StockWatch Quarterly" newsletter enabled easier access for the readers,
- Continued sending e-bulletins, commenced in 2016, which covers the answers to frequently asked questions and the latest developments regarding Personal Banking, Commercial Banking, SME Banking, Human Resources and Housing Finance, along with senior management reports, and continued to make this information available to all stakeholders on the Investor Relations website. This year, in addition to this practice, following its earnings announcement, a 2 minute video that summarizes the financials and the story of the quarter, with the presentation Head of Investor Relations Handan Saygin was added,
- Coordinated the work in relation to the questionnaire developed by the Ethical Values Association of Turkey (EDMER); as the result of these efforts, Garanti was honored with the "Most Ethical Company Award" in Ethic Awards of Turkey 2016 (ETİKA) for complying with more than two thirds of the criteria specified for various categories such as reputation management, corporate governance, corporate social responsibility, leadership, innovation, pioneering and compliance,
- Within the scope of Turkish Capital Markets Conference held in Istanbul, Head of Investor Relations Handan Saygin took place as a speaker at the "Valued Added by Investor Relations to Companies" panel,
- Our CEO Fuat Erbil participated to the panel entitled "Value Added by Investor Relations in the eyes of CEOs" at the TÜYİD Investor Relations Summit. 'Increasing strategic importance of Investor Relations', 'Positioning of investor relations within companies' and 'Re-coding Investor Relations in the presence of regulatory agencies' were discussed at the panel. Head of Investor

Relations Handan Saygın continued to represent the bank as a board member at the organization, and continued to support the organization which works towards best ways to present companies and markets to investors and deepening of capital markets in Turkey,

- Being the first institution from Turkey to carry out share issuance in overseas capital markets, Garanti, carried out an interview with OTC Markets Group. This exclusive interview that related to the story of Garanti's value creation and strategy has been announced on all social media accounts of OTC Markets where Garanti's depositary certificates are traded, and contributed significantly to increased awareness of these certificates,
- After joining The International Integrated Reporting Council (IIRC) Pilot Program in 2014, Garanti became an IIRC Business Network Member in 2015, and kept monitoring the international reporting trends closely. Garanti published its first integrated report in 2017 with the commitment to communicate its long term sustainable financial and non-financial value creation story.
- Ever since the 2015 incorporation phase of ERTA (Integrated Reporting Turkish Network), Garanti has been among ERTA Founding Members and Executive Board Members. Investor Relations and Sustainability teams took part in ERTA Executive Board meetings and represented Garanti throughout 2017. Garanti has contributed to promotion and implementation of integrated reporting in Turkey, working in collaboration with other Steering Committee members, headed

by Prof. Güler Aras and included representatives from leading establishments of Turkey such as Borsa Istanbul, TÜSİAD (Turkish Industry and Business Association), Business Council for Sustainable Development Turkey, Corporate Governance Association of Turkey, Global Compact Turkey, Çimsa and Argüden Governance Academy, Participated in the Gong Ceremony and Integrated Reporting Experience Sharing Meeting for Institutions preparing Integrated Reports,

- At the Integrated Thinking get together in Ankara, on creating value through Integrated Thinking and with a holistic approach, alongside the CEO of International Integrated Reporting Council Richard Howitt who attended as the guest of honor, leaders and academics shared their experiences of the Integrated Report journey,
- Investor Relations Department and Sustainability Team, after several years of Integrated Report work, released the 2017 Annual Report as an "Integrated Report", which combines financial data with social, managerial and environmental data and provides a more holistic approach to corporate strategy.

Garanti Bank operates a Shareholders and Subsidiaries Service under the Tax Operations Management Department to facilitate the follow-up of shareholder rights. The primary responsibilities of this unit are as follows:

- Prepare all necessary documents in relation to the General Shareholders' Meeting to be made available to shareholders for their information and review, and ensure that the General Shareholders' Meetings take place

in accordance with the applicable legislation, articles of association, and other internal regulations of the Bank,

- Facilitate profit distribution procedures as per Article 45 of the Articles of Association in case the General Assembly decides to distribute dividends to shareholders,
- Make sure that amendments to the Bank's Articles of Association are made in accordance with the applicable legislation,
- Handle the capital increase formalities of the Bank, and facilitate the exercise of bonus and rights offerings that result from the capital increase,
- Fulfill public disclosure obligations,
- Transmission of the bank information electronically signed to the union and the update of such information with the intermediacy of Turkish Capital Markets Association Member Administration System (UYS),
- Upload information and documents related to the Bank and to carry out periodical updates to the e-COMPANY, e-MANAGE information portals under Central Registry Agency (MKG A.Ş.) and Information Society Services link established in accordance with the regulation on websites to be opened by public companies,
- Manage correspondences between shareholders and the Bank in relation to shares and ensure that legal records of shares, which must be kept pursuant to applicable legislation, are kept properly, secure and up-to-date.

## INVESTOR RELATIONS DEPARTMENT

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## TAX OPERATIONS MANAGEMENT DEPARTMENT - SUBSIDIARIES AND SHAREHOLDERS SERVICE

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Aybike Tekinli	Associate	+90 212 318 94 99	AybikeT@garanti.com.tr

Fax: (212) 216 64 21-22

### 2.2. EXERCISE OF SHAREHOLDERS' RIGHT TO OBTAIN INFORMATION

News of any nature that might have an impact on exercising Shareholder rights, are disclosed as Material Event Disclosures via Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)) both in English and Turkish. The Subsidiaries and Shareholders Service responds to inquiries received from shareholders via

phone or e-mail regarding the general shareholders' meetings, capital increases, dividend distribution and share certificate procedures. In addition, during the current fiscal year, information requests by shareholders and third parties related to matters such as annual reports, the current status of shares they hold and the like are answered verbally and in writing.

The Investor Relations Department responds to questions received via phone and/or e-mail from existing and/or potential investors, bank analysts and rating agencies; in addition, the Department organizes one-on-one and/or group meetings and answers all questions about Garanti. Garanti has two investor relations websites, one in Turkish and the other in English.

The Investor Relations website in Turkish can be reached at:

[www.garantiyatirimciliskileri.com](http://www.garantiyatirimciliskileri.com)

The Investor Relations website in English can be reached at:

[www.garantiinvestorrelations.com](http://www.garantiinvestorrelations.com)

Garanti Investor Relations websites contain stock data, corporate information, periodically published financial statements and annual reports, information about corporate governance, sustainability and projects that add value to the society. These websites also give access to Material Event Disclosures pertaining to developments regarding Garanti Bank, which are disclosed to the public via the Public Disclosure Platform. The websites also respond to all sorts of user needs with the Investor Kit that contains basic, practical information and the Download Center function that covers all documents.

Allowing the users to follow up events and add them to their personal calendars with the IR Calendar function, the websites also feature Investor Calculator and the Interactive Share Chart function enabling comparative analyses between Garanti share and indices, local and international banks in different currencies.

The iPad and Android tablet PC applications of Garanti Investor Relations, offering access to latest information to users anywhere any time, includes a rich library which consists of annual reports, sustainability reports, financial reports, corporate presentations and periodic publications that can also be read offline. The application also sends notifications when new content is added.

The appointment of a special auditor has not been set forth as an individual right in the Articles of Association of the Bank and so far, no request regarding the appointment of a special auditor has been submitted to Garanti. On the other hand, as also stated on the Bank's website, pursuant to Article 438 of the Turkish Commercial Code No. 6102, shareholders have the right to request a special audit from the General Assembly of Shareholders, whether included in the agenda or not, in order to clarify certain aspects within the frame of exercising shareholders' rights, provided that shareholders making such request have previously exercised the right to obtain or review information as stipulated in the Turkish Commercial Code. If such a request is received, then the Bank takes maximum care for facilitating the exercise of such special audit right.

### 2.3. GENERAL SHAREHOLDERS' MEETINGS

During the fiscal year (01.01.2016-31.12.2016), Garanti Bank held its 2017 Ordinary General Shareholders' Meeting on March 30, 2017 and meeting quorum realized at 83.31%.

General Shareholders' Meeting is held in accordance with the resolutions adopted by the Board of Directors. Before the meeting, the meeting date, venue and agenda are announced to shareholders through the material event disclosure duly made via the Public Disclosure Platform in accordance with the general principles, as well as the announcements placed in the Turkish Trade Registry Gazette, e-General Meeting Electronic General Meeting System ([www.mkk.com.tr](http://www.mkk.com.tr)) and national newspapers. Balance sheets, income

statements and annual reports are prepared prior to the General Shareholders' Meeting and made available for review by shareholders within the timeframe determined in the applicable legislation on the), e-General Meeting Electronic General Meeting System ([www.mkk.com.tr](http://www.mkk.com.tr)) and Investor Relations website, at all branches and at Head Office of Garanti Bank. In General Shareholders' Meeting, agenda items are discussed and submitted for the shareholders' approval. Shareholders are entitled to ask questions, express their opinions and submit proposals regarding the agenda items. Questions are handled and answered in accordance with the regulations of the Capital Markets Board as well as the principles and procedures specified in the Turkish Commercial Code.

Proposals are submitted for approval at the General Shareholders' Meeting and become effective if approved by the specified majority. The meeting minutes and the list of attendants of the General Shareholders' Meeting are publicly disclosed via the Public Disclosure Platform (KAP), registered in Registry of Commerce and published in the Turkish Trade Registry Gazette.

Resolutions adopted in the General Shareholders' Meeting are carried out in accordance with the legal procedures within due time. Pursuant to the provisions of the Regulation on Electronic General Meeting at Joint Stock Companies and the Communiqué on Electronic General Meeting System Applicable at General Assemblies of Joint Stock Companies, attendance to the General Shareholders' Meeting by electronic means is permissible.

Furthermore, the minutes and the list of attendants of the General Shareholders' Meeting are available to shareholders on Garanti Bank Investor Relations websites and at the Subsidiaries and Shareholders Service.

Pursuant to applicable legislation, the minutes of the General Shareholders' Meeting is made available to shareholders on Garanti Bank Investor Relations website, in the Trade Registry Gazette, on the Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)), e-Company Information Portal ([www.mkk.com.tr](http://www.mkk.com.tr)), e-General Meeting Electronic General Meeting System ([www.mkk.com.tr](http://www.mkk.com.tr)). No media members participated in the General Shareholders' Meetings held in 2017. The Bank invites all stakeholders to General Shareholders' Meeting, who will be voiceless during such meetings.

At the 2016 Ordinary General Shareholders' Meeting held in 2017, one shareholder lodged a statement of opposition, demanding that the article concerning Profit Distribution in the Bank's Articles of Association should be modified, high cash dividends or bonus shares should be given out, and so on. In response, it has been explained that profit is being distributed in the ratio stipulated by the legal authorities and that the retained portion is being set aside as Extraordinary Reserves as per the applicable legislation.

On another front, the total amount of contributions and donations made by the Bank in the reporting period is TL 12,926,091. Based on its approach to add value to the society, the Bank makes donations and contributions mostly to persons, non-governmental

organizations, societies or foundations, public entities and organizations that work in the fields of education, culture, art, environment and sports. Donations can also be made to promote the Bank's corporate identity and to expand the coverage of banking activities.

Information regarding the amounts and beneficiaries of donations and contributions made by the Bank during the reporting period is provided to the shareholders under a dedicated agenda item during the General Shareholders' Meeting.

There were no transactions in the reporting period for which the decision was left to The General Assembly of Shareholders by reason of dissenting votes cast by the independent board members.

Amounts and beneficiaries of the donations made in 2017 are as follows:

BENEFICIARIES	AMOUNT TL
ÖĞRETMEN AKADEMİSİ VAKFI (TEACHERS ACADEMY FOUNDATION) *	3,505,000
UNIVERSITIES AND EDUCATIONAL INSTITUTIONS	2,232,440
İSTANBUL KÜLTÜR VE SANAT VAKFI (İSTANBUL FOUNDATION FOR CULTURE AND ARTS)	1,750,000
MINISTRY OF NATIONAL EDUCATION	1,500,000
OTHER FOUNDATIONS, SOCIETIES AND INSTITUTIONS	1,381,258
DOĞAL HAYATI KORUMA VAKFI (WORLD WILDLIFE FUND - TURKEY) *	765,120
AYHAN ŞAHENK VAKFI	736,800
TÜRKİYE EĞİTİM GÖNÜLLÜLERİ VAKFI (EDUCATIONAL VOLUNTEERS FOUNDATION OF TURKEY) *	544,481
VARIOUS PUBLIC INSTITUTIONS	510,992
TOTAL	12,926,091

\* already included in the Community Investments

## 2.4. VOTING RIGHTS AND MINORITY RIGHTS

Shareholders' voting rights and exercise of these rights are determined in Article 38 of Garanti Bank's Articles of Association. There are no privileged voting rights at the General Shareholders' Meetings of Garanti Bank. The Bank is not in a cross-shareholding relationship with any company, therefore no such votes were cast at the latest General Shareholders' Meeting.

Minority shares are not represented in the management. The Bank's Articles of Association do not set the minority rights to be less than one twentieth of the capital. On the other hand, as explained on the Bank's Investor Relations website, shareholders constituting at least one twentieth of the capital are entitled to request the Board of Directors to summon the general assembly for a meeting, by specifying the grounds therefor along with the agenda, which should both be put in writing, or if the general assembly is already scheduled to meet, then to request the addition of matters they wish to be decided to the agenda, under Article 411 of the Turkish Commercial Code No. 6102. As and when such a request is received, the Bank takes the utmost care for facilitating the exercise of minority rights.

## 2.5. DIVIDEND RIGHT

There are no privileges in dividend distribution. Details of dividend distribution are specified in Articles 45, 46, and 47 of the Articles of Association. In the past, the Bank has added its profit to its capital base and carried out dividend distribution in the form of bonus shares. In accordance with Article 46 of the Articles of Association, Garanti Bank submits dividend proposals for approval at the

General Shareholders' Meetings based on the decision of the Board of Directors. The proposals become effective if approved at the General Shareholders' Meeting and the resolutions are published via the Public Disclosure Platform on the same date. Following the resolution adopted regarding dividend distribution, the distribution procedures were completed and notifications were made to the public authorities within legal time periods.

The dividend distribution policy of the Bank was presented to the information of the shareholders at the Ordinary General Shareholders' Meeting held in 2013, and was publicly disclosed on the Bank's website.

The Bank's Dividend Distribution Policy is as follows:

"The details of our Bank's dividend distribution policy are specified in Articles 45, 46, and 47 of the Articles of Association. In this context, by taking into account our Bank's growth in accordance with its goals within the sector and its financial needs, the General Assembly is authorized to decide to distribute dividends in cash or to capitalize the profit and distribute the bonus shares to be issued by the Bank, or implement a combination of both methods, and execute the dividend distribution within the time period specified in the relevant legislation.

The Bank's dividend distribution policy stipulates distribution of up to 25% of the distributable profit in cash or as bonus shares upon the approval of the BRSA, provided that there is no unfavorable situation in the local and/or global economic conditions and provided further that the standard rates, which

are specified by the protective measures in the Banking Law No. 5411, are at the targeted level. Amounts retained from the profit for the period, which remain after legal reserves and funds that are obligatory to be saved by the Bank are set aside, are transferred to the Extraordinary Reserve Account.

In accordance with Article 46 of the Articles of Association, the dividend distribution proposals shall be submitted for approval of the General Assembly following a decision by the Board of Directors in this regard, by taking into account the Bank's operational performance, financial needs, growth target and the legal regulations governing the Bank.

The dividend distribution resolution becomes effective if and when adopted in the General Shareholders' Meeting, and resolutions are publicly disclosed via the Public Disclosure Platform on the same day."

On the other hand, at the Bank's Board of Directors' meeting held on January 31, 2018, it was resolved that the Dividend Policy of the Bank to be revised in order to comply with the requirements of the Communiqué On Dividends (II-19.1) issued by the Capital Markets Board of Turkey, to increase the distributable profit from 25% to 30% provided that the distribution being still subject to the approval of the competent authorities, and such revised Policy be submitted for the approval of the Bank's shareholders during the upcoming Ordinary General Shareholders Meeting.

At the General Shareholders' Meeting, it was resolved to distribute the profit for the year 2016, and dividend payments process initiated on April 24, 2017. The

following information has been provided to our Shareholders regarding the retained portion out of 2016 profit:

"After legal reserves and the funds that are obligatory to be saved by the Bank are set aside, the profit for the period retained after the profit is distributed upon the BRSA approval is allocated to Extraordinary Reserve Account in order to secure the Bank's continuous development and preserve its solid capitalization, to maintain the Bank's capability to make dividend distributions uninterruptedly, to ensure higher and consistent dividend distribution in the long term, and to be used for the Bank's operations and general operating expenses."

## 2.6. TRANSFER OF SHARES

The Articles of Association of Garanti Bank do not contain any provisions that restrict the transfer of shares. Shares are transferred in accordance with the Bank's Articles of Association and applicable legislation including the Banking Law.

## SECTION III – PUBLIC DISCLOSURE AND TRANSPARENCY

### 3.1. COMPANY WEBSITE AND ITS CONTENT

Garanti has two websites, one in Turkish and the other in English.

The Turkish website is accessible at:  
[www.garanti.com.tr](http://www.garanti.com.tr)

The English website is accessible at:  
[www.garantibank.com](http://www.garantibank.com)

Both [garanti.com.tr](http://garanti.com.tr) and [m.garanti.com.tr](http://m.garanti.com.tr) websites offer bilingual service in English and Turkish, and enable online banking

transactions through Garanti Internet banking branch. The website contains detailed information on products and services offered in banking, credit cards, investment, insurance, leasing, factoring, pension. Both websites provide duly categorized and easy-to-understand contents in order to respond to customer needs easily and quickly. Contents of websites are designed to cater to the needs and demands of SME and commercial target audiences and are constantly updated according to end-users' needs.

The mobile site is designed so as to provide product and service information to personal customers and let them forward their applications in the fastest manner through their mobile devices. Both websites offer quick application option both for the Bank's customers and non-customers by means of easy-to-use forms.

Calculators enable detailed calculations in relation to products such as loans and e-Savings Accounts.

The visitors of the website can easily compare the products under different categories and find the answer to any question in the "Help & Advice" section. The Quick Payments tab allows rapid execution of payments such as bill payments, Motor Vehicle Tax, traffic ticket payments, GSM TL top-ups and apply for the Advantageous Casco. Garanti Internet Banking facilitates fast and practical execution of more than 500 banking transactions by the Bank's personal and corporate customers. Our customers are able to access the products they need, instantly check their financial status, and view their income/expenses and cash flows.

All other information about Garanti Bank and stock in line with the needs of stakeholders, which need to be covered in websites pursuant to Corporate Governance Principles, is provided in detail both in Turkish and in English on Garanti Bank Investor Relations websites.

The investor relations website in Turkish is accessible at:  
[www.garantiyatirimciiliskileri.com](http://www.garantiyatirimciiliskileri.com)

The investor relations website in English is accessible at:  
[www.garantiinvestorrelations.com](http://www.garantiinvestorrelations.com)

The contents of the Investor Relations websites prepared in Turkish and English go beyond the matters that companies are required to present on their websites pursuant to the Turkish Commercial Code and associated regulations, the CMB's regulations concerning Corporate Governance Principles and other capital markets legislation and other regulations in effect; these websites feature up-to-date corporate information, credit ratings, key financial indicators for the Turkish banking industry and for Garanti, the position of Garanti in the sector, Management Interviews, detailed information about Garanti shares (listing information, quotation, lists of analysts, stock analysis tools (price, volume, index and comparative analysis), periodic financial statements drawn up in accordance with international accounting standards and the BRSA regulations, reports and presentations prepared for investors, annual reports, sustainability reports, Operating Plan Guidance covering forward-looking financial projections, quarterly interim reports for investors, "StockWatch" bulletin, semi-annually published Corporate Profile bulletin; detailed information on

corporate governance including Garanti Bank's management, organizational structure, committees, Code of Conduct, Declaration of Human Rights, Disclosure, Dividend Distribution, Human Resources, Donations and Contributions, Compensation, Employee Compensation, Sustainability, Environment, and Environmental and Social Loan Policies, and Climate Change Position Statement and Action Plan; material event disclosures, capital increases, dividend ratios, Bylaws on Principles and Procedures of General Assembly, and detailed information regarding Ordinary General Shareholders' Meetings.

The shareholding structure currently posted on the Bank's Investor Relations website shows that Banco Bilbao Vizcaya Argentaria S.A. (BBVA) holds 49.85% of the Bank's shares. Its shares publicly traded in Turkey and its depositary receipts traded in the UK and the USA, Garanti had an actual free float of 50.07% in Borsa Istanbul as of December 31, 2017, and there is no ultimate non-corporate controlling shareholder holding more than 5% share in the shareholding structure.

The corporate website is organized to give all stakeholders quick and easy access to information. The information published on the website is updated regularly. Also, historical information is stored in a systematic order to allow users to make comparisons. Importance is given to efforts to improve the website and daily updates guarantee access to accurate and reliable information via the corporate website. The security of the website is assured by Garanti Bank.

The Investor Relations Department and Subsidiaries and Shareholders Service respond to questions, comments and

information requests of all stakeholders within the shortest time possible. Postal addresses, telephone and facsimile numbers and e-mail addresses of these units are available to all stakeholders in the Bank's Investor Relations websites in Turkish and English. The Investor Relations Department announces the international conferences and meetings it will participate in via the "Investor Relations Calendar" on its websites and iPad and Android applications. In addition, answers regarding Garanti Bank, its stock, borrowing instruments, financial statements, corporate governance and sustainability are provided in the Frequently Asked Questions section on the website.

### 3.2. ANNUAL REPORTS

Annual reports of the Bank contain the information required by the CMB's regulations concerning Corporate Governance Principles and other capital market legislation and regulations in effect. Garanti considers transparency not just as an obligation but puts it at the heart of its communication with all of its stakeholders; hence, the Bank does not restrict its annual reports to alignment with regulatory requirements. Playing a central role in Garanti's communication with its stakeholders, annual reports stand out as the Bank's most comprehensive publication that conveys Garanti's process of sustainable value creation for all of its stakeholders, and are recognized with multiple awards on the international platforms every year for the clarity and power of its messages.

## SECTION IV – STAKEHOLDERS

### 4.1. INFORMING STAKEHOLDERS

Stakeholders are kept informed regularly through meetings, material event

disclosures sent to the Public Disclosure Platform, press releases, newspaper announcements, annual reports, news and disclosures on the corporate website, Investor Relations websites, and Android and iPad tablet PC applications, as well as internal announcements. In keeping with the principle of strict adherence to Garanti's essential values of trust, integrity, accountability and transparency, easy access to current information is ensured through the Investor Relations website and the Android and iPad tablet PC applications, which contain detailed information on matters that the stakeholders need to be informed about. Moreover, the Investor Relations Department holds comprehensive meetings with investors to share the latest developments, the competitive environment and market expectations, analyses and strategy, in an effort to establish plain, transparent, consistent and timely communication.

In order to ensure accurate and reliable information flow, the Investor Relations Department prepares presentations on quarterly financial statements; the Department shares these presentations with the stakeholders through its website and Android and iPad tablet PC applications, and responds to questions during live webcasts/teleconferences, the podcasts of which are subsequently posted on these public channels. The Department regularly attends investor meetings organized by investment firms, where it communicates recent information about Garanti and the sector. The Department also responds to questions and inquiries by phone or e-mail on a daily basis. All units of the Bank efficiently respond to customers' any information requests and demands about Garanti's services and products.



Created for the purpose of informing the employees, the corporate portal covers all relevant procedures, announcements and notices; this information can be accessed instantly and efficiently using different means. In addition, at Visionary Meetings held at the beginning of every year, Garanti CEO shares the past year's assessment and the next year's targets with the employees.

An e-mail account and a phone line have been allocated for stakeholders so that they can convey any act or situation that contradicts with the legislation or that is unethical. Compliance Department is responsible for managing the above mentioned "Whistleblowing Channel", which is described in detail in the Garanti Code of Conduct document. The Code of Conduct document is accessible by the entire personnel on the corporate portal, and is also made available to all other stakeholders on the Bank's Investor Relations website. Reporting to the Board of Directors, the Compliance Department carefully evaluates all notifications received in the shortest time possible, and ensures that all notifications are examined, referred to related parties and resolved. Such notifications are analyzed on the principles of objectivity, impartiality and confidentiality.

#### 4.2. STAKEHOLDER PARTICIPATION IN MANAGEMENT

Garanti Bank, taking all stakeholders into consideration, aims to improve product and service quality and to achieve internal and external customer satisfaction. To this end, the Bank designs all of its systems to allow continuous improvement. The stakeholders can participate in management through specially designed systems and meetings.

In addition to responding to customer inquiries, the "Customer Careline" set up under the Customer Satisfaction Department receives customers' suggestions and handles their complaints. Garanti provides its customers with the means to communicate their demands, complaints, and ideas and suggestions about management any time through the Garanti website or the Call Center at 444 0 338. The experienced Customer Satisfaction and Social Platforms Management teams offer service 24/7 also through social media from the Garanti Facebook page and Twitter GarantiyeSor (Ask Garanti) account to give support and respond to questions in the fastest manner. In case of violation of the customers' rights protected by regulations and contracts, the Bank provides efficient and fast remedy and facilitates the use of loss indemnification mechanisms by customers who have incurred any loss.

At Garanti Bank, employee suggestions regarding products, services and processes are taken into account and used for improving the efficiency of internal operations. Employee comments are used as input for constant improvement, which are communicated by means of the "Önersen" (You Suggest) platform whereby employees share their ideas and suggestions. In use since 2007, the suggestion platform "Önersen" collected 1.313 suggestions in 2017 and reached over 22.000 suggestions since 2007 to date. Besides the "Önersen" platform, the employees are able to share their suggestions and comments on any topic through the "Ask/Share" section under the new intranet portal launched in 2016. Employee suggestions are taken into consideration by the relevant units and business processes are revised as necessary.

#### 4.3. HUMAN RESOURCES POLICY

The pillar of Garanti's approach to human resources is investing in human capital. Recognizing that human capital is the driving force behind all progress, the Bank builds systems to recruit, train and develop young and innovative individuals on a continuous basis, to provide a working environment that encourages full utilization of employees' skills, offers a wide range of opportunities and ensures recognition and awarding of their accomplishments.

The human resources policy of Garanti can be summarized as giving priority and importance to the human, ensuring continuous investment, deploying sufficient resources for training, giving priority to promoting from within, implementing programs for this purpose, developing human resources systems, maximizing participation by leading an environment of open communication, displaying a fair and objective attitude, and developing practices at international standards. In this frame, the mission of the Human Resources Department is to play a strategic role by implementing efficient HR policies to assist the organization in achieving its business objectives. Accordingly, the Department operates in accordance with Garanti's ethical values and with the "equality principle" (the Bank and our employees observe fair treatment in business relations regardless of language, race, gender, political ideology, philosophical belief, religion, sect and the like, sexual orientation, family responsibilities, disabilities, age, medical conditions, and union membership. The Bank and our employees respect human rights.) The Department is aware of Garanti Bank's business goals, and closely cooperates with business lines and those in the field.

In addition, the Department employs various objective, competency-based measurement and evaluation tools

and methods specific to each position in order to match the right person with the right job. The Department develops human resources applications in accordance with the Bank's strategies, makes efforts to improve employee motivation, creates open communication forums that allow employees to express themselves freely, provides "career consulting" for employees in line with their competencies, knowledge, skills, needs and expectations, and ensures that employees receive proper training for personal development.

Standard criteria (experience, seniority, performance, competency evaluation, tests, interview, etc.) are established for all internal promotions and transfers between positions. They are transparently announced throughout the Bank via career maps, while employees are guided and supported in line with their chosen career path.

The compensation system of the Bank is built on job-based remuneration; employees who are employed in similar jobs receive similar compensation. Jobs are evaluated according to objective criteria such as required competency, the risk involved and the number of employees supervised. The Bank's compensation policy established within this framework has been approved by the Board of Directors and has been presented for the information of shareholders at the Ordinary General Shareholders' Meeting held in 2013 pursuant to the CMB Communiqué Serial: IV-56 on the Determination and Implementation of Corporate Governance

Principles, which was in force in 2013. On the other hand, the compensation policy has been revised by the Board of Directors' resolution dated December 7, 2017 both in accordance with the Banking Regulation and Supervision Agency Guideline on Good Compensation in Banks and the amendments to the salary adjustment schedule and variable payments applications. Presently, the policy is available to the public on the Bank's website pursuant to corporate governance principles.

The performance evaluation system at Garanti measures employee performance depending on objectives and the extent of their attainment. Systematic bonus and performance models are major and effective management tools for achieving cost management and efficiency, while ensuring fairness among the employees. In this context, besides the figures targeted by the Bank, criteria such as customer satisfaction, service quality and efficient management of human resources are among the basic factors affecting the performance-based remuneration. Garanti monitors the competitiveness of its salaries through annual survey of salary levels in the sector. Job descriptions, performance criteria and bonus system criteria of all positions in the Bank are announced transparently to all employees via the Intranet.

The portion of 13.03% of the total personnel expenses figure for the benefits provided in 2017 to the Bank's employees including the Board members and senior management in the financial statements results from the performance-based bonuses of all employees and variable salary payments.

The first and only Turkish company to bring "Gold Accreditation" by the IIP (Investors in People) to Turkey twice, Garanti once again proved that its primary focus in any activity is on its human resource, i.e. its most valuable asset, and firmly established that it leads the sector with its innovative practices in this area. These awards endorse Garanti's commitment to preserving the standards of its HR implementations while sustaining growth. Maintaining its stable growth in every field, Garanti will keep investing in its human resource and carry on with its world-class implementations based on its "people-oriented" management concept.

In relation to its Occupational Health and Safety (OHS) efforts, Garanti repositioned its OHS team set up under the Human Resources Department in 2013 as the OHS Section in 2015. The related activities are carried out across the country with a team of 41 people covering Occupational Safety Experts, On-Site Physicians and On-Site Nurses. Authoring a first among financial service institutions of a similar size in Turkey, Garanti launched the OHS software in all of its locations. The Bank uses the platform to keep track of various activities including risk assessment, health monitoring, training programs, OHS Committees, near misses, work place accidents, review of occupational illness processes, and coordination and control of countermeasures. Going well beyond the requirements brought by the national legislation in its Occupational Health and Safety practices and activities, Garanti initiated work in relation to OHSAS 45001 Occupational Health and Safety Management System that will replace OHSAS 18001, and these efforts are intended to enhance employee and stakeholder satisfaction and well-being.

Any developments or decisions concerning the employees are conveyed either to the concerned employee via private communication tools or to all employees via the Intranet.

#### 4.4. ETHICAL RULES AND SOCIAL RESPONSIBILITY

Sense of corporate responsibility is an integral part of the corporate culture of Garanti. Garanti molds its societal investments, as well as its banking activities, around social, economic and environmental factors, which are components of sustainability. Besides sharing its knowledge in various fields with the society and future generations, Garanti continues to add value to cultural and social life through its innovative institutions and with its support to Turkey's deep-seated establishments. Garanti aims to regularly measure the benefits it contributes to the society and its impact upon it through social impact analysis to be conducted by an independent research company, the findings from which will then be used for improvement efforts. Garanti focuses on contributing to the society in cultural and educational arenas. While determining its future strategy, Garanti keeps a close eye on the needs of our country and society, and aims at introducing or supporting value adding and sustainable projects. When devising its future strategies, Garanti aims to progress within the frame of the needs of the society and its stakeholders, which the Bank identifies with the help of a Materiality Analysis conducted by an independent research company.

In line with the Bank's commitment to corporate governance principles and ethical values, Garanti Code of Conduct, which was prepared in view of the requirements of today's working life, was

approved by the Board of Directors and entered into force in 2015. Garanti Code of Conduct document is also made public on the Investor Relations website.

Garanti Code of Conduct document defines employees' responsibilities to customers, colleagues, business and the society. Conduct towards customers concentrates on the principles of transparency, non-discrimination and accountability. Conduct towards colleagues addresses team values, respectful working environment, objectivity and occupational health. Conduct towards business basically deals with preventing conflicts of interest, confidentiality, data protection, media relations, retention of records and investment transactions. Conduct in society is addressed under the headings of anti-money laundering and anti-corruption, commitment in relation to human rights and the environment, investment in society and political neutrality.

Garanti firmly believes that the total quality concept can be realized only through strict adherence to an HR policy, code of conduct and ethical values that are erected upon integrity, honesty and respect. In addition to the Garanti Code of Conduct document, Ethical Sales Principles, Social Media Policy, Anti-Fraud Policy and Compliance Policy documents are posted on the Intranet that is available to all employees. Current announcements have been published in relation to Garanti Code of Conduct and Ethical Sales Principles documents. In addition, Garanti has compiled its principles and values in a handbook titled the Customer Satisfaction Constitution in accordance with its customer-centric approach, which is available to all employees and customers.

Handbook of Ethical Sales Principles emphasizes the "reputation" concept as the Bank's greatest asset, and details the expected code of ethical conduct for employees during sales activities. Social Media Policy sets forth the rules as to how the Bank's employees will represent Garanti on social media. Anti-Fraud Policy is intended to create awareness against any act of misconduct across the Bank and to improve honest and reliable working environment conditions.

Garanti Bank's policies relating to the core components of the compliance system are documented in the "Compliance Policy".

Compliance Policy emphasizes the compliance risk and reputation risk concepts, and underlines that employees are expected to comply with the laws, Garanti Code of Conduct and corporate standards in their behaviors. The Policy defines the concept of integrity and lists the basic tasks and responsibilities within the compliance system.

In this context, it is emphasized that compliance is not the responsibility of senior executives or certain business units only, but of each employee.

Garanti attaches particular importance to ethical and integrity principles, and aims to maintain constant awareness of the issue through trainings for all employees.

## SECTION V – BOARD OF DIRECTORS

### 5.1. STRUCTURE AND FORMATION OF THE BOARD OF DIRECTORS

Süleyman Sözen is the Chairman of the Board of Directors. The Chairman has no

executive functions and the executive member of the Board is Chief Executive Officer Ali Fuat Erbil.

CMB requirements regarding Corporate Governance Principles stipulate that minimum three independent members must serve on the boards of directors of banks. Since the Board members assigned as members of the Audit Committee are deemed as independent Board members according to these requirements, Javier Bernal Dionis, who currently serves as the Head of the Audit Committee, and Jorge Saenz-Azcunaga Carranza, Audit Committee member, are independent Board members.

Résumés, terms of office and positions of the Board members are presented on pages 103, 104, 105 and 106 of the Annual Report. The positions held by the Bank's Board members in and out of the Group are stated in their résumés.

At the Ordinary General Shareholders' Meeting held in 2015, Garanti elected Sema Yurdum as the third independent Board member, who satisfies all the independence criteria announced by the Capital Markets Board. The Corporate Governance Committee report dated February 02, 2015, establishing that Sema Yurdum satisfies the independence criteria, has been submitted to the Board of Directors, which has resolved to file a notification with the CMB regarding the nomination of Sema Yurdum as an independent Board member.

Quoted below is the declaration of independence by Sema Yurdum, who was elected as an independent Board member at the Ordinary General Shareholders' Meeting held in 2015.

"To: Türkiye Garanti Bankası A.Ş. Corporate Governance Committee,

I hereby declare that I currently serve as an "independent member" on the Bank's Board of Directors pursuant to the provisions of the Communiqué Serial: II-17.1 on Corporate Governance Principles issued by the Capital Markets Board of Turkey, and that I stand for the same position once again as my term of office ends on the date of the first General Shareholders' Meeting to be held in 2015. In this context, I hereby declare as follows:

a) I have not held a seat on the Bank's Board of Directors for more than six years in the past ten years,

b) Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, or individually or jointly held more than 5% of the capital or voting rights or privileged shares, or established any commercial interest of a significant nature, with any corporate entity with which the Bank, any company in which the Bank has management control or significant influence, or any shareholder having management control or significant influence over the Bank or any corporate entity in which these shareholders have management control,

c) I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for or served as a member on the boards of directors of any company from/to which, under

a contract, the Bank purchased/sold services or products of material quantity

during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Bank, in the past five years,

d) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member,

e) I am not a full-time employee of public institutions and establishments as at the date of nomination,

f) I am considered to be a resident of Turkey as for the purposes of the Income Tax Law,

g) I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Bank's operations, maintaining my independence in possible conflicts of interest between the Bank's shareholders, and making decisions freely taking into consideration the rights of stakeholders,

h) I am capable of dedicating sufficient amount of time to be able to follow up the execution of the Bank's affairs and to fully meet the requirements of the duties I undertake,

i) I am not serving as an independent board member in any company which is controlled by the Bank or by shareholders having management control over the Bank,

j) I will be serving on the Bank's Board of Directors as a real person and in this

context, I have not been registered and promulgated in the name of any corporate entity elected as a board member."

On the other hand, no circumstances arose in 2017 fiscal year, which prejudiced the independence of independent Board members.

The Board of Directors of Garanti Bank is formed of 11 members, and the number of women members was 1 during 2017.

Pursuant to Article 396 of the Turkish Commercial Code, the General Assembly authorized the members of the Board of Directors of Garanti Bank to execute a transaction of a commercial business nature that falls under the Bank's field of operation on their own or other's behalf or to become a partner with unlimited liability in a company engaged in the same kind of commercial affairs, during the reporting period.

## 5.2. OPERATING PRINCIPLES OF THE BOARD OF DIRECTORS

The Board of Directors meeting agenda mainly consists of matters requested to be addressed by the Chief Executive Officer and any additional matters requested to be added to the agenda by any Board member.

The Board of Directors must convene as and when necessitated by the Bank's affairs and transactions, but at least once a month. Pursuant to the Articles of Association of the Bank, the Board of Directors meets with the attendance of seven members minimum and resolutions of the Board of Directors are taken by affirmative votes of at least

seven members present in the meeting.

In 2017, the Board of Directors met 16 times by satisfying the required quorums for meeting and decision.

A Corporate Secretariat position has been set up to facilitate communication between the members of Board of Directors and the Head Office.

Discussions at the meetings of the Board of Directors are recorded in the minutes and signed by the attending members.

Naturally, the Board members may express different opinions and comments, and cast dissenting votes at Board meetings. Reasons for dissenting votes on issues about which different views are expressed during any Board meeting are recorded in the minutes and signed by the member(s) who cast the dissenting vote(s). Each member of the Board of Directors has one vote and the members do not have any privileged voting right and/or vetoing right.

The bank has Directors and Officers Liability Insurance policy with a limit of EUR 100 million for the individual liabilities of the managers and board members in course of their management duties. The bank also has a Professional Indemnity policy in place with a limit of USD 50 million liability for civil liability attributable to the bank for claims made to the bank by third parties for damages which arise out of the provision (or failure to provide) of Professional Services by or on behalf of the Bank.

In addition to these policies, the bank has a cyber risk data protection insurance policy with USD 27,935,000 limit of liability which covers business interruption losses

and third party claims following a privacy breach arising out of a cyber-attack.

As of December 31, 2017, the total amount of operating income generated by the parent bank and its consolidated financial affiliates ("the Group") on related party transactions is approximately 1% of the Group's total operating income. In addition, the total of investments in affiliates and associates and related party cash and non-cash loans and other receivables is less than 14% of the Group's consolidated regulatory capital used for the calculation of legal limits, and the total of cash portions of such risks is less than 1.5% of total consolidated assets in the financial statements prepared in accordance with the Turkish Financial Reporting Standards and the explanations provided by the BRSA as of the same date.

## 5.3. NUMBER, STRUCTURES AND INDEPENDENCE OF THE COMMITTEES UNDER THE BOARD OF DIRECTORS

In line with its commitment to corporate governance principles, Garanti established the Audit Committee to assist the Board of Directors in its audit and supervision activities and to more effectively protect the interests of the Bank and the investors, although there was no legal regulation in force at the time. The Committee has been active since 2001, with the primary and ultimate responsibility resting with the Board of Directors. The duties and responsibilities of the Committee are fully aligned with the Banking Law and the relevant regulations. In 2017, the Audit Committee met 5 times to discuss the routine agenda and made decisions about various topics which were brought to agenda.

The Internal Audit Department performs systematic audits that cover all activities and units of Garanti Bank in accordance with applicable legislation, especially the Banking Law, and the Bank’s bylaws. These audits are performed separately from day-to-day activities and they mainly focus on internal control and risk management systems. In this context, audit is conducted at domestic and overseas branches of Garanti Bank, at the Head Office units and consolidated subsidiaries.

Pursuant to the Regulation on the Banks’ Corporate Governance Principles published by the BRSA and the CMB’s requirements in relation to Corporate Governance Principles, a Corporate Governance Committee has also been established to oversee compliance with corporate governance principles, undertake improvement efforts in this area, nominate independent members to be appointed to the Board of Directors, and submit proposals to the Board of Directors. The Corporate Governance Committee held 3 meetings in 2017, which were attended by all committee members.

Moreover, a Credit Committee functions under the Board of Directors, to which a certain amount of credit allocation authorities has been transferred. In 2017, the Credit Committee held 28 meetings with the required quorum.

The Remuneration Committee operates to review and implement the Bank’s compensation policies. In 2017, the Committee held 1 meeting.

The committees mentioned above carried out their activities efficiently and in total alignment with the applicable legislation during the reporting period.

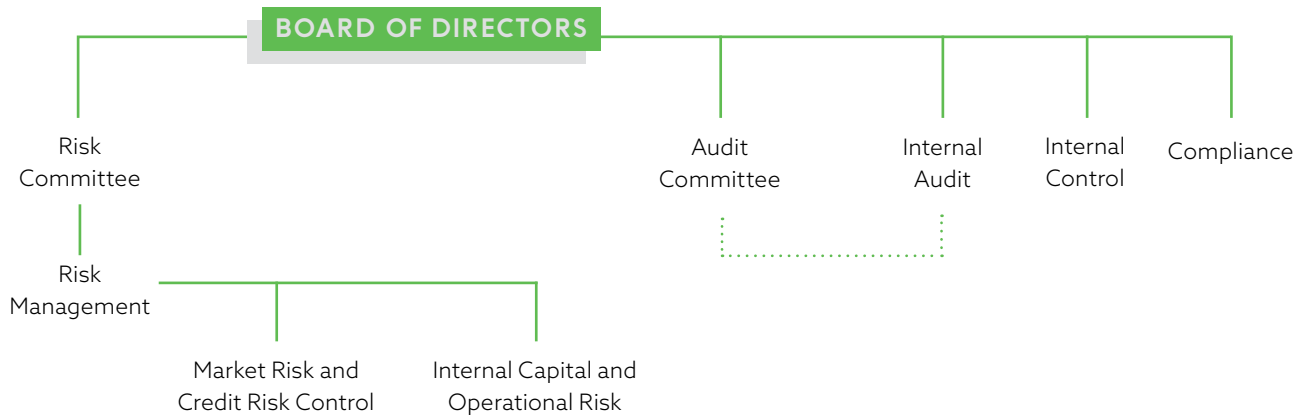
Detailed information regarding the formation and operation of the Audit Committee, Corporate Governance Committee, Credit Committee and Remuneration Committee is provided in the Committees and Committee Meetings Attendance section of this report. In view of the number of the Bank’s Board members, members of the Board of Directors can serve on more than one committee.

On the other hand, a Risk Committee reporting directly to the Board of Directors operates to assist the Board of Directors in verifying that corporate risk management policy and practices are in line with the Bank’s strategies and the legislation, and overseeing management and assessment capabilities relating to various types of risks including capital adequacy, planning and liquidity adequacy. The Risk Committee held 11 meetings in 2017.

Detailed information regarding the formation and operation of all committees operating in the Bank is provided in the Committees and Committee Meetings Attendance section of this report.

5.4. RISK MANAGEMENT AND INTERNAL CONTROL MECHANISM

The Board of Directors is ultimately responsible for developing and monitoring the Bank’s risk management, internal control, internal audit and compliance policies and strategies. Accordingly, Risk Management, performing risk management functions, reports to



the Board of Directors via the Risk Committee, whereas the Internal Audit Department, performing internal audit functions, the Internal Control Center, performing internal control functions, and the Compliance Department, which implements compliance controls and performs activities to prevent laundering proceeds of crime, and financing of terrorism, report directly to the Board of Directors.

Risk Management ensures that; risk management culture is recognized and risk management principles are widely embraced throughout the Bank and its affiliates, an integrated risk management system is established which pursues risk-return-capital relationship, which measures all risks together and which is in compliance with applicable legislation, Bank strategies and policies and where limits determined in connection with the risk appetite approved by the Board of Directors are not breached; defines, measures, monitors and reports risks and ensures that all control activities are conducted thoroughly and timely; monitors and supervises results.

The Internal Control Unit ensures the establishment and coordination of a sound internal control environment in Garanti, and also makes sure that the Bank's activities are performed efficiently, effectively and in line with the management strategy and policies of the Bank, as well as with applicable rules and regulations.

Within the applied internal control model which is structured according to three line of defense principles, necessary control activities have been identified by taking the relevant risks into consideration by

the first line of defense teams in the business units. A process in which the results of control activities are reported from business units to the relevant second line of defense functions has been constituted. In this model, Internal Control Unit ensures the proper execution of control activities performed within the Bank by implementing a common methodology.

In 2017, Internal Control Unit carried out controls within branches (including branches abroad) and regional directorates, using the onsite control methods. Regarding the head office departments; the related control activities which are conducted within the business/support units are monitored and challenged in order to ensure that those control activities are performed in timely and accurately. Information Technology Controls team within the Internal Control Unit monitored that information technology activities were conducted securely and within the rules set by the bank.

The Internal Audit Department performs systematic audits that cover all activities and units of Garanti Bank in accordance with applicable legislation, especially the Banking Law, and the Bank's bylaws. These audits are performed separately from day-to-day activities and they mainly focus on internal control and risk management systems. In this context, audit is conducted at domestic and overseas branches of Garanti Bank, at the Head Office units and consolidated subsidiaries.

Working with the purposes of managing potential compliance risks of the Bank and of identifying and preventing these risks

before implementation, the Compliance Department aims to establish a world-class compliance culture across the Bank. Compliance Officer Team carries out necessary efforts to achieve compliance with the regulations issued to prevent laundering proceeds of crime and combating the financing of terrorism, and provides communication and coordination with the Financial Crimes Investigation Board. In terms of customer compliance activities, compliance controls are implemented in accordance with the applicable legislation, and opinions are formed prior to introduction of new products and transactions. With respect to corporate compliance activities, Compliance Department is responsible for helping resolve any doubts that may arise during the interpretation of the Garanti Code of Conduct document, and managing the Whistleblowing Channel. With respect to securities compliance activities, suspicious transactions are examined within the scope of the Capital Markets Board legislation. Within the context of subsidiaries' coordination activities, compliance activities of the Bank's subsidiaries and branches abroad are monitored.

Adopting an "enterprise external fraud prevention" approach within the framework of customer protection principles, Anti-Fraud Monitoring Department centrally monitors issuing, acquiring, online/telephone banking, demand deposit account transactions and consumer loan/credit card applications carried out through any branch or non-branch channel by Garanti Bank customers. Within the scope of monitoring and controlling operational risks that Garanti is exposed to, Anti-

Fraud Monitoring Department is charged with the development of strategies to proactively monitor, detect, control and prevent acts of external fraud. Real-time and/or online actions are taken immediately to stop fraudulent activities and anti-fraud strategies are updated accordingly against changing fraud trends. In addition to minimizing the fraud losses of the Bank and customers, its primary goals are to prevent possible reputational and/or financial risks that may result from acts of fraud considering customer experience.

The department continuously works in coordination with the internal and external stakeholders with a proactive approach and contributes in raising public awareness with internal and external training activities for prevention of fraud attempts.

### 5.5. STRATEGIC GOALS OF THE COMPANY

The purpose of Garanti is "to bring the age of opportunity to everyone", Garanti employees place their customers at the core of their whole operations, think big and collaborate as one-team.

Customers, employees and its business model are the main pillars of Garanti's strategy. With the principle of always approaching its customers in a "transparent", "clear" and "responsible" manner, Garanti's goal is to continuously improve customer experience by providing products and services tailored to their needs, and focus on training competent and well equipped bankers dedicated to continuous development. Garanti constantly evaluates and develops its efficient business model focused on effectiveness and productivity with its

omni-channel approach from branches to digital channels to be compatible with the innovations of the era. Garanti aims to achieve sustainable growth by creating value for all its stakeholders.

Please refer to Our Strategy Section for more information on main pillars of Garanti's strategy and its strategic priorities.

The purpose, main pillars of Garanti's strategy and strategic priorities of Garanti are publicly announced on Garanti Investor Relations website in English and Turkish in addition to Garanti's annual report. Furthermore, forward-looking expectations and other communications through printed and visual media channels are available on Garanti Bank's corporate website and Garanti Investor Relations website.

Within the context of Garanti's strategy, its operating plan, its short and medium business plans are formulated; its strategic goals are presented to the Board of Directors. The Board of Directors is informed on the execution of approved business plans, the level of attainment of the targets, operations and performance on a monthly basis. The executives of the Bank periodically monitor the target realization reports and hold individual performance review meetings with branch and regional managers regarding the attainment of the targets.

Information regarding Garanti's purpose, core values, competitive advantages, risk management, corporate governance, 2017 Performance and Outlook are presented in the related sections of the Annual Report. Furthermore, 2018 Operating Plan Guidance covering

forward looking assessments of Garanti has been published on the Public Disclosure Platform and publicly disclosed on Garanti Investor Relations website.

### 5.6. REMUNERATION

As published on the Bank's website, a Compensation Policy has been formulated for the Bank's employees in accordance with the banking and capital market legislation, and it has been approved by the Board of Directors.

Pursuant to the Bank's Compensation Policy, the policy encourages fair, transparent, measurable and sustainable success among employees and is in alignment with the Bank's risk principles. The compensation structure consists of fixed income and variable income items. The Remuneration Committee and the HR Unit authorized by this Committee are responsible for reviewing and duly executing the compensation policies.

Members of the Bank's Board of Directors are paid attendance fees. The amount of the attendance fee is determined and approved at the General Shareholders' Meeting. In addition to the attendance fee paid to the Board members, it has been decided at the Ordinary General Shareholders' Meeting held in 2017 that payments to be made to those Board members who assume a specific position in the Bank, and to independent Board members be determined by the Remuneration Committee that has been authorized by the Board of Directors pursuant to Corporate Governance Principles. It has also been resolved to set a maximum limit of TL 21,000,000 for the total compensation so determined and will be paid until the first ordinary general shareholders' meeting to be convened in 2018.



Furthermore, other financial rights to be provided to the Senior Management consisting of the members of the Board of Directors, the CEO and Executive Vice Presidents are determined by the Remuneration Committee that is established in accordance with the Regulation on the Banks' Corporate Governance Principles published by the Banking Regulation and Supervision Agency.

Under the provisions of the said Regulation, the Remuneration Committee has determined the manner of payments to Senior Management and the criteria for performance-based payments, by taking into account the European Union regulations and practices. Accordingly, Senior Executives receive performance-based payments in addition to their monthly salaries, which payments are determined by the Remuneration Committee based on objective criteria including the economic profitability and key performance indicators of the Bank, as well as subjective criteria based on the respective personal performance. The Remuneration Committee ensures that such payments do not negatively affect the Bank's capital adequacy ratio and the continuity of the Bank's operations. Part of the performance-based payments are made in installments and spread over future periods.

As of December 31, 2017, the net payment provided or to be provided to the key managers of the Bank, including the members of the Board of Directors, including compensations paid to key management personnel who left their position during the year amounted to TL 111,505,000. As the public disclosures regarding the payments

made to key managers including Board members are subject the BRSA's regulations on the banks' qualitative and quantitative explanations with regard to the remuneration policies, such payments are announced cumulatively.

At the Ordinary General Shareholders' Meeting held in 2017, the following information has been provided to the shareholders regarding the compensation principles applicable to senior management.

"Our Bank has established and announced a compensation policy for all employees pursuant to applicable legislation. A fair, performance and success-based remuneration policy has been created.

"Our Bank's Compensation Policy has been implemented as approved and it is reviewed periodically. In addition to the compensation policy covering the Bank's entire personnel, the Remuneration Committee continued to implement its policies that it has set in relation to remuneration and bonuses to be paid to the members of the Board of Directors who assume administrative roles and to senior executives, which do not rely solely on profit. The Committee reviewed the same at certain intervals. The policy, which has been developed in line with the local legislation and international practices, continued to be implemented.

The portion of 13.03% of the total personnel expenses figure for the benefits provided in 2017 to the Bank's employees including the Board members and senior management in the financial statements results from the performance-based bonuses of all employees and variable salary payments."

On the other hand, the loans to be disbursed by Garanti Bank to the members of the Board of Directors and managers are restricted to specific framework by Article 50 of the Banking Law. The Bank does not disburse loans to the members of the Board of Directors and managers outside of the above mentioned framework.

*Detailed information on the Remuneration Committee can be found on the Annual Report page 119.*

# STATEMENT OF RESPONSIBILITY

## IN ACCORDANCE WITH ARTICLE 9 OF THE COMMUNIQUÉ ON PRINCIPLES OF FINANCIAL REPORTING IN CAPITAL MARKETS (II-14.1) ISSUED BY THE CAPITAL MARKETS BOARD

T. Garanti Bankası A.Ş.'s Unconsolidated and Consolidated Financial Statements and Independent Auditor's Report for the period 01.01.2017 - 31.12.2017, prepared in accordance with the Communiqué On Principles of Financial Reporting in Capital Markets (II-14.1) issued by the Capital Markets Board, have been examined by us;

-Based on our duties and responsibilities in the Bank and the information we have, we declare that Unconsolidated and Consolidated Financial Statements and Independent Auditor's Report do not contain any untrue statement on material events or any deficiency which may make them misleading as of the date of statement,

-Based on our duties and responsibilities in the Bank and the information we have, we declare that Unconsolidated and Consolidated Financial Statements and Independent Auditor's Report honestly reflect the truth relating to the Bank's assets, liabilities, financial position, profits and losses.

Sincerely,

**JAVIER BERNAL DIONIS**

Audit Committee Member



**ALİ FUAT ERBİL**

General Manager



**AYDIN GÜLER**

Executive Vice President



## IN ACCORDANCE WITH ARTICLE 9 OF THE COMMUNIQUÉ ON PRINCIPLES OF FINANCIAL REPORTING IN CAPITAL MARKETS (II-14.1) ISSUED BY THE CAPITAL MARKETS BOARD

T. Garanti Bankası A.Ş.'s year-end Annual Report for the period 01.01.2017 - 31.12.2017, prepared in accordance with the Communiqué On Principles of Financial Reporting in Capital Markets (II-14.1) issued by the Capital Markets Board, has been examined by us;

-Based on our duties and responsibilities in the Bank and the information we have, we declare that the year-end Annual Report does not contain any untrue statement on material events or any deficiency which may make them misleading as of the date of statement,

-Based on our duties and responsibilities in the Bank and the information we have, we declare that the year-end Annual Report honestly reflects the progress and performance of the business and the Bank's financial position with significant risks and uncertainties.

Sincerely,

**JAVIER BERNAL DIONIS**

Audit Committee Member



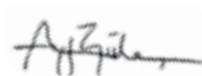
**ALİ FUAT ERBİL**

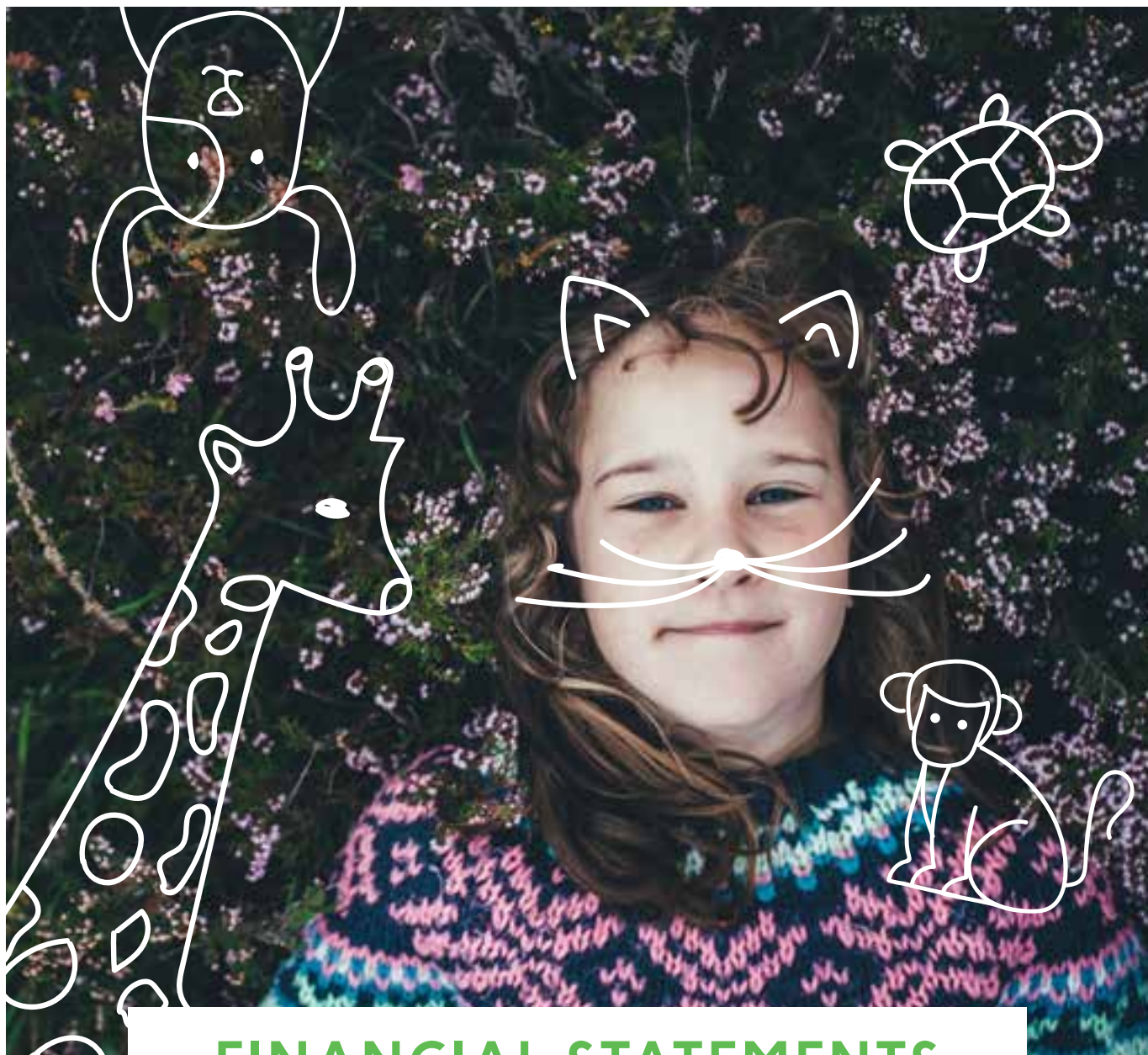
General Manager



**AYDIN GÜLER**

Executive Vice President





# FINANCIAL STATEMENTS

**168** Financial Tables Unconsolidated

**295** Financial Tables Consolidated

# UNCONSOLIDATED FINANCIAL REPORT

Türkiye Garanti Bankası Anonim Şirketi  
Unconsolidated Financial Statements  
As of and For the Year Ended  
31 December 2017

(Convenience Translation of Financial Statements and  
Related Disclosures and Footnotes Originally Issued in Turkish)  
With Independent Auditors' Report Thereon

31 January 2018

This report contains "Independent Auditors' Report" comprising  
3 pages and; "Unconsolidated Financial Statements and  
Related Disclosures and Footnotes" comprising 123 pages.



## INDEPENDENT AUDITORS' REPORT

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

Convenience Translation of Independent Auditors' Report Original Prepared and Issued in Turkish to English (See Note I in Section Three)

### A) REPORT ON THE AUDIT OF THE UNCONSOLIDATED FINANCIAL STATEMENTS

#### Qualified Opinion

We have audited the accompanying unconsolidated financial statements of Türkiye Garanti Bankası A.Ş. ("the Bank") which comprise the unconsolidated statement of financial position as at 31 December 2017 and the unconsolidated statement of income, unconsolidated statement of income and expense items under shareholders' equity, unconsolidated statement of changes in shareholders' equity, unconsolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of our report, the unconsolidated financial statements present fairly, in all material respects, the financial position of Türkiye Garanti Bankası A.Ş. as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRSA and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations.

#### Basis for Qualified Opinion

The accompanying unconsolidated financial statements as at 31 December 2017 include a general provision of total of TL 1,160,000 thousands, of which TL 860,000 thousands was 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.

We conducted our audit in accordance with the "Regulation on Independent Audit of the Banks" published in the Official Gazette No.29314 dated 2 April 2015 by BRSA and Independent Standards on Auditing which is a component of the Turkish Auditing Standards ("TSA"s) published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the POA's Code of Ethics for Independent Auditors ("Code of Ethics") together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the unconsolidated financial statements of the current period. These matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

#### Impairment of loans

Refer to Section III, No: VIII to the unconsolidated financial statements relating to the details of accounting policies and significant judgments of for impairment of loans.

KEY AUDIT MATTER	HOW THE MATTER IS ADDRESSED IN OUR AUDIT
<p>As of 31 December 2017, loans comprise 64% of the Bank's total assets.</p> <p>The Bank recognizes its loans in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables (the "Regulation") published on the Official Gazette No. 26333 dated 1 November 2006.</p> <p>In accordance with the mentioned Regulation, the assessment of impairment is basically related to the proper classification of loans.</p> <p>The classification of loans is performed in accordance with the criteria in the Regulation.</p> <p>Those include both objective and subjective criteria which management judgment is applied.</p> <p>There is a potential risk of impaired loans cannot be detected and loan loss provisions are inaccurate due to subjectivity.</p> <p>Disclosures related to credit risk are presented in Section Four, No II Credit Risk.</p>	<p>Our procedures for testing the classification of loans in accordance with the Regulation and key assumptions made by management include below:</p> <ul style="list-style-type: none"><li>We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures.</li><li>We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information. In this context, the current status of the loan customer has been evaluated.</li><li>We tested the appropriateness of the provisions in accordance with the Regulation.</li><li>Additionally, we also evaluated the adequacy of financial statement disclosures related to impairment provisions.</li></ul>



## Pension plan

Refer to Section III No: XVII to the unconsolidated financial statements relating to the details of accounting policies and significant judgments of for pension plan.

KEY AUDIT MATTER	HOW THE MATTER IS ADDRESSED IN OUR AUDIT
<p>The Bank's defined benefit pension plan (the "Plan") is managed by "Türkiye Garanti Bankası A.Ş. Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı" (the "Fund") established as per the provisional article 20 of the Social Security Law No. 506 and the Bank's employees are the members of this Fund.</p> <p>As disclosed in the Note 3.17 to the unconsolidated financial statements, the Plan is composed of benefits which are subject to transfer to Social Security Foundation ("SSF") as per the Social Security Law no.5510 provisional article 20, and other social rights and pension benefits provided by the Bank that are not transferable to SSF. The Council of Ministers has been authorized to determine the transfer date.</p> <p>Following the transfer, the non-transferable social rights and pension benefits provided under the Plan will be covered by the funds and the institutions that employ the funds' members.</p> <p>As of 31 December 2017, the Bank's transferrable liabilities are calculated by an independent actuary using the actuarial assumptions regulated by Law, and in accordance with the Decision of the Council of Ministers announced in the Official Gazette dated 15 December 2006 and No.26377.</p> <p>As of 31 December 2017, the Bank's non-transferrable liabilities are also calculated by independent actuary in accordance with TAS 19.</p> <p>The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, inflation levels, demographic assumptions, and the impact of changes in Pension Plan.</p> <p>Management uses independent actuaries to assist in assessing the uncertainty around these assumptions.</p> <p>Considering the subjectivity of key judgments and assumptions, plus the uncertainty around the transfer date and basis of the transfer calculation given the fact that the technical interest rate is prescribed under the law, we considered this to be a key audit matter.</p>	<ul style="list-style-type: none"><li>• We have assessed whether there have been any significant changes in actuarial assumptions, methods and underlying regulations used in calculations.</li><li>• Significant changes during the period in pension plan benefits, plan assets or membership profiles which affect liabilities have been evaluated.</li><li>• We have involved our own actuarial specialist to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary.</li><li>• We have evaluated whether the plan assets are adequate to cover the Pension Plan liabilities, under the methods and assumptions used.</li><li>• Additionally, the adequacy of financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities have been evaluated.</li></ul>

## Other Matter

The unconsolidated financial statements of the Bank as at and for the year ended 31 December 2016 was audited by another auditor who expressed a qualified opinion due to the general reserve provisions provided by the Bank on 30 January 2017.

## Responsibilities of Management and Those Charged with Governance for the Unconsolidated Financial Statements

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

In preparing the unconsolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## Auditors' Responsibilities for the Audit of the Unconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with TSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these unconsolidated financial statements.

As part of an audit in accordance with TSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the unconsolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **B) REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

1) Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code ("TCC") No. 6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period 1 January - 31 December 2017 are not in compliance with TCC and provisions of the Bank's articles of association in relation to financial reporting.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

#### **ADDITIONAL PARAGRAPH FOR CONVENIENCE TRANSLATION TO ENGLISH:**

The accounting principles summarized in Note I Section Three, differ from the accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the unconsolidated financial statements and IFRS.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of KPMG International Cooperative

Murat Alsan, SMMM  
Partner

31 January 2018  
İstanbul, Turkey

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www.garanti.com.tr  
investorrelations@garanti.com.tr

The unconsolidated year-end financial report prepared in accordance with the communiqué of Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

1. General Information about the Bank
2. Unconsolidated Financial Statements of the Bank
3. Accounting Policies
4. Financial Position and Results of Operations, and Risk Management Applications of the Bank
5. Disclosures and Footnotes on Unconsolidated Financial Statements
6. Other Disclosures and Footnotes
7. Independent Auditors' Report

The unconsolidated financial statements and related disclosures and footnotes that were subject to independent audit, are prepared in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and the related statements and guidances, and in compliance with the financial records of our Bank and, unless stated otherwise, presented in **thousands of Turkish Lira (TL)**.

**Süleyman Sözen**  
Board of Directors  
Chairman

**Ali Fuat Erbil**  
General Manager

**Aydın Güler**  
Financial Reporting  
Executive Vice President

**Hakan Özdemir**  
General Accounting  
Senior Vice President

**Javier Bernal Dionis**  
Audit Committee Member

**Jorge Saenz - Azcunaga  
Carranza**  
Audit Committee Member

The authorized contact person for questions on this financial report:  
Name-Surname/Title: Handan SAYGIN/Senior Vice President of Investor Relations

Phone no: 90 212 318 23 50  
Fax no: 90 212 216 59 02



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## I GENERAL INFORMATION

### I.1 HISTORY OF THE BANK INCLUDING ITS INCORPORATION DATE, INITIAL LEGAL STATUS, AMENDMENTS TO LEGAL STATUS

Türkiye Garanti Bankası Anonim Şirketi (the Bank) was established by the decree of Council of Ministers numbered 3/4010 dated 11 April 1946 as a "private bank" and its "Articles of Association" was issued in the Official Gazette dated 25 April 1946.

Following the acquisition on 27 July 2015, Banco Bilbao Vizcaya Argentaria SA (BBVA)'s stake in the Bank reached to 39.90% and BBVA become the main shareholder. Accordingly, the Bank was moved to the "Foreign Deposit Banks" category from the "Private Deposit Bank" category by the Banking Regulation and Supervision Agency (the BRSA).

The Bank provides banking services through 937 domestic branches, eight foreign branches and three representative offices abroad (31 December 2016: 959 domestic branches, nine foreign branches and three representative offices abroad). The Bank's head office is located in Istanbul.

### I.2 BANK'S SHAREHOLDER STRUCTURE, MANAGEMENT AND INTERNAL AUDIT, DIRECT AND INDIRECT SHAREHOLDERS, CHANGE IN SHAREHOLDER STRUCTURE DURING THE PERIOD AND INFORMATION ON BANK'S RISK GROUP

As of 31 December 2017, group of companies under BBVA that currently owns 49.85% shares of the Bank, is defined as 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 Doğuş 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 Doğuş Holding AŞ (the Doğuş 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 Doğuş Group continued to have mutual control on the Bank's management.

In accordance with the terms of the agreement between BBVA and the Doğuş 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 Doğuş Group to BBVA, was completed on 27 July 2015. Following the acquisition, BBVA's stake in the Bank reached to 39.90% and BBVA became the main shareholder. The Bank was moved to "Foreign Deposit Banks" category from "Private Deposit Bank" category by the BRSA.

On 21 February 2017, BBVA agreed with Doğuş 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 agreements share transfer had been finalized. After the share transfer BBVA's interest in the share capital of the Bank is at 49.85%.

As of balance sheet date, the Doğuş Group's interest in the share capital of the Bank is at 0.05%.

#### BBVA GROUP

BBVA is operating for more than 150 years, providing variety of wide spread financial and non-financial services to 70 million retail and commercial customers.

The Group's headquarter is in Spain, where the Group has concrete leadership in retail and commercial markets. BBVA adopting innovative, and customer and community oriented management style, besides banking, operates in insurance sector in Europe and portfolio management, private banking and investment banking in global markets.

BBVA that owns a bank being the largest financial institution in Mexico and the market leader in South America, operates in more than 35 countries with more than 130 thousand employees.

# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Unconsolidated Financial Report as of and for the Year Ended 31 December 2017  
(Thousands of Turkish Lira (TL))

Convenience Translation  
of Financial Statements  
and Related Disclosures  
and Footnotes Originally  
Issued in Turkish

## I.3 INFORMATION ON THE BANK'S BOARD OF DIRECTORS CHAIRMAN AND MEMBERS, AUDIT COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER, EXECUTIVE VICE PRESIDENTS AND THEIR RESPONSIBILITIES AND SHAREHOLDINGS IN THE BANK

### BOARD OF DIRECTORS CHAIRMAN AND MEMBERS:

NAME AND SURNAME	RESPONSIBILITY	APPOINTMENT DATE	EDUCATION	EXPERIENCE IN BANKING AND BUSINESS ADMINISTRATION
Süleyman Sözen	Chairman	29.05.1997	University	35 years
Sait Ergun Özen	Member	14.05.2003	University	30 years
Jorge Saenz Azcunaga Carranza	Vice Chairman, Independent Member and Member of Audit Committee	24.03.2016	University	23 years
Dr. Muammer Cüneyt Sezgin	Member	30.06.2004	PhD	29 years
Belkis Sema Yurdum	Independent Member	30.04.2013	University	37 years
Jaime Saenz de Tejada Pulido	Member	02.10.2014	University	24 years
Javier Bernal Dionis	Independent Member and Member of Audit Committee	27.07.2015	Master	27 years
Ali Fuat Erbil	Member and CEO	02.09.2015	PhD	25 years
Rafael Salinas Martinez de Lecea	Member	08.05.2017	Master	27 years
Ricardo Gomez Barredo	Member	08.05.2017	Master	25 years

### CEO AND EXECUTIVE VICE PRESIDENTS:

NAME AND SURNAME	RESPONSIBILITY	APPOINTMENT DATE	EDUCATION	EXPERIENCE IN BANKING AND BUSINESS ADMINISTRATION
Ali Fuat Erbil	CEO	02.09.2015	PhD	25 years
Gökhan Erün	EVP - Corporate Banking and Treasury Deputy CEO	01.09.2005	Master	23 years
Halil Hüsnü Erel	EVP - Technology, Operation Center, Marketing and Business Development	16.06.1997	University	42 years
Avni Aydın Düren	EVP - Legal Services and Collection	01.02.2009	Master	23 years
Betül Ebru Edin	EVP - Project Finance	25.11.2009	University	23 years
Didem Başer	EVP - Digital Banking	20.03.2012	Master	22 years
Recep Baştuğ	EVP - Commercial Banking	01.01.2013	University	27 years
Osman Nuri Tüzün	EVP - Human Resources and Support Services	19.08.2015	Master	25 years
Aydın Güler	EVP - Finance and Accounting	03.02.2016	University	27 years
Ali Temel	Head of Credit Risk Management	03.02.2016	University	27 years
Mahmut Akten	EVP - Retail Banking	17.01.2017	Master	17 years
Cemal Onaran	EVP - SME Banking	17.01.2017	University	26 years

Gökhan Erün resigned his position as "EVP responsible from Corporate Banking and Treasury and Deputy CEO" on 15 January 2018.

As of 31 January 2018, Betül Ebru Edin's responsibility was revised as "EVP responsible from Corporate Banking, Treasury and Project Finance" and Didem Başer's responsibility was revised as "EVP responsible from Digital Banking, Customer Experience, Corporate Brand Management and Marketing Communication".

The top management listed above does not hold any material unquoted shares of the Bank.

## I.4 INFORMATION ON THE BANK'S QUALIFIED SHAREHOLDERS

NAME / COMPANY	SHARES	OWNERSHIP	PAID-IN CAPITAL	UNPAID PORTION
Banco Bilbao Vizcaya Argentaria SA	2,093,700	49.85%	2,093,700	-
Doğuş Holding AŞ	2,107	0.05%	2,107	-

According to the decision made at the "General Assembly of Founder Shares Owners" and the "Extraordinary General Shareholders" meetings held on 13 June 2008, the Bank repurchased all the 370 founder share-certificates issued in order to redeem and exterminate them, subsequent to the permissions obtained from the related legal authorities, at a value of TL 3,876 thousands each in accordance with the report prepared by the court expert and approved by the Istanbul 5th Commercial Court of First Instance. A total payment of TL 1,434,233 thousands has been made to the owners of 368 founder share-certificates from "extraordinary reserves", and the value of remaining 2 founder share-certificates has been blocked in the bank accounts.

Subsequent to these purchases, the clauses 15, 16 and 45 of the Articles of Association of the Bank have been revised accordingly.

## I.5 SUMMARY INFORMATION ON THE BANK'S ACTIVITIES AND SERVICES

Activities of the Bank as stated at the third clause of its Articles of Association are as follows:

- All banking operations,
- Participating in, establishing, and trading the shares of enterprises at various sectors within the limits set forth by the Banking Law;
- Providing attorneyship, insurance agency, brokerage and freight services in relation with banking activities,
- Purchasing/selling debt securities, treasury bills, government bonds and other share certificates issued by Turkish government and other official and private institutions,
- Developing economical and financial relations with foreign organizations,
- Dealing with all economic operations in compliance with the Banking Law.

The Bank's activities are not limited to those disclosed in that third clause, but whenever the Board of Directors deems any operations other than those stated above to be of benefit to the Bank, it is recommended in the general meeting, and the launching of the related project depends on the decision taken during the General Assembly which results in a change in the Articles of Association and on the approval of this decision by the Ministry of Industry and Commerce. Accordingly, the approved decision is added to the Articles of Association.

The Bank is not a specialized bank but deals with all kinds of banking activities. Deposits are the main sources of the lendings to the customers. The Bank grants loans to companies operating in various sectors while aiming to maintain the required level of efficiency.

The Bank also grants non-cash loans to its customers; especially letters of guarantee, letters of credit and acceptance credits.

## I.6 CURRENT OR LIKELY ACTUAL OR LEGAL BARRIERS TO IMMEDIATE TRANSFER OF EQUITY OR REPAYMENT OF DEBTS BETWEEN THE BANK AND ITS AFFILIATES

None.

# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Balance Sheet (Statement of Financial Position) At 31 December 2017

Convenience Translation  
of Financial Statements  
and Related Disclosures  
and Footnotes Originally  
Issued in Turkish

## 2 UNCONSOLIDATED FINANCIAL STATEMENTS

THOUSANDS OF TURKISH LIRA (TL)

ASSETS	FOOTNOTES	CURRENT PERIOD 31 DECEMBER 2017			PRIOR PERIOD 31 DECEMBER 2016		
		TL	FC	TOTAL	TL	FC	TOTAL
<b>I. CASH AND BALANCES WITH CENTRAL BANK</b>	(5.1.1)	<b>7,635,956</b>	<b>25,776,547</b>	<b>33,412,503</b>	<b>6,723,703</b>	<b>17,061,431</b>	<b>23,785,134</b>
<b>II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net)</b>	(5.1.2)	<b>2,179,906</b>	<b>470,244</b>	<b>2,650,150</b>	<b>2,683,405</b>	<b>823,023</b>	<b>3,506,428</b>
2.1 Financial assets held for trading		2,179,906	470,244	2,650,150	2,683,405	823,023	3,506,428
2.1.1 Government securities		785,296	16,604	801,900	41,945	29,492	71,437
2.1.2 Equity securities		28,116	-	28,116	21,137	-	21,137
2.1.3 Derivative financial assets held for trading		1,363,765	450,551	1,814,316	2,620,323	770,662	3,390,985
2.1.4 Other securities		2,729	3,089	5,818	-	22,869	22,869
2.2 Financial assets valued at fair value through profit or loss		-	-	-	-	-	-
2.2.1 Government securities		-	-	-	-	-	-
2.2.2 Equity securities		-	-	-	-	-	-
2.2.3 Loans	(5.1.2)	-	-	-	-	-	-
2.2.4 Other securities		-	-	-	-	-	-
<b>III. BANKS</b>	(5.1.3)	<b>205,635</b>	<b>14,112,838</b>	<b>14,318,473</b>	<b>446,654</b>	<b>11,872,272</b>	<b>12,318,926</b>
<b>IV. INTERBANK MONEY MARKETS</b>		-	-	-	-	<b>351,691</b>	<b>351,691</b>
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Istanbul Stock Exchange money market placements		-	-	-	-	351,691	351,691
4.3 Receivables from reverse repurchase agreements		-	-	-	-	-	-
<b>V. FINANCIAL ASSETS AVAILABLE-FOR-SALE (Net)</b>	(5.1.4)	<b>22,222,532</b>	<b>522,170</b>	<b>22,744,702</b>	<b>18,497,281</b>	<b>1,415,288</b>	<b>19,912,569</b>
5.1 Equity securities		41,760	216,581	258,341	40,985	153,922	194,907
5.2 Government securities		21,912,629	231,769	22,144,398	17,669,410	341,720	18,011,130
5.3 Other securities		268,143	73,820	341,963	786,886	919,646	1,706,532
<b>VI. LOANS</b>	(5.1.5)	<b>142,937,709</b>	<b>66,742,168</b>	<b>209,679,877</b>	<b>118,726,991</b>	<b>67,321,237</b>	<b>186,048,228</b>
6.1 Performing loans		141,888,832	66,742,168	208,631,000	117,721,708	67,321,237	185,042,945
6.1.1 Loans to bank's risk group	(5.7)	747,475	2,690,988	3,438,463	434,870	2,529,219	2,964,089
6.1.2 Government securities		-	-	-	-	-	-
6.1.3 Others		141,141,357	64,051,180	205,192,537	117,286,838	64,792,018	182,078,856
6.2 Loans under follow-up		5,408,114	-	5,408,114	5,272,774	-	5,272,774
6.3 Specific provisions (-)		4,359,237	-	4,359,237	4,267,491	-	4,267,491
<b>VII. FACTORING RECEIVABLES</b>		-	-	-	-	-	-
<b>VIII. INVESTMENTS HELD-TO-MATURITY (Net)</b>	(5.1.6)	<b>12,900,962</b>	<b>11,984,381</b>	<b>24,885,343</b>	<b>12,139,123</b>	<b>11,501,061</b>	<b>23,640,184</b>
8.1 Government securities		12,815,088	7,417,468	20,232,556	12,122,339	6,986,465	19,108,804
8.2 Other securities		85,874	4,566,913	4,652,787	16,784	4,514,596	4,531,380
<b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>	(5.1.7)	<b>35,158</b>	-	<b>35,158</b>	<b>36,698</b>	-	<b>36,698</b>
9.1 Associates consolidated under equity accounting		-	-	-	-	-	-
9.2 Unconsolidated associates		35,158	-	35,158	36,698	-	36,698
9.2.1 Financial investments in associates		31,492	-	31,492	33,032	-	33,032
9.2.2 Non-financial investments in associates		3,666	-	3,666	3,666	-	3,666
<b>X. INVESTMENTS IN AFFILIATES (Net)</b>	(5.1.8)	<b>2,813,701</b>	<b>3,725,770</b>	<b>6,539,471</b>	<b>2,426,067</b>	<b>2,747,797</b>	<b>5,173,864</b>
10.1 Unconsolidated financial investments in affiliates		2,709,329	3,725,770	6,435,099	2,321,831	2,747,797	5,069,628
10.2 Unconsolidated non-financial investments in affiliates		104,372	-	104,372	104,236	-	104,236
<b>XI. INVESTMENTS IN JOINT-VENTURES (Net)</b>	(5.1.9)	-	-	-	-	-	-
11.1 Joint-ventures consolidated under equity accounting		-	-	-	-	-	-
11.2 Unconsolidated joint-ventures		-	-	-	-	-	-
11.2.1 Financial investments in joint-ventures		-	-	-	-	-	-
11.2.2 Non-financial investments in joint-ventures		-	-	-	-	-	-
<b>XII. LEASE RECEIVABLES (Net)</b>	(5.1.10)	-	-	-	-	-	-
12.1 Financial lease receivables		-	-	-	-	-	-
12.2 Operational lease receivables		-	-	-	-	-	-
12.3 Others		-	-	-	-	-	-
12.4 Unearned income (-)		-	-	-	-	-	-
<b>XIII. DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGING PURPOSE</b>	(5.1.11)	<b>535,561</b>	<b>112,714</b>	<b>648,275</b>	<b>79,472</b>	<b>509,742</b>	<b>589,214</b>
13.1 Fair value hedges		89,104	13,001	102,105	73,946	10,420	84,366
13.2 Cash flow hedges		446,457	99,713	546,170	5,526	499,322	504,848
13.3 Net foreign investment hedges		-	-	-	-	-	-
<b>XIV. TANGIBLE ASSETS (Net)</b>	(5.1.12)	<b>3,769,116</b>	<b>263</b>	<b>3,769,379</b>	<b>3,388,468</b>	<b>280</b>	<b>3,388,748</b>
<b>XV. INTANGIBLE ASSETS (Net)</b>	(5.1.13)	<b>285,654</b>	-	<b>285,654</b>	<b>238,996</b>	<b>17</b>	<b>239,013</b>
15.1 Goodwill		-	-	-	-	-	-
15.2 Other intangibles		285,654	-	285,654	238,996	17	239,013
<b>XVI. INVESTMENT PROPERTY (Net)</b>	(5.1.14)	<b>690,588</b>	-	<b>690,588</b>	<b>670,370</b>	-	<b>670,370</b>
<b>XVII. TAX ASSET</b>		<b>356,684</b>	-	<b>356,684</b>	<b>127,709</b>	-	<b>127,709</b>
17.1 Current tax asset		-	-	-	-	-	-
17.2 Deferred tax asset	(5.1.15)	356,684	-	356,684	127,709	-	127,709
<b>XVIII. ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net)</b>	(5.1.16)	<b>775,428</b>	-	<b>775,428</b>	<b>589,726</b>	-	<b>589,726</b>
18.1 Assets held for sale		775,428	-	775,428	589,726	-	589,726
18.2 Assets of discontinued operations		-	-	-	-	-	-
<b>XIX. OTHER ASSETS</b>	(5.1.17)	<b>3,513,511</b>	<b>927,078</b>	<b>4,440,589</b>	<b>2,880,105</b>	<b>896,793</b>	<b>3,776,898</b>
<b>TOTAL ASSETS</b>		<b>200,858,101</b>	<b>124,374,173</b>	<b>325,232,274</b>	<b>169,654,768</b>	<b>114,500,632</b>	<b>284,155,400</b>

The accompanying notes are an integral part of these unconsolidated financial statements.

# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Balance Sheet (Statement of Financial Position) At 31 December 2017

Convenience Translation  
of Financial Statements  
and Related Disclosures  
and Footnotes Originally  
Issued in Turkish

THOUSANDS OF TURKISH LIRA (TL)

LIABILITIES AND SHAREHOLDERS' EQUITY	FOOTNOTES	CURRENT PERIOD 31 DECEMBER 2017			PRIOR PERIOD 31 DECEMBER 2016		
		TL	FC	TOTAL	TL	FC	TOTAL
<b>I. DEPOSITS</b>	(5.2.1)	<b>89,230,296</b>	<b>91,885,709</b>	<b>181,116,005</b>	<b>76,285,152</b>	<b>84,946,445</b>	<b>161,231,597</b>
1.1 Deposits from bank's risk group	(5.7)	1,591,710	576,385	2,168,095	1,473,675	496,796	1,970,471
1.2 Others		87,638,586	91,309,324	178,947,910	74,811,477	84,449,649	159,261,126
<b>II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>	(5.2.2)	<b>2,359,187</b>	<b>393,543</b>	<b>2,752,730</b>	<b>2,608,676</b>	<b>887,946</b>	<b>3,496,622</b>
<b>III. FUNDS BORROWED</b>	(5.2.3)	<b>742,583</b>	<b>40,062,240</b>	<b>40,804,823</b>	<b>2,121,662</b>	<b>38,164,706</b>	<b>40,286,368</b>
<b>IV. INTERBANK MONEY MARKETS</b>	(5.2.4)	<b>12,582,894</b>	<b>4,081,694</b>	<b>16,664,588</b>	<b>9,769,387</b>	-	<b>9,769,387</b>
4.1 Interbank money market takings		11,712,429	3,892,261	15,604,690	2,501,180	-	2,501,180
4.2 Istanbul Stock Exchange money market takings		-	-	-	-	-	-
4.3 Obligations under repurchase agreements		870,465	189,433	1,059,898	7,268,207	-	7,268,207
<b>V. SECURITIES ISSUED (Net)</b>	(5.2.4)	<b>6,960,619</b>	<b>12,330,741</b>	<b>19,291,360</b>	<b>4,769,223</b>	<b>11,667,656</b>	<b>16,436,879</b>
5.1 Bills		2,975,784	-	2,975,784	1,213,929	-	1,213,929
5.2 Asset backed securities		-	-	-	-	-	-
5.3 Bonds		3,984,835	12,330,741	16,315,576	3,555,294	11,667,656	15,222,950
<b>VI. FUNDS</b>		-	-	-	-	-	-
6.1 Borrower funds		-	-	-	-	-	-
6.2 Others		-	-	-	-	-	-
<b>VII. MISCELLANEOUS PAYABLES</b>	(5.2.4.3)	<b>9,489,981</b>	<b>483,915</b>	<b>9,973,896</b>	<b>8,191,446</b>	<b>896,693</b>	<b>9,088,139</b>
<b>VIII. OTHER EXTERNAL FUNDINGS PAYABLE</b>		<b>2,124,799</b>	<b>741,751</b>	<b>2,866,550</b>	<b>2,155,786</b>	<b>825,526</b>	<b>2,981,312</b>
<b>IX. FACTORING PAYABLES</b>		-	-	-	-	-	-
<b>X. LEASE PAYABLES (Net)</b>	(5.2.5)	<b>6,939</b>	-	<b>6,939</b>	<b>17,092</b>	-	<b>17,092</b>
10.1 Financial lease payables		7,903	-	7,903	18,404	-	18,404
10.2 Operational lease payables		-	-	-	-	-	-
10.3 Others		-	-	-	-	-	-
10.4 Deferred expenses (-)		964	-	964	1,312	-	1,312
<b>XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR HEDGING PURPOSE</b>	(5.2.6)	<b>6,227</b>	<b>173,843</b>	<b>180,070</b>	<b>26,671</b>	<b>252,865</b>	<b>279,536</b>
11.1 Fair value hedges		6,227	171,764	177,991	26,671	231,062	257,733
11.2 Cash flow hedges		-	2,079	2,079	-	21,803	21,803
11.3 Net foreign investment hedges		-	-	-	-	-	-
<b>XII. PROVISIONS</b>	(5.2.7)	<b>6,054,358</b>	<b>252,296</b>	<b>6,306,654</b>	<b>4,542,015</b>	<b>71,989</b>	<b>4,614,004</b>
12.1 General provisions		3,597,720	-	3,597,720	3,118,954	52,209	3,171,163
12.2 Restructuring reserves		-	-	-	-	-	-
12.3 Reserve for employee benefits		785,778	67,039	852,817	679,871	-	679,871
12.4 Insurance technical provisions (Net)		-	-	-	-	-	-
12.5 Other provisions		1,670,860	185,257	1,856,117	743,190	19,780	762,970
<b>XIII. TAX LIABILITY</b>	(5.2.8)	<b>1,059,984</b>	<b>27,994</b>	<b>1,087,978</b>	<b>413,611</b>	<b>1,773</b>	<b>415,384</b>
13.1 Current tax liability		1,059,984	27,994	1,087,978	413,611	1,773	415,384
13.2 Deferred tax liability		-	-	-	-	-	-
<b>XIV. LIABILITIES FOR ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net)</b>	(5.2.9)	-	-	-	-	-	-
14.1 Assets held for sale		-	-	-	-	-	-
14.2 Assets of discontinued operations		-	-	-	-	-	-
<b>XV. SUBORDINATED DEBTS</b>	(5.2.10)	-	<b>2,849,471</b>	<b>2,849,471</b>	-	-	-
<b>XVI. SHAREHOLDERS' EQUITY</b>	(5.2.11)	<b>40,832,869</b>	<b>498,341</b>	<b>41,331,210</b>	<b>35,253,222</b>	<b>285,858</b>	<b>35,539,080</b>
16.1 Paid-in capital		4,200,000	-	4,200,000	4,200,000	-	4,200,000
16.2 Capital reserves		3,318,450	264,862	3,583,312	2,824,926	57,875	2,882,801
16.2.1 Share premium		11,880	-	11,880	11,880	-	11,880
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Securities value increase fund		1,329,094	191,658	1,520,752	630,378	(8,235)	622,143
16.2.4 Revaluation surplus on tangible assets		1,659,472	-	1,659,472	1,626,437	-	1,626,437
16.2.5 Revaluation surplus on intangible assets		-	-	-	-	-	-
16.2.6 Revaluation surplus on investment property		-	-	-	-	-	-
16.2.7 Bonus shares of associates, affiliates and joint-ventures		1,856	-	1,856	1,891	-	1,891
16.2.8 Hedging reserves (effective portion)		(313,414)	73,204	(240,210)	(114,596)	66,110	(48,486)
16.2.9 Revaluation surplus on assets held for sale and assets of discontinued operations		-	-	-	-	-	-
16.2.10 Other capital reserves		629,562	-	629,562	668,936	-	668,936
16.3 Profit reserves		26,970,499	233,479	27,203,978	23,157,747	227,983	23,385,730
16.3.1 Legal reserves		1,311,374	-	1,311,374	1,191,409	14,751	1,206,160
16.3.2 Status reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		25,659,125	-	25,659,125	21,966,338	6,576	21,972,914
16.3.4 Other profit reserves		-	233,479	233,479	-	206,656	206,656
16.4 Profit or loss		6,343,920	-	6,343,920	5,070,549	-	5,070,549
16.4.1 Prior periods profit/loss		-	-	-	-	-	-
16.4.2 Current period net profit/loss		6,343,920	-	6,343,920	5,070,549	-	5,070,549
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>171,450,736</b>	<b>153,781,538</b>	<b>325,232,274</b>	<b>146,153,943</b>	<b>138,001,457</b>	<b>284,155,400</b>

The accompanying notes are an integral part of these unconsolidated financial statements.

# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Off-Balance Sheet Items At 31 December 2017

Convenience Translation  
of Financial Statements  
and Related Disclosures  
and Footnotes Originally  
Issued in Turkish

		THOUSANDS OF TURKISH LIRA (TL)					
		CURRENT PERIOD 31 DECEMBER 2017			PRIOR PERIOD 31 DECEMBER 2016		
FOOTNOTES		TL	FC	TOTAL	TL	FC	TOTAL
<b>A. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES (II+III)</b>		<b>185,560,203</b>	<b>279,381,530</b>	<b>464,941,733</b>	<b>157,869,378</b>	<b>254,864,074</b>	<b>412,733,452</b>
<b>I. GUARANTEES AND SURETIES (5.3.1)</b>		<b>19,423,804</b>	<b>35,127,536</b>	<b>54,551,340</b>	<b>17,129,482</b>	<b>37,643,674</b>	<b>54,773,156</b>
1.1.	Letters of guarantee	19,404,733	19,534,558	38,939,291	17,101,636	20,378,358	37,479,994
1.1.1.	Guarantees subject to State Tender Law	-	981,914	981,914	-	1,029,481	1,029,481
1.1.2.	Guarantees given for foreign trade operations	1,842,819	214,343	2,057,162	2,133,194	184,959	2,318,153
1.1.3.	Other letters of guarantee	17,561,914	18,338,301	35,900,215	14,968,442	19,163,918	34,132,360
1.2.	Bank acceptances	14,273	1,536,377	1,550,650	27,846	2,099,488	2,127,334
1.2.1.	Import letter of acceptance	14,273	1,536,377	1,550,650	27,846	2,099,488	2,127,334
1.2.2.	Other bank acceptances	-	-	-	-	-	-
1.3.	Letters of credit	4,798	13,886,269	13,891,067	-	15,010,812	15,010,812
1.3.1.	Documentary letters of credit	-	-	-	-	-	-
1.3.2.	Other letters of credit	4,798	13,886,269	13,891,067	-	15,010,812	15,010,812
1.4.	Guaranteed prefinancings	-	-	-	-	-	-
1.5.	Endorsements	-	-	-	-	-	-
1.5.1.	Endorsements to the Central Bank of Turkey	-	-	-	-	-	-
1.5.2.	Other endorsements	-	-	-	-	-	-
1.6.	Underwriting commitments	-	-	-	-	-	-
1.7.	Factoring related guarantees	-	-	-	-	-	-
1.8.	Other guarantees	-	170,332	170,332	-	155,016	155,016
1.9.	Other sureties	-	-	-	-	-	-
<b>II. COMMITMENTS (5.3.1)</b>		<b>44,705,472</b>	<b>10,876,669</b>	<b>55,582,141</b>	<b>39,351,241</b>	<b>10,239,401</b>	<b>49,590,642</b>
2.1.	Irrevocable commitments	44,549,356	6,079,029	50,628,385	39,328,201	5,584,680	44,912,881
2.1.1.	Asset purchase and sale commitments	2,193,999	5,020,534	7,214,533	194,033	3,087,739	3,281,772
2.1.2.	Deposit purchase and sale commitments	-	-	-	-	74,040	74,040
2.1.3.	Share capital commitments to associates and affiliates	-	6,443	6,443	-	5,266	5,266
2.1.4.	Loan granting commitments	9,496,041	1,052,052	10,548,093	6,995,108	2,329,810	9,324,918
2.1.5.	Securities issuance brokerage commitments	-	-	-	-	-	-
2.1.6.	Commitments for reserve deposit requirements	-	-	-	-	-	-
2.1.7.	Commitments for cheque payments	3,797,901	-	3,797,901	3,555,087	-	3,555,087
2.1.8.	Tax and fund obligations on export commitments	31,365	-	31,365	24,000	-	24,000
2.1.9.	Commitments for credit card limits	29,021,192	-	29,021,192	27,849,612	-	27,849,612
2.1.10.	Commitments for credit cards and banking services related promotions	8,273	-	8,273	8,708	-	8,708
2.1.11.	Receivables from "short" sale commitments on securities	-	-	-	-	-	-
2.1.12.	Payables from "short" sale commitments on securities	-	-	-	-	-	-
2.1.13.	Other irrevocable commitments	585	-	585	701,653	87,825	789,478
2.2.	Revocable commitments	156,116	4,797,640	4,953,756	23,040	4,654,721	4,677,761
2.2.1.	Revocable loan granting commitments	156,116	4,796,577	4,952,693	23,040	4,653,740	4,676,780
2.2.2.	Other revocable commitments	-	1,063	1,063	-	981	981
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS (5.3.2)</b>		<b>121,430,927</b>	<b>233,377,325</b>	<b>354,808,252</b>	<b>101,388,655</b>	<b>206,980,999</b>	<b>308,369,654</b>
3.1.	Derivative financial instruments held for risk management	6,209,384	33,820,121	40,029,505	9,252,323	25,283,122	34,535,445
3.1.1.	Fair value hedges	5,452,476	10,917,068	16,369,544	7,307,595	11,982,560	19,290,155
3.1.2.	Cash flow hedges	756,908	22,903,053	23,659,961	1,944,728	13,300,562	15,245,290
3.1.3.	Net foreign investment hedges	-	-	-	-	-	-
3.2.	Trading derivatives	115,221,543	199,557,204	314,778,747	92,136,332	181,697,877	273,834,209
3.2.1.	Forward foreign currency purchases/sales	15,469,233	18,172,329	33,641,562	12,078,449	15,532,976	27,611,425
3.2.1.1.	Forward foreign currency purchases	5,314,366	11,414,992	16,729,358	3,787,239	10,023,975	13,811,214
3.2.1.2.	Forward foreign currency sales	10,154,867	6,757,337	16,912,204	8,291,210	5,509,001	13,800,211
3.2.2.	Currency and interest rate swaps	86,887,004	142,571,587	229,458,591	60,234,373	123,150,097	183,384,470
3.2.2.1.	Currency swaps-purchases	31,299,492	68,076,807	99,376,299	22,670,532	51,279,287	73,949,819
3.2.2.2.	Currency swaps-sales	54,918,480	40,199,456	95,117,936	37,069,193	36,646,410	73,715,603
3.2.2.3.	Interest rate swaps-purchases	334,516	17,147,662	17,482,178	247,324	17,612,200	17,859,524
3.2.2.4.	Interest rate swaps-sales	334,516	17,147,662	17,482,178	247,324	17,612,200	17,859,524
3.2.3.	Currency, interest rate and security options	12,818,794	23,902,493	36,721,287	19,800,600	34,032,828	53,833,428
3.2.3.1.	Currency call options	6,743,561	6,323,428	13,066,989	8,553,567	14,398,056	22,951,623
3.2.3.2.	Currency put options	6,075,233	7,342,382	13,417,615	11,247,033	12,836,688	24,083,721
3.2.3.3.	Interest rate call options	-	9,247,686	9,247,686	-	5,927,914	5,927,914
3.2.3.4.	Interest rate put options	-	988,997	988,997	-	843,120	843,120
3.2.3.5.	Security call options	-	-	-	-	13,525	13,525
3.2.3.6.	Security put options	-	-	-	-	13,525	13,525
3.2.4.	Currency futures	46,512	76,172	122,684	22,910	130,674	153,584
3.2.4.1.	Currency futures-purchases	3,931	44,824	48,755	323	80,808	81,131
3.2.4.2.	Currency futures-sales	42,581	31,348	73,929	22,587	49,866	72,453
3.2.5.	Interest rate futures	-	18,879	18,879	-	100,121	100,121
3.2.5.1.	Interest rate futures-purchases	-	-	-	-	-	-
3.2.5.2.	Interest rate futures-sales	-	18,879	18,879	-	100,121	100,121
3.2.6.	Others	-	14,815,744	14,815,744	-	8,751,181	8,751,181
<b>B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)</b>		<b>698,186,647</b>	<b>572,923,608</b>	<b>1,271,110,255</b>	<b>610,833,455</b>	<b>492,229,874</b>	<b>1,103,063,329</b>
<b>IV. ITEMS HELD IN CUSTODY</b>		<b>40,177,428</b>	<b>37,149,126</b>	<b>77,326,554</b>	<b>37,633,094</b>	<b>40,122,694</b>	<b>77,755,788</b>
4.1.	Customers' securities held	5,730,394	-	5,730,394	4,451,352	-	4,451,352
4.2.	Investment securities held in custody	15,042,103	16,314,890	31,356,993	16,489,131	17,080,586	33,569,717
4.3.	Checks received for collection	16,452,460	3,834,041	20,286,501	14,019,472	3,108,354	17,127,826
4.4.	Commercial notes received for collection	2,823,300	896,170	3,719,470	2,550,127	1,161,146	3,711,273
4.5.	Other assets received for collection	98,797	13,827,897	13,926,694	78,792	16,034,037	16,112,829
4.6.	Assets received through public offering	-	92,625	92,625	-	85,344	85,344
4.7.	Other items under custody	30,374	2,183,503	2,213,877	44,220	2,653,227	2,697,447
4.8.	Custodians	-	-	-	-	-	-
<b>V. PLEDGED ITEMS</b>		<b>658,009,219</b>	<b>535,774,482</b>	<b>1,193,783,701</b>	<b>573,200,361</b>	<b>452,107,180</b>	<b>1,025,307,541</b>
5.1.	Securities	3,875,306	56,565	3,931,871	4,360,457	82,069	4,442,526
5.2.	Guarantee notes	36,573,477	13,944,069	50,517,546	37,862,446	12,953,452	50,815,898
5.3.	Commodities	14,095	-	14,095	19,841	-	19,841
5.4.	Warranties	-	-	-	-	-	-
5.5.	Real estates	158,916,114	106,935,147	265,851,261	140,149,925	84,680,100	224,830,025
5.6.	Other pledged items	458,630,227	414,838,635	873,468,862	390,807,522	354,391,505	745,199,027
5.7.	Pledged items-depository	-	66	66	170	54	224
<b>VI. CONFIRMED BILLS OF EXCHANGE AND SURETIES</b>		-	-	-	-	-	-
<b>TOTAL OFF-BALANCE SHEET ITEMS (A+B)</b>		<b>883,746,850</b>	<b>852,305,138</b>	<b>1,736,051,988</b>	<b>768,702,833</b>	<b>747,093,948</b>	<b>1,515,796,781</b>

The accompanying notes are an integral part of these unconsolidated financial statements.

# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Income Statement For the Year Ended 31 December 2017

Convenience Translation  
of Financial Statements  
and Related Disclosures  
and Footnotes Originally  
Issued in Turkish

		THOUSANDS OF TURKISH LIRA (TL)	
INCOME AND EXPENSE ITEMS	FOOTNOTES	CURRENT PERIOD 1 JANUARY 2017- 31 DECEMBER 2017	PRIOR PERIOD 1 JANUARY 2016- 31 DECEMBER 2016
<b>I. INTEREST INCOME</b>	(5.4.1)	<b>26,607,782</b>	<b>20,915,217</b>
1.1 Interest income on loans		21,094,311	16,783,444
1.2 Interest income on reserve deposits		222,102	237,553
1.3 Interest income on banks		304,106	89,536
1.4 Interest income on money market transactions		12,496	6,417
1.5 Interest income on securities portfolio		4,732,483	3,577,267
1.5.1 Trading financial assets		37,278	17,461
1.5.2 Financial assets valued at fair value through profit or loss		-	-
1.5.3 Financial assets available-for-sale		2,464,782	1,903,637
1.5.4 Investments held-to-maturity		2,230,423	1,656,169
1.6 Financial lease income		-	-
1.7 Other interest income		242,284	221,000
<b>II. INTEREST EXPENSE</b>	(5.4.2)	<b>12,139,432</b>	<b>9,818,275</b>
2.1 Interest on deposits		8,375,847	6,883,319
2.2 Interest on funds borrowed		1,136,474	945,054
2.3 Interest on money market transactions		1,165,445	998,553
2.4 Interest on securities issued		1,438,464	964,300
2.5 Other interest expenses		23,202	27,049
<b>III. NET INTEREST INCOME (I - II)</b>		<b>14,468,350</b>	<b>11,096,942</b>
<b>IV. NET FEES AND COMMISSIONS INCOME</b>		<b>3,680,204</b>	<b>3,151,738</b>
4.1 Fees and commissions received		4,876,857	4,142,158
4.1.1 Non-cash loans		402,978	320,899
4.1.2 Others		4,473,879	3,821,259
4.2 Fees and commissions paid		1,196,653	990,420
4.2.1 Non-cash loans		3,055	3,138
4.2.2 Others		1,193,598	987,282
<b>V. DIVIDEND INCOME</b>	(5.4.3)	<b>6,873</b>	<b>6,902</b>
<b>VI. NET TRADING INCOME/LOSSES (Net)</b>	(5.4.4)	<b>(1,916,031)</b>	<b>(791,241)</b>
6.1 Trading account income/losses		(387,211)	290,027
6.2 Income/losses from derivative financial instruments		(3,230,603)	(742,585)
6.3 Foreign exchange gains/losses		1,701,783	(338,683)
<b>VII. OTHER OPERATING INCOME</b>	(5.4.5)	<b>981,952</b>	<b>1,364,227</b>
<b>VIII. TOTAL OPERATING PROFIT (III+IV+V+VI+VII)</b>		<b>17,221,348</b>	<b>14,828,568</b>
<b>IX. PROVISION FOR LOSSES ON LOANS AND OTHER RECEIVABLES (-)</b>	(5.4.6)	<b>3,160,328</b>	<b>2,814,864</b>
<b>X. OTHER OPERATING EXPENSES (-)</b>	(5.4.7)	<b>6,517,649</b>	<b>6,118,538</b>
<b>XI. NET OPERATING PROFIT/LOSS (VIII-IX-X)</b>		<b>7,543,371</b>	<b>5,895,166</b>
<b>XII. INCOME RESULTED FROM MERGERS</b>		-	-
<b>XIII. INCOME/LOSS FROM INVESTMENTS UNDER EQUITY ACCOUNTING</b>		<b>607,953</b>	<b>398,272</b>
<b>XIV. GAIN/LOSS ON NET MONETARY POSITION</b>		-	-
<b>XV. OPERATING PROFIT/LOSS BEFORE TAXES (XI+XII+XIII+XIV)</b>	(5.4.8)	<b>8,151,324</b>	<b>6,293,438</b>
<b>XVI. PROVISION FOR TAXES (±)</b>	(5.4.9)	<b>1,807,404</b>	<b>1,222,889</b>
16.1 Current tax charge		2,137,034	884,471
16.2 Deferred tax charge/(credit)		(329,630)	338,418
<b>XVII. NET OPERATING PROFIT/LOSS AFTER TAXES (XV±XVI)</b>	(5.4.10)	<b>6,343,920</b>	<b>5,070,549</b>
<b>XVIII. INCOME FROM DISCONTINUED OPERATIONS</b>		-	-
18.1 Income from assets held for sale		-	-
18.2 Income from sale of associates, affiliates and joint-ventures		-	-
18.3 Others		-	-
<b>XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)</b>		-	-
19.1 Expenses on assets held for sale		-	-
19.2 Expenses on sale of associates, affiliates and joint-ventures		-	-
19.3 Others		-	-
<b>XX. PROFIT/LOSS BEFORE TAXES ON DISCONTINUED OPERATIONS (XVIII-XIX)</b>	(5.4.8)	-	-
<b>XXI. PROVISION FOR TAXES OF DISCONTINUED OPERATIONS (±)</b>	(5.4.9)	-	-
21.1 Current tax charge		-	-
21.2 Deferred tax charge/(credit)		-	-
<b>XXII. NET PROFIT/LOSS AFTER TAXES ON DISCONTINUED OPERATIONS (XX±XXI)</b>	(5.4.10)	-	-
<b>XXIII. NET PROFIT/LOSS (XVII+XXII)</b>	(5.4.11)	<b>6,343,920</b>	<b>5,070,549</b>
Earnings per Share		0.01510	0.01207

The accompanying notes are an integral part of these unconsolidated financial statements.



# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Statement of Income/Expense Items Accounted for under Shareholders' Equity  
For the Year Ended 31 December 2017

Convenience Translation  
of Financial Statements  
and Related Disclosures  
and Footnotes Originally  
Issued in Turkish

INCOME AND EXPENSE ITEMS UNDER SHAREHOLDERS' EQUITY	THOUSANDS OF TURKISH LIRA (TL)	
	CURRENT PERIOD	PRIOR PERIOD
	1 JANUARY 2017- 31 DECEMBER 2017	1 JANUARY 2016- 31 DECEMBER 2016
<b>I. MARKET VALUE GAINS ON AVAILABLE FOR SALE ASSETS ACCOUNTED UNDER "SECURITIES VALUE INCREASE FUND"</b>	<b>147,736</b>	<b>(338,406)</b>
<b>II. REVALUATION SURPLUS ON TANGIBLE ASSETS</b>	<b>130,772</b>	<b>-</b>
<b>III. REVALUATION SURPLUS ON INTANGIBLE ASSETS</b>	<b>-</b>	<b>-</b>
<b>IV. TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES</b>	<b>688,571</b>	<b>497,265</b>
<b>V. GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (effective portion)</b>	<b>54,596</b>	<b>12,072</b>
<b>VI. GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (effective portion)</b>	<b>(291,003)</b>	<b>(180,457)</b>
<b>VII. EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS</b>	<b>-</b>	<b>-</b>
<b>VIII. OTHER INCOME/EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY AS PER TAS</b>	<b>69,054</b>	<b>(20,584)</b>
<b>IX. DEFERRED TAXES ON VALUE INCREASES/DECREASES</b>	<b>(101,516)</b>	<b>84,586</b>
<b>X. NET INCOME/EXPENSE ITEMS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+III+IV+V+VI+VII+VIII+IX)</b>	<b>698,210</b>	<b>54,476</b>
<b>XI. CURRENT PERIOD PROFIT/LOSSES</b>	<b>6,343,920</b>	<b>5,070,549</b>
1.1 Net changes in fair value of securities (transferred to income statement)	(51,958)	158,603
1.2 Gains/losses on derivative financial assets held for cash flow hedges, reclassified and recorded in income statement	(84,011)	(125,898)
1.3 Gains/losses on hedges of net investment in foreign operations, reclassified and recorded in income statement	-	-
1.4 Others	6,479,889	5,037,844
<b>XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X+XI)</b>	<b>7,042,130</b>	<b>5,125,025</b>

The accompanying notes are an integral part of these unconsolidated financial statements.

# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Statement of Changes in Shareholders' Equity For the Year Ended 31 December 2017

Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	THOUSANDS OF TURKISH LIRA (TL)																
	PRIOR PERIOD / (I) JANUARY - 31 DECEMBER 2016	PAID-IN CAPITAL	RESERVES FROM INFLATION ADJS TO PAID-IN CAPITAL	SHARE PREMIUM	SHARE CANCELLATION PROFITS	LEGAL RESERVES	STATUS RESERVES	EXTRAORDINARY RESERVES	OTHER RESERVES	CURRENT PERIOD NET PROFIT/ (LOSS)	PRIOR PERIOD PROFIT/ (LOSS)	SECURITIES VALUE INCREASE/ (DECREASE)	REVALUATION SURPLUS ON TANGIBLE AND INTANGIBLE ASSETS	BONUS SHARES OF EQUITY PARTICIPATIONS	HEDGING RESERVES	ACCU. REV. SURP. ON ASSETS HELD FOR SALE AND ASSETS OF DISCOUNT.OP.5	TOTAL SHAREHOLDERS' EQUITY
I. Balances at beginning of the period	4,200,000	772,554	11,880	1,168,329	-	19,159,612	100,008	-	3,406,507	441,960	1,631,907	1,891	86,407	-	-	-	30,981,055
II. Correction made as per TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Effect of corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Adjusted balances at beginning of the period (I+II)	4,200,000	772,554	11,880	1,168,329	-	19,159,612	100,008	-	3,406,507	441,960	1,631,907	1,891	86,407	-	-	-	30,981,055
Changes during the period																	
IV. Mergers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Market value changes of securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Hedging reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.1 Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.2 Hedge of net investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Revaluation surplus on tangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Revaluation surplus on intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Bonus shares of associates, affiliates and joint-ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Translation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Changes resulted from disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Changes resulted from reclassification of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Effect of change in equities of associates on bank's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.1 Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2 Internal sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Share issuance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Capital reserves from inflation adjustments to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIX. Current period net profit/loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.1 Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.2 Transfers to reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.3 Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XX. Profit distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances at end of the period (III+IV+V+...+XVIII+XIX+XX)	4,200,000	772,554	11,880	1,206,160	-	21,972,914	103,038	5,070,549	622,143	1,626,437	1,891	(48,486)	-	-	-	-	35,539,080
III. Balances at beginning of the period	4,200,000	772,554	11,880	1,206,160	-	21,972,914	103,038	5,070,549	622,143	1,626,437	1,891	(48,486)	-	-	-	-	35,539,080
Changes during the period	(5.5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Market value changes of securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Hedging reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1 Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Hedge of net investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Revaluation surplus on tangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Revaluation surplus on intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus shares of associates, affiliates and joint-ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Translation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Changes resulted from disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Changes resulted from reclassification of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Effect of change in equities of associates on bank's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 Internal sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Share issuance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Capital reserves from inflation adjustments to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Current period net profit/loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII. Profit distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.1 Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.2 Transfers to reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.3 Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances at end of the period (III+IV+V+...+XVI+XVII+XVIII)	4,200,000	772,554	11,880	1,311,374	-	25,659,125	90,487	6,343,920	1,520,752	1,659,472	1,856	(240,210)	-	-	-	-	41,331,210

The accompanying notes are an integral part of these unconsolidated financial statements.

# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Statement of Cash Flows For the Year Ended 31 December 2017

Convenience Translation  
of Financial Statements  
and Related Disclosures  
and Footnotes Originally  
Issued in Turkish

STATEMENT OF CASH FLOWS		THOUSANDS OF TURKISH LIRA (TL)	
		CURRENT PERIOD 1 JANUARY 2017- 31 DECEMBER 2017	PRIOR PERIOD 1 JANUARY 2016- 31 DECEMBER 2016
		FOOTNOTES	
<b>A.</b>	<b>CASH FLOWS FROM BANKING OPERATIONS</b>		
<b>1.1</b>	<b>Operating profit before changes in operating assets and liabilities</b>	<b>6,534,574</b>	<b>4,770,050</b>
1.1.1	Interests received	23,115,971	19,229,882
1.1.2	Interests paid	(11,453,366)	(10,011,667)
1.1.3	Dividend received	6,873	6,902
1.1.4	Fees and commissions received	4,876,857	4,142,158
1.1.5	Other income	594,741	1,524,254
1.1.6	Collections from previously written-off loans and other receivables	141,713	148,649
1.1.7	Payments to personnel and service suppliers	(5,906,017)	(5,554,231)
1.1.8	Taxes paid	(1,494,053)	(1,158,390)
1.1.9	Others	(5.6)	(3,557,507)
<b>1.2</b>	<b>Changes in operating assets and liabilities</b>	<b>(10,739,782)</b>	<b>(1,920,647)</b>
1.2.1	Net (increase) decrease in financial assets held for trading	(718,547)	51,124
1.2.2	Net (increase) decrease in financial assets valued at fair value through profit or loss	-	200,000
1.2.3	Net (increase) decrease in due from banks	(11,936,973)	4,750,956
1.2.4	Net (increase) decrease in loans	(24,918,044)	(29,241,092)
1.2.5	Net (increase) decrease in other assets	(820,026)	548,698
1.2.6	Net increase (decrease) in bank deposits	(2,527,244)	(1,805,074)
1.2.7	Net increase (decrease) in other deposits	22,165,746	22,073,158
1.2.8	Net increase (decrease) in funds borrowed	7,009,966	1,672,475
1.2.9	Net increase (decrease) in matured payables	-	-
1.2.10	Net increase (decrease) in other liabilities	(5.6)	(170,892)
<b>I.</b>	<b>Net cash flow from banking operations</b>	<b>(4,205,208)</b>	<b>2,849,403</b>
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>II.</b>	<b>Net cash flow from investing activities</b>	<b>(1,440,215)</b>	<b>826,972</b>
2.1	Cash paid for purchase of associates, affiliates and joint-ventures	(150)	(53,484)
2.2	Cash obtained from sale of associates, affiliates and joint-ventures	1,540	135,173
2.3	Purchases of tangible assets	(543,481)	(959,045)
2.4	Sales of tangible assets	245,269	90,042
2.5	Cash paid for purchase of financial assets available-for-sale	(9,428,962)	(7,154,252)
2.6	Cash obtained from sale of financial assets available-for-sale	7,601,584	8,080,258
2.7	Cash paid for purchase of investments held-to-maturity	(302,008)	(498,479)
2.8	Cash obtained from sale of investments held-to-maturity	985,993	1,186,759
2.9	Others	(5.6)	-
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>III.</b>	<b>Net cash flow from financing activities</b>	<b>4,401,577</b>	<b>(305,466)</b>
3.1	Cash obtained from funds borrowed and securities issued	20,037,570	5,939,235
3.2	Cash used for repayment of funds borrowed and securities issued	(14,368,795)	(5,661,529)
3.3	Equity instruments issued	-	-
3.4	Dividends paid	(1,250,000)	(567,000)
3.5	Payments for financial leases	(17,198)	(16,172)
3.6	Others (payments for founder shares repurchased)	(5.6)	-
<b>IV.</b>	<b>Effect of change in foreign exchange rate on cash and cash equivalents</b>	<b>592,678</b>	<b>762,550</b>
<b>V.</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(651,168)</b>	<b>4,133,459</b>
<b>VI.</b>	<b>Cash and cash equivalents at beginning of period</b>	<b>13,011,577</b>	<b>8,878,118</b>
<b>VII.</b>	<b>Cash and cash equivalents at end of period</b>	<b>12,360,409</b>	<b>13,011,577</b>

The accompanying notes are an integral part of these unconsolidated financial statements.

# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Statement of Profit Distribution At 31 December 2017

Convenience Translation  
of Financial Statements  
and Related Disclosures  
and Footnotes Originally  
Issued in Turkish

		THOUSANDS OF TURKISH LIRA (TL)	
STATEMENT OF PROFIT DISTRIBUTION		CURRENT PERIOD(*) 31 DECEMBER 17	PRIOR PERIOD 31 DECEMBER 16
<b>I. DISTRIBUTION OF CURRENT YEAR PROFIT</b>			
1.1	CURRENT PERIOD PROFIT	8,151,324	6,293,438
1.2	TAXES AND LEGAL DUTIES PAYABLE (-)	1,807,404	1,222,889
1.2.1	Corporate tax (income tax)	1,807,404	1,222,889
1.2.2	Withholding tax	-	-
1.2.3	Other taxes and duties	-	-
<b>A.</b>	<b>NET PROFIT FOR THE PERIOD (1.1-1.2)</b>	<b>6,343,920</b>	<b>5,070,549</b>
1.3	ACCUMULATED LOSSES (-)	-	-
1.4	FIRST LEGAL RESERVES (-)	-	-
1.5	OTHER STATUTORY RESERVES (-)	-	227,611
<b>B.</b>	<b>NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]</b>	<b>-</b>	<b>4,842,938</b>
1.6	FIRST DIVIDEND TO SHAREHOLDERS (-)	-	210,000
1.6.1	To owners of ordinary shares	-	210,000
1.6.2	To owners of privileged shares	-	-
1.6.3	To owners of redeemed shares	-	-
1.6.4	To profit sharing bonds	-	-
1.6.5	To holders of profit and loss sharing certificates	-	-
1.7	DIVIDENDS TO PERSONNEL (-)	-	-
1.8	DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
1.9	SECOND DIVIDEND TO SHAREHOLDERS (-)	-	1,040,000
1.9.1	To owners of ordinary shares	-	1,040,000
1.9.2	To owners of privileged shares	-	-
1.9.3	To owners of redeemed shares	-	-
1.9.4	To profit sharing bonds	-	-
1.9.5	To holders of profit and loss sharing certificates	-	-
1.10	SECOND LEGAL RESERVES (-)	-	104,000
1.11	STATUS RESERVES (-)	-	-
1.12	EXTRAORDINARY RESERVES	-	3,488,938
1.13	OTHER RESERVES	-	-
1.14	SPECIAL FUNDS	-	-
<b>II. DISTRIBUTION OF RESERVES</b>			
2.1	APPROPRIATED RESERVES	-	-
2.2	SECOND LEGAL RESERVES (-)	-	-
2.3	DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1	To owners of ordinary shares	-	-
2.3.2	To owners of privileged shares	-	-
2.3.3	To owners of redeemed shares	-	-
2.3.4	To profit sharing bonds	-	-
2.3.5	To holders of profit and loss sharing certificates	-	-
2.4	DIVIDENDS TO PERSONNEL (-)	-	-
2.5	DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
<b>III. EARNINGS PER SHARE (per YTL'000 face value each)</b>			
3.1	TO OWNERS OF ORDINARY SHARES (per YTL'000 face value each)	0.015	0.01207
3.2	TO OWNERS OF ORDINARY SHARES (%)	151.046	120.73
3.3	TO OWNERS OF PRIVILEGED SHARES	-	-
3.4	TO OWNERS OF PRIVILEGED SHARES (%)	-	-
<b>IV. DIVIDEND PER SHARE</b>			
4.1	TO OWNERS OF ORDINARY SHARES (per YTL'000 face value each)	-	0.00298
4.2	TO OWNERS OF ORDINARY SHARES (%)	-	29.76
4.3	TO OWNERS OF PRIVILEGED SHARES	-	-
4.4	TO OWNERS OF PRIVILEGED SHARES (%)	-	-

(\*) Decision regarding to the 2016 profit distribution will be held at General Assembly meeting.  
The accompanying notes are an integral part of these unconsolidated financial statements.

## 3 ACCOUNTING POLICIES

### 3.1 BASIS OF PRESENTATION

The Bank prepares its financial statements in accordance with the BRSA Accounting and Reporting Regulation" which includes the regulation on "The Procedures and Principles Regarding Banks' Accounting Practices and Maintaining Documents" published in the Official Gazette dated 1 November 2006 with No. 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Board and circulars and pronouncements published by the BRSA and Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority for the matters not regulated by the aforementioned legislations.

The accompanying unconsolidated financial statements are prepared in accordance with the historical cost basis except for financial instruments at fair value through profit or loss, financial assets available for sale, real estates and investments in affiliates valued at equity basis of accounting.

New and revised Turkish Accounting Standards effective for annual periods beginning on or after 1 January 2017 have no material effect on the financial statements, financial performance and on Bank's accounting policies and accounting estimates. New and revised Turkish Accounting Standards issued but not yet effective have no material effect on the financial statements, financial performance and on Bank's accounting policies and accounting estimates, except for IFRS9 which will be effective from periods beginning on or after 1 January 2018. The Bank continues to work in order to comply with TFRS9 standard, and the related studies are summarized in Note 3.29 Other disclosures.

The accounting policies and the valuation principles applied in the preparation of the accompanying financial statements are explained in Notes 3.2 to 3.29.

### 3.2 STRATEGY FOR USE OF FINANCIAL INSTRUMENTS AND FOREIGN CURRENCY TRANSACTIONS

#### 3.2.1 STRATEGY FOR USE OF FINANCIAL INSTRUMENTS

The liability side of the Bank's balance sheet is intensively composed of short-term deposits in line with the general trend in the banking sector. In addition to deposits, the Bank has access to longer-term borrowings via the borrowings from abroad.

In order to manage the interest rate risk arising from short-term deposits, the Bank is keen on maintaining floating rate instruments such as government bonds with quarterly coupon payments and instruments like credit cards and consumer loans providing regular cash inflows.

A portion of the fixed-rate securities and loans, and the bonds of the Bank are hedged under fair value hedges. The fair value risks of such fixed-rate assets and financial liabilities are hedged with interest rate swaps and cross currency swaps. The fair value changes of the hedged fixed-rate financial assets and financial liabilities together with the changes in the fair value of the hedging instruments, namely interest rate swaps and cross currency swaps, are accounted under net trading income/losses in the income statement. At the inception of the hedge and during the subsequent periods, the hedge is expected to achieve the offsetting of changes in fair value attributable to the hedged risk for which the hedge is designated, and accordingly, the hedge effectiveness tests are performed.

The Bank may classify its financial assets and liabilities as at fair value through profit or loss, at the initial recognition in order to eliminate any accounting inconsistency.

The fundamental strategy to manage the liquidity risk that may incur due to short-term structure of funding, is to expand the deposit base through customer-oriented banking philosophy, and to increase customer transactions and retention rates. The Bank's widespread and effective branch network, advantage of primary dealership and strong market share in the treasury and capital markets, are the most effective tools in the realisation of this strategy. For this purpose, serving customers by introducing new products and services continuously and reaching the customers satisfaction are very important.

Another influential factor in management of interest and liquidity risks on balance sheet is product diversification both on asset and liability sides. Exchange rate risk, interest rate risk and liquidity risk are controlled and measured by various risk management systems, and the balance sheet is managed under the limits set by these systems and the limits legally required. Asset-liability management and value at risk models, stress tests and scenario analysis are used for this purpose.

Purchase and sale of short and long-term financial instruments are allowed within the pre-determined limits to generate risk-free return on capital.

The foreign currency position is controlled by the equilibrium of a currency basket to eliminate the foreign exchange risk.

#### 3.2.2 FOREIGN CURRENCY TRANSACTIONS

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates and the differences are recorded as foreign exchange gain or loss in the income statement.

Unconsolidated Financial Report as of and for the Year Ended 31 December 2017  
(Thousands of Turkish Lira (TL))

In the unconsolidated financial statements, the financial affiliates are accounted for using the equity method in accordance with the Communiqué published on the Official Gazette dated 9 April 2015 no. 29321 related to the amendments to the Turkish Accounting Standard 27 (TAS 27) "Separate Financial Statements". In this context, foreign affiliates' asset and liability items in the balance sheet are translated into Turkish Lira by using foreign exchange rates as of the balance sheet date whereas income and expense items are translated into Turkish Lira by using average foreign exchange rates for the related period. Foreign exchange differences arising from translation of income and expense items and other equity items are accounted under capital reserves under equity.

From 1 September 2015, it has been started to apply investment hedge amounting to EUR 366,532,341 (31 December 2016: EUR 333,487,913) in total among investments in Garanti Bank International NV and Garanti Holding BV having capitals denominated in foreign currencies and long term foreign currency borrowings. Foreign exchange losses in the amount of TL 438,651 thousands (31 December 2016: TL 147,648 thousands), arising from conversion of both foreign currency investments and long term foreign currency borrowings are accounted under capital reserves and hedging reserves, respectively under equity as of 31 December 2017. There is no ineffective portion arising from investment hedge accounting.

### 3.3 INVESTMENTS IN ASSOCIATES AND AFFILIATES

In the unconsolidated financial statements, the financial affiliates are accounted for using the equity method in accordance with the Communiqué published on the Official Gazette dated 9 April 2015 no. 29321 related to the amendments to the Turkish Accounting Standard 27 (TAS 27) "Separate Financial Statements".

In accordance with the Turkish Accounting Standard 28 (TAS 28) for "Investments in Associates and Joint Ventures" through the equity method, the carrying value of financial affiliates are accounted in the financial statements with respect to the Bank's share in these investments' net asset value. While the Bank's share on profits or losses of financial affiliates are accounted in the Bank's income statement, the Bank's share in other comprehensive income of financial affiliates are accounted in the Bank's other comprehensive income statement.

Non-financial affiliates are accounted at cost in the financial statements after provisions for impairment losses deducted, if any, in accordance with TAS 27.

### 3.4 FORWARDS, OPTIONS AND OTHER DERIVATIVE TRANSACTIONS

As per the Turkish Accounting Standard 39 (TAS 39) "Financial Instruments: Recognition and Measurement"; forward foreign currency purchases/sales, swaps, options and futures are classified as either "hedging purposes" or "trading purposes".

#### 3.4.I DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR TRADING

The Bank's derivative transactions mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency purchase/sale contracts.

Derivatives are initially recorded at their fair values. The related transaction costs are recognized in income statement at the date they incur. The changes in their fair values are recorded on balance sheet under "derivative financial assets held for trading" or "derivative financial liabilities held for trading", respectively depending on the fair values being positive or negative. Fair value changes for trading derivatives are recorded under income statement.

The spot legs of currency swap transactions are recorded on the balance sheet and the forward legs in the off-balance sheet accounts as commitment.

In the initial phase of currency swaps, the, currency exchange transactions to realise at value dates are recorded and followed as irrevocable commitments in the off-balance sheet accounts up to their value dates.

Liabilities and receivables arising from the derivative instruments are recorded under the off-balance sheet accounts at their contractual values.

Embedded derivatives are separated from the host contract and accounted as derivative instruments according to TAS 39 "Financial Instruments: Recognition and Measurement" in case the related embedded derivative's economic features and risks are not closely related to the host contract, meets the derivative product definition of a different instrument having the same contract conditions with the embedded derivative and the hybrid instrument is not carried at fair value through profit or loss. The Bank has no embedded derivatives separated from the host contract.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another. The Bank's credit derivatives portfolio included in the off-balance sheet accounts composes of total return swaps and credit default swaps resulted from protection buying or selling.

Credit default swap is a contract, in which the protection seller commits to pay the protection value to the protection buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily at their fair values.

Total return swap is a contract, in which the protection seller commits to make a certain payment and compensate the decreases in market values of the reference assets to the buyer under the condition that the protection buyer will transfer all the cash flows to be created by and the increases in market values of the reference asset. The Bank enters into total return swap contract for the purpose of generating long-term funding.

### 3.4.2 DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSE

The Bank enters into interest rate and cross currency swap transactions in order to hedge the change in fair values of fixed-rate financial instruments. The changes in fair values of derivative financial assets held for fair value hedges are recognised in "income/losses from derivative financial instruments". If the hedging is effective, the changes in fair value of the hedged item is presented in statement of financial position together with the fixed-rate loan, and in case of fixed-rate financial assets available for sale, such changes are reclassified from shareholders' equity to income statement.

The Bank enters into interest rate and cross currency swap transactions in order to hedge the changes in cash flows of the floating-rate financial instruments. While applying cash flow hedge accounting, the effective portion of the changes in the fair value of the hedging instrument is accounted for under hedging reserves in shareholders' equity, and the ineffective portion is recognised in income statement. The changes recognised in shareholders' equity is removed and included in income statement in the same period when the hedged cash flows effect the income or loss.

The Bank performs effectiveness test at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the "Dollar off-set model" and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness.

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortised to income statement under trading account income/loss caption over the maturity of the hedged item from that date of the hedge accounting is discontinued. While expiring, sale, discontinuing cash flow hedge accounting or when no longer effective the cumulative gains/losses recognised in shareholders' equity and presented under hedging reserves are continued to be kept in this account. When the cash flows of hedged item incur, the gain/losses accounted for under shareholders' equity, are recognised in income statement considering the original maturity.

### 3.5 INTEREST INCOME AND EXPENSES

Interest is recorded according to the effective interest rate method (rate equal to the rate in calculation of present value of future cash flows of financial assets or liabilities) defined in the Turkish Accounting Standard 39 (TAS 39) "Financial Instruments: Recognition and Measurement".

In case an interest was accrued on a security before its acquisition, the collected interest is divided into two parts as interest before and after the acquisition and only the interest of the period after the acquisition is recorded as interest income in the financial statements.

The accrued interest income on non-performing loans are reversed and subsequently recognised as interest income only when collected.

### 3.6 FEES AND COMMISSIONS

Except for certain fees related with certain banking transactions and recognized when received, fees and commissions received or paid, and other fees and commissions paid to financial institutions are accounted under accrual basis of accounting. The income derived from agreements or asset purchases from real-person or corporate third parties are recognized as income when realized.

### 3.7 FINANCIAL ASSETS

#### 3.7.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets valued at fair value through profit or loss, such assets are valued at their fair values and gain/loss arising on those assets is recorded in the income statement. Interest income earned on trading securities and the difference between their acquisition costs and amortized costs are recorded as interest income in the income statement. The differences between the amortized costs and the fair values of such securities are recorded under trading account income/losses in the income statement. In cases where such securities are sold before their maturities, the gains/losses on such sales are recorded under trading account income/losses.

The Bank classifies certain loans and securities issued at their origination dates, as financial assets/liabilities at fair value through profit or loss in compliance with TAS 39. The interest income/expense earned and the difference between the acquisition costs and the amortized costs of financial instruments are recorded under interest income/expense in income statement, the difference between the amortized costs and the fair values of financial instruments are recorded under trading account income/losses in income statement.

### 3.7.2 INVESTMENTS HELD-TO-MATURITY, FINANCIAL ASSETS AVAILABLE-FOR-SALE AND LOANS AND RECEIVABLES

Financial assets are initially recorded at their purchase costs including the transaction costs.

*Investments held-to-maturity* are financial assets with fixed maturities and pre-determined payment schedules and held by the intent and ability to hold until maturity, excluding originated loans and receivables.

There are no financial assets that were previously classified as held-to-maturity but cannot be subject to this classification for two years due to breach of classification principles. In accordance with TAS 39 "Financial Instruments: Recognition and Measurement", sale or reclassification to available for sale portfolio of insignificant amount of financial assets, sale or reclassification to available for sale portfolio of financial assets which are close to maturity less than three months, or sale or reclassification to available for sale portfolio of assets as a result of significant increase in the risk weights of held-to-maturity investments used for regulatory risk-based capital purposes will not result in tainting.

Following their recognition, investments held-to-maturity are measured at amortized costs using internal rate of return after deducting impairments, if any.

*Financial assets available-for-sale*, are financial assets other than assets held for trading purposes, investments held-to-maturity and originated loans and receivables.

Financial assets available-for-sale are measured at their fair values subsequently. However, assets for which fair values can not be determined reliably, are valued at amortized costs by using discounting method with internal rate of return for floating-rate securities; and by using valuation models or discounted cash flow techniques for fixed-rate securities. Unrecognised gain/losses derived from the difference between their fair values and the discounted values are recorded in "securities value increase fund" under the shareholders' equity. In case of sales, the gain/losses arising from fair value measurement under shareholders' equity are recognized in income statement.

Interests calculated and/or earned by using the effective interest method during holding of financial assets available-for-sale are recorded primarily in interest income. In case of sale of such financial assets available-for-sale before maturity date, the difference between the sales income calculated as difference between the cost in accordance with Uniform Chart of Accounts and the sale price and the recognized interest income is transferred to "trading account income/losses".

The Bank owns consumer price indexed government bonds (CPI) portfolio. CPI's are valued and accounted according to the effective interest rate method which is calculated according to the real coupon rate and the reference inflation index on the issue date. As it is mentioned in the Undersecretariat of Treasury's Investor Guide of CPI, the reference index used during the calculation of the actual coupon payment amount is the previous two months CPI's. The bank determines its expected inflation rates in compliance with this guide. The estimated inflation rate according to the Central Bank of Turkey and the Bank's expectations, is updated during the year when it is considered necessary.

Purchase and sale transactions of securities are accounted at delivery dates.

*Loans and receivables* are financial assets other than those held for trading in short term or generated through providing money, commodity and services to debtors.

Loans are financial assets with fixed or determinable payments and not quoted in an active market.

Loans and receivables are recognized at cost and measured at amortized cost using the effective interest method. Duties paid, transaction costs and other similar expenses on assets received against such risks are considered as a part of transaction cost and charged to customers.

### 3.8 IMPAIRMENT OF FINANCIAL ASSETS

Financial asset or group of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the Bank estimates the amount of impairment.

Impairment loss incurs if, and only if, there is an objective evidence that the expected future cash flows of financial asset or group of financial assets are adversely effected by an event(s) ("loss event(s)") incurred subsequent to recognition. The losses expected to incur due to future events are not recognized even if the probability of loss is high.

If there is an objective evidence that certain loans will not be collected, for such loans; the Bank provides specific and general allowances for loan and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables (the Provisioning Regulation) published on the Official Gazette no.26333 dated 1 November 2006. The allowances are recorded in income statement of the related period.

Provisions made during the period are recorded under "provision for losses on loans and other receivables". Provisions booked in the prior periods and released in the current year are recorded under "other operating income".



## 3.9 NETTING AND DERECOGNITION OF FINANCIAL INSTRUMENTS

### 3.9.1 NETTING OF FINANCIAL INSTRUMENTS

In cases where the fair values of trading securities, securities available-for-sale, securities quoted at the stock exchanges, associates and affiliates are less than their carrying values, a provision for impairment is allocated, and the net value is shown on the balance sheet.

The Bank provides specific allowances for non-performing loan and other receivables in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables. Such allowances are recorded under "loans" as negative balances on the asset side.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognized amounts and to collect/pay related financial assets and liabilities on a net basis, or there is an intention to realize the asset and settle the liability simultaneously.

### 3.9.2 DERECOGNITION OF FINANCIAL ASSETS

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in income statement.

In case an existing financial asset is replaced with another financial asset from the same counterparty where the terms on the initial financial asset are substantially modified, the existing financial asset is derecognized and a new financial asset is recognized. The difference between the carrying values of the respective financial assets is recognized in income statement.

## 3.10 REPURCHASE AND RESALE AGREEMENTS AND SECURITIES LENDING

Securities sold under repurchase agreements are recorded on the balance sheet in compliance with the Uniform Chart of Accounts. Accordingly, government bonds and treasury bills sold to customers under repurchase agreements are classified as "Investments Subject to Repurchase Agreements" and valued based on the Bank management's future intentions, either at market prices or using discounting method with internal rate of return. The funds received through repurchase agreements are classified separately under liability accounts and the related interest expenses are accounted for on an accrual basis.

Securities purchased under resale agreements are classified under "interbank money markets" separately. An income accrual is accounted for the positive difference between the purchase and resale prices earned during the period on such securities.

Securities lending transactions are classified under "interbank money markets" and the related expense accruals are accounted.

## 3.II ASSETS HELD FOR SALE, DISCONTINUED OPERATIONS AND RELATED LIABILITIES

According to the Turkish Financial Reporting Standard 5 (TFRS 5) "Assets Held for Sale and Discontinued Operations", a tangible asset (or a group of assets to be disposed) classified as "asset held for sale" is measured at lower of carrying value and fair value less costs to sell. An asset (or a group of assets to be disposed) is regarded as "asset held for resale" only when the sale is highly probable and the asset (or a group of assets to be disposed) 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 in the market at a price consistent with its fair value. Assets held for sale consist of tangible assets acquired against non-performing receivables.

A discontinued operation is a part of the Bank's business classified as sold or held-for-sale. The operating results of the discontinued operations are disclosed separately in income statement. The Bank has no discontinued operations.

## 3.12 GOODWILL AND OTHER INTANGIBLE ASSETS

The Bank's intangible assets consist of softwares, intangible rights and other intangible assets.

Goodwill and other intangible assets are recorded at cost in compliance with the Turkish Accounting Standard 38 (TAS 38) "Intangible Assets".

The costs of other intangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 2004, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their initial purchase costs.

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

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

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

The intangible assets are amortised by the Bank over their estimated useful lives based on their inflation adjusted costs on a straight-line basis. Estimated useful lives of the Bank's intangible assets are 3-15 years, and amortisation rates are 6.67-33.3%.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the Turkish Accounting Standard 36 (TAS 36) "Impairment of Assets" and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is provided.

## 3.13 TANGIBLE ASSETS

The cost of the tangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 2004, the date the hyperinflationary period is considered to be ended. The tangible assets purchased after this date are recorded at their historical costs.

As of 1 November 2015, changing the existing accounting policy, it has been decided to apply revaluation model for properties recorded under tangible assets instead of cost model in accordance with the Turkish Accounting Standard 16 (TAS 16) "Property, Plant and Equipment". Accordingly, for all real estates registered in the ledger, a valuation study was performed by independent expertise firms.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the Turkish Accounting Standard 36 (TAS 36) "Impairment of Assets" and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is provided.

Gains/losses arising from the disposal of the tangible assets are calculated as the difference between the net book value and the net sale price.

Maintenance and repair costs incurred for tangible assets, are recorded as expense.

There are no restrictions such as pledges, mortgages or any other restriction on tangible assets. The depreciation rates and the estimated useful lives of tangible assets are presented below. Depreciation method in use was not changed in the current period.

TANGIBLE ASSETS	ESTIMATED USEFUL LIVES (YEARS)	DEPRECIATION RATES %
Buildings	50	2
Vaults	50	2
Motor Vehicles	5-7	15-20
Other Tangible Assets	4-20	5-25

The depreciation of an asset held for a period less than a full financial year is calculated as a proportion of the full year depreciation charge from the date of acquisition to the financial year end.

Useful lives of buildings are reviewed at least once a year and if current estimates are different than previous estimates, then the revised estimates are considered as accounting policy change in accordance with Turkish Accounting Standard 8 (TAS 8) "Accounting Policies, Changes in Accounting Estimates and Errors".

#### *Investment properties*

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 Turkish Accounting Standard 40 (TAS 40) "Investment Property". 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 in the income statement for the period they occurred.

Investment properties accounted at fair value are not depreciated.

### 3.14 LEASING ACTIVITIES

Tangible assets acquired through financial leasing are recognized as assets and the related liabilities as lease payables in the Bank's assets and liabilities, respectively. In the determination of the related asset and liability amounts, the lower of the fair value of the leased assets and the present value of leasing payments is considered. Financial costs on leasing agreements are distributed throughout the lease periods at fixed interest rates. Interest expenses and foreign exchange losses related with financial leasing are accounted in income statement.

In cases where leased assets are impaired or the expected future benefits of the assets are less than their book values, the book values of such leased assets are reduced to their net realizable values. Depreciation for assets acquired through financial leases is calculated consistently with the same principle as for the tangible assets.

Leases, in which the majority of risks and returns of the related asset belong to the lessor, are classified as operational lease. In operating leases, the rent payments are recognized as expense in income statement in equal amounts over the lease term.

### 3.15 PROVISIONS AND CONTINGENT LIABILITIES

Provisions and contingent liabilities resulted from past events, if it is probable that the commitment will be settled and a reliable estimate can be made for the amount of the obligation, are accounted for in accordance with the Turkish Accounting Standard 37 (TAS 37) "Provisions, Contingent Liabilities and Contingent Assets".

### 3.16 CONTINGENT ASSETS

The contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank. If an inflow of economic benefits to the Bank has become probable, then the contingent asset is disclosed in the footnotes to the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the related period.

### 3.17 LIABILITIES FOR EMPLOYEE BENEFITS

#### *Severance indemnities and short-term employee benefits*

As per the existing labour law in Turkey, the Bank is required to pay certain amounts to the employees retired or fired except for resignations or misbehaviours specified in the Turkish Labour Law.

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Accordingly, the Bank reserved for employee severance indemnities in the accompanying financial statements using actuarial method in compliance with the Turkish Accounting Standard 19 (TAS 19) "Employee Benefits" for all its employees who retired or whose employment is terminated, called up for military service or died. The major actuarial assumptions used in the calculation of the total liability are as follows:

	31 DECEMBER 2017	31 DECEMBER 2016
	%	%
<b>Net Effective Discount Rate</b>	3.04	3.43
<b>Discount Rate</b>	11.70	11.20
<b>Expected Rate of Salary Increase</b>	9.90	9.30
<b>Inflation Rate</b>	8.40	7.80

The above rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years-in-service.

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

The actuarial gains/losses are recognised under shareholders' equity as per the revised TAS 19.

## Retirement benefit obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee (and his/her dependents) will receive on retirement.

The Bank's defined benefit plan (the "Plan") is managed by "Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı" (the Fund) established as per the provisional article 20 of the Social Security Law no.506 and the Bank's employees are the members of this Fund.

The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506. These contributions are as follows:

	31 DECEMBER 2017	
	EMPLOYER	EMPLOYEE
Pension contributions	15.5%	10.0%
Medical benefit contributions	6.0%	5.0%

The Plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation ("SSF") as per the Social Security Law no.5754 ("the Law"), and b) other social rights and medical benefits provided by the Bank but not transferable to SSF.

## a) Benefits transferable to SSF

The first paragraph of the provisional article 23 of Banking Law no.5411, published in the Official Gazette on 1 November 2005, no.25983, which requires the transfer of the members of the funds subject to the provisional article 20 of the Social Security Law no.506, and the persons who are paid under insurance coverage for disablement, old-age and mortality and their right-holders to the SSF within three years following the effective date of the related article was cancelled with the decision of the Constitutional Court dated 22 March 2007, no.2007/33. The reasoned ruling regarding the cancellation of the Constitutional Court was published in the Official Gazette no.26731, dated 15 December 2007. The Constitutional Court stated that the reason behind this cancellation was the possible loss of antecedent rights of the fund members.

Following the publication of the verdict, the Turkish Grand National Assembly ("Turkish Parliament") started to work on the new legal arrangements by taking the cancellation reasoning into account and the articles of the Law no.5754 regulating the principles related with such transfers were accepted and approved by Turkish Parliament on 17 April 2008, and enacted on 8 May 2008 after being published in the Official Gazette no.26870.

As per the Law, the present value of post-employment benefits as at the transfer date for the fund members to be transferred, are to be calculated by a commission composing from the representatives of the SSF, the Ministry of Finance, the Undersecretariat of Treasury, the Undersecretariat of State Planning Organisation, the BRSA, the Savings Deposit Insurance Fund ("SDIF"), the banks and the funds, by using a technical discount rate of 9.80% taking into account the funds' income and expenses as per insurance classes and the transferable contributions and payments of the funds including any salary and income differences paid by the funds above the limits of SSF for such payments. The transfers are to take place within the three-year period starting from 1 January 2008. Subsequently, the transfer of the contributors and the persons receiving monthly or regular income and their right-holders from such funds established for employees of the banks, insurance and reinsurance companies, trade chambers, stock markets and unions that are part of these organizations subject to the provisional article 20 of the Social Security Law no.506 to the SSF, has been postponed for two years. The decision was made by the Council of Ministers on 14 March 2011 and published in the Official Gazette no. 27900 dated 9 April 2011 as per the decision of the Council of Ministers, no.2011/1559, and as per the letter no. 150 of the Ministry of Labor and Social Security dated 24 February 2011 and according to the provisional article 20 of the Social Security and Public Health Insurance Law no.5510.

On 19 June 2008, Cumhuriyet Halk Partisi ("CHP") applied to the Constitutional Court for the cancellation of various articles of the Law including the first paragraph of the provisional Article 20. At the meeting of the Constitutional Court on 30 March 2011, it was decided that the first paragraph of the provisional Article 20 of the Law is not contradictory to the Constitutional Law, and accordingly the dismissal of the cancellation request has been denied with the majority of votes.

Before the completion of two-years period set by the Council of Ministers on 14 March 2011, 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.

#### b) Other benefits not transferable to SSF

Other social rights and payments provided in the existing trust indenture but not covered through the transfer of the funds' members and their right-holders to the SSF, are to be covered by the funds and the institutions that employ the funds' members.

The actuarial gains/losses are recognised under shareholders' equity as per the revised TAS 19.

### 3.18 TAXATION

#### 3.18.1 CORPORATE TAX

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. This rate is applied to tax base which is calculated by adding certain non deductible expenses for tax purposes and deducting certain exemptions (like dividend income) and other deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. As per the decisions no.2009/14593 and no.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.

The prepaid taxes are calculated and paid at the rates valid for the earnings of the related years. The prepayments can be deducted from the annual corporate tax calculated for the whole year earnings.

In accordance with the tax legislation, 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 previous periods.

Effective between 1 January 2017 and 4 December 2017, earnings generated through transfer of real estates, equity shares, founders' shares, redeemed shares and pre-emption rights owned by the companies being under legal proceedings due to their debts to the banks or liable to the Savings Deposit Insurance Fund or by their guarantors and mortgage providers and earnings generated by the banks through sale of such assets are exempt from corporate tax at the rate of 75%.

Effective between 1 January 2017 and 4 December 2017, 75% of earnings generated through sale of real estates, equity shares, founders' shares, redeemed shares and pre-emption rights held as asset at least for two years by the institutions are exempt from the corporate tax with the conditions that such earnings shall be held in a special reserve account under equity until the end of five years following the year of sale and shall be collected as cash until the end of the following two fiscal years.

On the other hand, based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061, effective from 5 December 2017, the aforementioned exemption rate is set as 50% for the earnings generated through sale of real estates and 75% for the earnings generated through sale of other items.

The 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 balance sheets, income statements 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 twelve 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 presented in the tax declaration form that is due till the following year's month of November.

## 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 in addition to corporate tax. The municipalities have the right to increase this rate up to 200%-350%. The municipality commerce tax, which the Bank's Luxembourg branch subject to currently is applied as 7.50% of the taxable income.

The tax returns do not include any tax amounts to be paid. The tax calculation is done by the tax office and the amount to be paid is declared to corporate through an official letter 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.

### 3.18.2 DEFERRED TAXES

According to the Turkish Accounting Standard 12 (TAS 12) "Income Taxes"; deferred tax assets and liabilities are recognized, using the balance sheet method, on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

If transactions and events are recorded in the income statement, then the related tax effects are also recognized in the income statement. However, if transactions and events are recorded directly in the shareholders' equity, the related tax effects are also recognized directly in the shareholders' equity.

The deferred tax assets and liabilities are reported as net in the financial statements.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Furthermore, the deferred tax assets are not subject to profit distribution or capital increase as per the BRSA's related circular in cases where there are net asset balances after netting deferred tax assets with deferred tax liabilities.

### 3.18.3 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.

### 3.19 FUNDS BORROWED

The Bank, whenever required, generates funds from domestic and foreign sources in the form of borrowings, syndications, securitizations, and bill and bond issuances in the local and international markets. The funds borrowed are recorded at their purchase costs and valued at amortised costs using the effective interest method.

In cases where such funds are valued at their amortised costs but this application results in measurement or accounting mismatch due to having the related financial instruments valued using different methods or the related gains or losses are recognized differently, such

fundings are reclassified as financial liabilities at their fair values through profit or loss at initial recognition in order to prevent such mismatch. The interest expenses paid during holding the related financial liabilities and the difference between the amortized cost and the acquisition cost are recorded as interest expense in income statement and the difference between the fair values and the amortized costs of the financial liabilities are recorded under trading account income/losses.

### 3.20 SHARE ISSUANCES

If the Bank issues a share at a price above its nominal value, the difference between the issue price and the nominal value is accounted for "share premium" under shareholders' equity.

### 3.21 CONFIRMED BILLS OF EXCHANGE AND ACCEPTANCES

Payments of the confirmed bills of exchange and acceptances are made simultaneously with the payments of the customers. Confirmed bills of exchange and acceptances are recorded in off-balance sheet accounts as possible debts and commitments, if any.

### 3.22 GOVERNMENT INCENTIVES

As of 31 December 2017, the Bank does not have any government incentives or grants (2016: none).

### 3.23 SEGMENT REPORTING

The Bank operates in corporate, commercial, retail and investment banking. Accordingly, the banking products served to customers are; custody services, time and demand deposits, accumulating deposit accounts, repos, overdraft facilities, spot loans, foreign currency indexed loans, consumer loans, automobile and housing loans, working capital loans, discounted bills, gold loans, foreign currency loans, Eximbank loans, pre-export loans, ECA covered financing, letters of guarantee, letters of credit, export factoring, acceptance credits, draft facilities, forfaiting, leasing, insurance, forward, futures, salary payments, investment account (ELMA), cheques, safety boxes, bill payments, tax collections, payment orders. GarantiCard, BonusCard, Miles&Smiles Card, FlexiCard, MoneyCard, BusinessCard under the brand names of Visa and Mastercard, virtual cards and also American Express credit cards and "Paracard" debit cards with Maestro, Electron, Visa and Mastercard brand names, are available.

The Bank provides service packages to its corporate, commercial and retail customers including deposit, loans, foreign trade transactions, investment products, cash management, leasing, factoring, insurance, credit cards, and other banking products. A customer-oriented branch network has been built in order to serve customers' needs effectively and efficiently. The Bank also utilizes alternative delivery channels intensively.

The Bank provides corporate banking products to international and national holdings in Turkey by coordinating regional offices, suppliers and intermediaries, utilizing cross-selling techniques. Mainly, it provides services through its commercial and mixed type of branches to export-revenue earning sectors like tourism and textile and exporters of Turkey's traditional agricultural products.

Additionally, the Bank provides banking services to enterprises and their employees working in retail and service sectors through product packages including overdraft accounts, POS machines, credit cards, cheque books, Turkish Lira and foreign currency deposits, investment accounts, internet banking and call-center, debit cards and bill payment modules.

Retail banking customers form a wide-spread and sustainable deposit base for the Bank. Individual customers' needs are met by diversified consumer banking products through branches and alternative delivery channels.

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Information on the business segments is as follows:

CURRENT PERIOD	RETAIL BANKING	CORPORATE / COMMERCIAL BANKING	INVESTMENT BANKING	OTHER	TOTAL OPERATIONS
Total Operating Profit	7,724,130	6,464,771	333,916	2,691,658	17,214,475
Other	-	-	-	-	-
<b>Total Operating Profit</b>	<b>7,724,130</b>	<b>6,464,771</b>	<b>333,916</b>	<b>2,691,658</b>	<b>17,214,475</b>
Net Operating Profit	3,433,663	3,410,157	132,855	1,167,776	8,144,451
Income from Associates and Affiliates	-	-	-	6,873	6,873
<b>Net Operating Profit</b>	<b>3,433,663</b>	<b>3,410,157</b>	<b>132,855</b>	<b>1,174,649</b>	<b>8,151,324</b>
Provision for Taxes	-	-	-	1,807,404	1,807,404
<b>Net Profit</b>	<b>3,433,663</b>	<b>3,410,157</b>	<b>132,855</b>	<b>(632,755)</b>	<b>6,343,920</b>
Segment Assets	66,341,786	143,338,091	95,545,885	13,431,883	318,657,645
Investments in Associates and Affiliates	-	-	-	6,574,629	6,574,629
<b>Total Assets</b>	<b>66,341,786</b>	<b>143,338,091</b>	<b>95,545,885</b>	<b>20,006,512</b>	<b>325,232,274</b>
Segment Liabilities	118,171,969	74,209,246	84,161,479	7,358,370	283,901,064
Shareholders' Equity	-	-	-	41,331,210	41,331,210
<b>Total Liabilities and Shareholders' Equity</b>	<b>118,171,969</b>	<b>74,209,246</b>	<b>84,161,479</b>	<b>48,689,580</b>	<b>325,232,274</b>
<b>PRIOR PERIOD</b>	<b>RETAIL BANKING</b>	<b>CORPORATE / COMMERCIAL BANKING</b>	<b>INVESTMENT BANKING</b>	<b>OTHER</b>	<b>TOTAL OPERATIONS</b>
Total Operating Profit	6,394,734	4,936,333	1,050,130	2,440,469	14,821,666
Other	-	-	-	-	-
<b>Total Operating Profit</b>	<b>6,394,734</b>	<b>4,936,333</b>	<b>1,050,130</b>	<b>2,440,469</b>	<b>14,821,666</b>
Net Operating Profit	2,752,763	1,731,805	711,270	1,090,698	6,286,536
Income from Associates and Affiliates	-	-	-	6,902	6,902
<b>Net Operating Profit</b>	<b>2,752,763</b>	<b>1,731,805</b>	<b>711,270</b>	<b>1,097,600</b>	<b>6,293,438</b>
Provision for Taxes	-	-	-	1,222,889	1,222,889
<b>Net Profit</b>	<b>2,752,763</b>	<b>1,731,805</b>	<b>711,270</b>	<b>(125,289)</b>	<b>5,070,549</b>
Segment Assets	59,084,680	126,963,548	81,188,982	11,707,628	278,944,838
Investments in Associates and Affiliates	-	-	-	5,210,562	5,210,562
<b>Total Assets</b>	<b>59,084,680</b>	<b>126,963,548</b>	<b>81,188,982</b>	<b>16,918,190</b>	<b>284,155,400</b>
Segment Liabilities	106,985,273	61,415,792	74,568,141	5,647,114	248,616,320
Shareholders' Equity	-	-	-	35,539,080	35,539,080
<b>Total Liabilities and Shareholders' Equity</b>	<b>106,985,273</b>	<b>61,415,792</b>	<b>74,568,141</b>	<b>41,186,194</b>	<b>284,155,400</b>

### 3.24 PROFIT RESERVES AND PROFIT APPROPRIATION

Retained earnings as per the statutory financial statements other than legal reserves, are available for distribution, subject to the legal reserve requirement explained to below.

Under the Turkish Commercial Code, legal reserves consist of first legal reserve and second legal reserve. First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid-in share capital. Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued and fully paid-in share capital, but holding companies are not subject to such transaction. According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

In the ordinary general assembly dated 30 March 2017, it was decided to distribute cash dividend from the net profit of the Bank amounting to TL 5,070,549 thousands from its 2016 operations to the shareholders as disclosed in Note 6.2.



### 3.25 EARNINGS PER SHARE

Earnings per share disclosed in the income statement are calculated by dividing net profit by the weighted average number of shares outstanding during the year concerned.

	CURRENT PERIOD	PRIOR PERIOD
Distributable net profit for the year	6,343,920	5,070,549
Average number of issued common shares (thousand)	420,000,000	420,000,000
Earnings per share (amounts presented full TL)	0.01510	0.01207

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period. In case bonus shares are distributed after the balance sheet date but before the preparation of the financial statements, earnings per share is calculated considering the new number of shares. There are no bonus shares issued in 2017 (2016: none).

### 3.26 RELATED PARTIES

For the purpose of these financial statements, shareholders having control shares of the Bank, key management personnel and board members together with their families and companies controlled by/affiliated with them, associated companies and joint ventures and the Fund providing post employment benefits are considered and referred to as related parties in accordance with TAS 24 "Related Parties". The transactions with related parties are disclosed in detail in Note 5.7.

### 3.27 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash includes cash effectives, cash in transit, purchased cheques and demand deposits including balances with the Central Bank of Turkey; and cash equivalents include interbank money market placements, time deposits at banks with original maturity periods of less than three months and investments on marketable securities other than common stocks.

### 3.28 RECLASSIFICATIONS

None.

### 3.29 OTHER DISCLOSURES

In January 2017, Public Oversight Accounting and Auditing Standards Authority ("POA") published the final version of TFRS 9 which replaces TAS 39. TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. In this context, it became compulsory for banks to adopt TFRS 9 effective from 1 January 2018 based on the regulation published in the Official Gazette no. 29750 dated 22 June 2016 in connection with procedures and principals regarding classification of loans and allowances allocated for such loans.

The Bank has been analysing the potential impact of the new standard on both in the classification of portfolios and in the valuation models of financial instruments ever since publication of the initial drafts of the standard.

During 2016 and 2017, the Bank conducted an extensive project to implement TFRS 9 with the participation of finance, risk, technology, economic research departments and business areas. In this project, it is established the definition of the processes regarding implementation of the corresponding accounting policies and standards and made necessary preparations in connection with the presentation of the financial statements.

The impact assessment regarding three phases of TFRS 9 is explained below:

#### Measurement and Classification of Financial Instruments:

##### Financial Assets:

TFRS 9 contains a new approach regarding the classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. TFRS 9 contains three main categories of classification for financial assets: valued at amortized cost, valued at fair value with changes in other comprehensive income, and valued at fair value through profit or loss. It is anticipated that the financial assets valued at fair value through profit or loss will continue to be measured at fair value. On the other hand, there might be classifications among the financial assets classified as financial assets valued at amortized cost or valued at fair value with changes in other comprehensive income depending on the characteristics of their business models.

Loans and receivables are held to collect contractual cash flows and such cash flows consist of principal and interest collections. The Bank analysed contractual cash flow characteristics of these financial instruments and decided to classify such instruments as financial assets valued at amortised cost. Accordingly, it shall not be possible to classify these financial instruments into a different category.

Based on the analysis carried out up until today, the Bank considers that the new classification requirements under TFRS 9 will not have a significant impact on the balance sheet of the Bank.

#### *Financial Liabilities:*

TFRS 9 maintains the requirements in TAS 39 for the classification of financial liabilities except for allowing accounting of the fair value changes occurred as a result of changes in a financial liability's own credit risk under other comprehensive income for the liabilities designated for fair value option (applicable for instances not affecting the accounting mismatch at large extent). Based on the evaluation of the Bank, it is not anticipated a significant impact regarding accounting of financial liabilities based on the scope of TFRS 9.

#### **Impairment:**

TFRS 9 replaces the "incurred losses" model in TAS 39 with a model of "expected credit loss". The new standard establishes three stages impairment model (general model) based on the change in credit quality subsequent to initial recognition.

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

The matters which have the most significant impact on TFRS 9 implementation and may change impairment calculations considerably are presented below:

- Assessment of under which conditions there may be significant increase in credit risk
- Macroeconomic factors, forward looking information and multiple scenarios
- Maximum contractual period over which it is exposed to credit risk to be considered during measurement of expected credit losses
- Definition of default

It is not anticipated a significant impact on the total equity as a result of the impairment calculation based expected credit loss model in accordance with TFRS 9. The impact of implementation for this standard is based on the assessments made so far. As of the transition date, it is still ongoing the revisions on the accounting policies, relevant processes and internal controls. Accordingly, there might be changes in the anticipated impact of TFRS 9 on the financials until announcement of the first time adoption financial statement including the opening balance sheet as of 1 January 2018. Besides, the Bank will calculate deferred tax on the expected credit losses calculated on stage 1 and 2 loans and the impact regarding calculated deferred tax asset will be accounted under equity during transition.

#### **Hedge Accounting:**

TFRS 9 also includes new hedge accounting rules regarding alignment of the risk management strategies with hedge accounting. During selection of the accounting policies, TFRS 9 gives option of continuing with TAS 39 hedge accounting principles and deferring hedge accounting rules in accordance with TFRS 9.

Accordingly, the Bank will continue to apply TAS 39 rules regarding hedge accounting applications.

## 4 FINANCIAL POSITION AND RESULTS OF OPERATIONS AND RISK MANAGEMENT

### 4.1 TOTAL CAPITAL

The capital items calculated as per the "Regulation on Equities of Banks" published on 5 September 2013, are presented below:

#### 4.1.1 COMPONENTS OF TOTAL CAPITAL

CURRENT PERIOD	AMOUNT	AMOUNT AS PER THE REGULATION BEFORE 1/1/2014 (*)
<b>COMMON EQUITY TIER I CAPITAL</b>		
Paid-in Capital to be Entitled for Compensation after All Creditors	4,972,554	
Share Premium	11,880	
Reserves	27,203,978	
Other Comprehensive Income according to TAS	3,605,548	
Profit	6,343,920	
Current Period Profit	6,343,920	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	1,856	
<b>Common Equity Tier I Capital Before Deductions</b>	<b>42,139,736</b>	
<b>DEDUCTIONS FROM COMMON EQUITY TIER I CAPITAL</b>		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	-
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	919,235	-
Leasehold Improvements on Operational Leases (-)	120,406	-
Goodwill Netted with Deferred Tax Liabilities	-	-
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	209,304	261,630
Net Deferred Tax Asset/Liability (-)	-	-
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	-
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Securitization gains	-	-
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	-
Net amount of defined benefit plans	-	-
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	1,394	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	-
Mortgage Servicing Rights not deducted (-)	-	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	-	-
<b>Total Deductions from Common Equity Tier I Capital</b>	<b>1,250,339</b>	
<b>Total Common Equity Tier I Capital</b>	<b>40,889,397</b>	
<b>ADDITIONAL TIER I CAPITAL</b>		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	--	

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Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	-
<b>Additional Tier I Capital before Deductions</b>	-	-
<b>DEDUCTIONS FROM ADDITIONAL TIER I CAPITAL</b>		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
<b>ITEMS TO BE DEDUCTED FROM TIER I CAPITAL DURING THE TRANSITION PERIOD</b>		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	52,326	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	-
<b>Total Deductions from Additional Tier I Capital</b>	-	-
<b>Total Additional Tier I Capital</b>	-	-
<b>Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)</b>	<b>40,837,071</b>	
<b>TIER II CAPITAL</b>		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	2,831,850	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	2,757,502	
<b>Total Deductions from Tier II Capital</b>	<b>5,589,352</b>	
<b>DEDUCTIONS FROM TIER II CAPITAL</b>		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
<b>Total Deductions from Tier II Capital</b>	-	-
<b>Total Tier II Capital</b>	<b>5,589,352</b>	
<b>Total Equity (Total Tier I and Tier II Capital)</b>	<b>46,426,423</b>	
<b>TOTAL TIER I CAPITAL AND TIER II CAPITAL (TOTAL EQUITY)</b>		
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	5	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	-	
Other items to be Defined by the BRSA (-)	30,874	
<b>ITEMS TO BE DEDUCTED FROM THE SUM OF TIER I AND TIER II CAPITAL (CAPITAL) DURING THE TRANSITION PERIOD</b>		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	-
<b>CAPITAL</b>		
Total Capital ( Total of Tier I Capital and Tier II Capital )	46,395,544	-
Total Risk Weighted Assets	248,337,281	-

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CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	16.47	-
Tier I Capital Ratio (%)	16.44	-
Capital Adequacy Ratio (%)	18.68	-
BUFFERS		
Total Additional CET1 Capital Requirement Ratio (a+b)	1.27	-
a) Bank-specific total CET1 Capital Ratio	1.250	-
b) Capital Conservation Buffer Ratio (%)	0.02	-
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	10.29	-
AMOUNTS LOWER THAN EXCESSES AS PER DEDUCTION RULES		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	380,708	-
LIMITS FOR PROVISIONS USED IN TIER II CAPITAL CALCULATION		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	3,597,720	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	2,757,502	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	-
DEBT INSTRUMENTS COVERED BY TEMPORARY ARTICLE 4 (EFFECTIVE BETWEEN I.I.2018-I.I.2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
<i>(*) Under this item fully loaded amounts were reported for items that are subject to phasing in according to "Bank Capital Regulation" dated 1 January 2014.</i>		
PRIOR PERIOD	AMOUNT	AMOUNT AS PER THE REGULATION BEFORE 1/1/2014 (*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	4,972,554	
Share Premium	11,880	
Reserves	23,385,730	
Other Comprehensive Income according to TAS	2,759,735	
Profit	5,070,549	
Current Period Profit	5,070,549	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	1,891	
<b>Common Equity Tier I Capital Before Deductions</b>	<b>36,202,339</b>	
DEDUCTIONS FROM COMMON EQUITY TIER I CAPITAL		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	-
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	732,893	-
Leasehold Improvements on Operational Leases (-)	103,037	-
Goodwill Netted with Deferred Tax Liabilities	-	-
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	128,006	213,344
Net Deferred Tax Asset/Liability (-)	-	-
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	-
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	-

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Securitization gains	-	-
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	-
Net amount of defined benefit plans	-	-
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	1,730	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	-
Mortgage Servicing Rights not deducted (-)	-	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	-	-
<b>Total Deductions from Common Equity Tier I Capital</b>	<b>965,666</b>	
<b>Total Common Equity Tier I Capital</b>	<b>35,236,673</b>	
<b>ADDITIONAL TIER I CAPITAL</b>		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	--	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
<b>Additional Tier I Capital before Deductions</b>	<b>-</b>	
<b>DEDUCTIONS FROM ADDITIONAL TIER I CAPITAL</b>		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-	
Other items to be defined by the BRSA (-)	-	
<b>ITEMS TO BE DEDUCTED FROM TIER I CAPITAL DURING THE TRANSITION PERIOD</b>		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	85,338	
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	
<b>Total Deductions from Additional Tier I Capital</b>	<b>-</b>	
<b>Total Additional Tier I Capital</b>	<b>-</b>	
<b>Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)</b>	<b>35,151,335</b>	
<b>TIER II CAPITAL</b>		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	2,596,082	
<b>Total Deductions from Tier II Capital</b>	<b>2,596,082</b>	
<b>DEDUCTIONS FROM TIER II CAPITAL</b>		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	

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Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
Total Deductions from Tier II Capital	-	-
<b>Total Tier II Capital</b>	2,596,082	-
<b>Total Equity (Total Tier I and Tier II Capital)</b>	<b>37,747,417</b>	-
<b>TOTAL TIER I CAPITAL AND TIER II CAPITAL (TOTAL EQUITY)</b>		
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	31	-
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	55,860	-
Other items to be Defined by the BRSA (-)	36,994	-
<b>ITEMS TO BE DEDUCTED FROM THE SUM OF TIER I AND TIER II CAPITAL (CAPITAL) DURING THE TRANSITION PERIOD</b>		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	-
<b>CAPITAL</b>		
Total Capital ( Total of Tier I Capital and Tier II Capital )	37,654,532	-
Total Risk Weighted Assets	232,322,344	-
<b>CAPITAL ADEQUACY RATIOS</b>		
CET1 Capital Ratio (%)	15.17	-
Tier I Capital Ratio (%)	15.13	-
Capital Adequacy Ratio (%)	16.21	-
<b>BUFFERS</b>		
Total Additional CET1 Capital Requirement Ratio (a+b)	5.635	-
a) Bank-specific total CET1 Capital Ratio	0.625	-
b) Capital Conservation Buffer Ratio (%)	0.01	-
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation	8.21	-
<b>AMOUNTS LOWER THAN EXCESSES AS PER DEDUCTION RULES</b>		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	153,379	-
<b>LIMITS FOR PROVISIONS USED IN TIER II CAPITAL CALCULATION</b>		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	3,171,163	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	2,596,082	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	-
<b>DEBT INSTRUMENTS COVERED BY TEMPORARY ARTICLE 4 (EFFECTIVE BETWEEN I.I.2018-I.I.2022)</b>		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-

(\*) Under this item fully loaded amounts were reported for items that are subject to phasing in according to "Bank Capital Regulation" dated 1 January 2014.

The Bank plans its Common Equity Tier 1 (CET1) Capital by considering 10% as the minimum target while considering its additional CET 1 requirements during the phase-in period due to aforementioned regulations.

## 4.1.2 ITEMS INCLUDED IN CAPITAL CALCULATION

### INFORMATION ABOUT INSTRUMENTS INCLUDED IN TOTAL CAPITAL CALCULATION

Issuer	T. Garanti Bankası A.Ş.
Identifier (CUSIP, ISIN vb.)	Reg S: ISIN: XS1617531063 Common Code: 161753106 144A: CUSIP: 900148 AE7 ISIN: US900148AE73 Common Code: 161752479
Governing law (s) of the instrument	Subject to English Law and in terms of certain articles to Turkish Regulations. It is issued within the scope of the Communiqué VII-128.8 on Debt Instruments of the Capital Markets Board and the Regulation on Bank Capital of the BRSA.

### REGULATORY TREATMENT

Subject to 10% deduction as of 1/1/2015	No
Eligible on unconsolidated and /or consolidated basis	Eligible on unconsolidated and consolidated
Instrument type	Subordinated debt instruments (Notes)
Amount recognized in regulatory capital (Currency in TL million, as of most recent reporting date)	2,832
Nominal value of instrument (TL million)	2,832
Accounting classification of the instrument	34701 - Secondary Subordinated Loans
Issuance date of instrument	23.05.2017
Maturity structure of the instrument (demand/time)	Time
Original maturity of the instrument	24.05.2027
Issuer call subject to prior supervisory (BRSA) approval	Yes
Optional call date, contingent call dates and redemption amount	24.05.2022 - USD750,000,000.00
Subsequent call dates, if applicable	-

### INTEREST/DIVIDEND PAYMENT\*

Fixed or floating coupon/dividend payments	Fixed
Coupon rate and any related index	6.1250%
Existence of any dividend payment restriction	None
Fully discretionary, partially discretionary or mandatory	-
Existence of step up or other incentive to redeem	None
Noncumulative or cumulative	None
Convertible into equity shares	None
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, type of instrument convertible into	-
If convertible, issuer of instrument to be converted into	-
Write-down feature	Yes

If bonds can be written-down, write-down trigger(s)	Due to the losses incurred, where the Bank is at the point at which the BRSA may determine pursuant to Article 71 of the Banking Law that: (i) its operating license is to be revoked and the Bank is liquidated or (ii) the rights of all of its shareholders (except to dividends), and the management and supervision of the Bank, are to be transferred to the SDIF on the condition that losses are deducted from the capital of existing shareholders (occurrence of either condition means the issuer has become non-viable), or (iii) it is probable that the Issuer will become non-viable; then the bonds can be written-down.
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If bond can be written-down, full or partial	Partially or fully
If bond can be written-down, permanent or temporary	Continuously
If temporary write-down, description of write-up mechanism	There are no any temporary write-up mechanisms.



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Position in subordination hierarchy in case of liquidation (instrument type immediately senior to the instrument)	In priority of receivables, it comes after the senior obligations of the Issuer.
In compliance with article number 7 and 8 of Regulation on Bank Capital	Instrument is in compliant with Article 8 of the Regulation on Bank Capital.
Details of incompliances with article number 7 and 8 of Regulation on Bank Capital	Instrument is not in compliant with Article 7 of the Regulation on Bank Capital.

## 4.1.3 RECONCILIATION OF CAPITAL ITEMS TO BALANCE SHEET

CURRENT PERIOD	CARRYING VALUE	AMOUNT OF CORRECTION	VALUE OF THE CAPITAL REPORT	EXPLANATION OF DIFFERENCES
Paid-in Capital	4,200,000	772,554	4,972,554	Inflation adjustments included in Paid-in Capital according to Regulation's Temporary Article 1
Capital Reserves	3,583,312	(883,263)	2,700,049	
Other Comprehensive Income According to TAS	3,569,576	(883,263)	2,686,313	
Securities Value Increase Fund	1,520,752	-	1,520,752	
Revaluation Surplus on Tangible Assets	1,659,472	-	1,659,472	
Revaluation Surplus on Intangible Assets	-	-	-	
Revaluation Surplus on Investment Property	-	-	-	
Hedging Reserves (Effective Portion)	(240,210)	(110,709)	(350,919)	Items not included in the calculation as per Regulation's Article 9-1-f
Revaluation Surplus on Assets Held for Sale and Assets of Discontinued Operations	-	-	-	
Other Capital Reserves	629,562	(772,554)	(142,992)	Inflation adjustments included in Paid-in Capital according to Regulation's Temporary Article 1
Bonus Shares of Associates, Affiliates and Joint-Ventures	1,856	-	1,856	
Share Premium	11,880	-	11,880	
Profit Reserves	27,203,978	-	27,203,978	
Profit or Loss	6,343,920	-	6,343,920	
Prior Periods Profit/Loss	-	-	-	
Current Period Net Profit/Loss	6,343,920	-	6,343,920	
Deductions from Common Equity Tier I Capital (-)	-	-	331,104	Deductions from Common Equity Tier 1 Capital as per the Regulation
<b>Common Equity Tier I Capital</b>	<b>41,331,210</b>		<b>40,889,397</b>	
Subordinated Debts			-	
Deductions from Tier I Capital (-)			52,326	Deductions from Tier 1 Capital as per the Regulation
<b>Tier I Capital</b>			<b>40,837,071</b>	
Subordinated Debts			2,831,850	
General Provisions			2,757,502	General Loan Provision added to Tier II Capital as per the Regulation's Article 8
Deductions from Tier II Capital (-)			-	
<b>Tier II Capital</b>			<b>5,589,352</b>	
Deductions from Total Capital (-)			30,879	Deductions from Capital as per the Regulation
<b>Total</b>			<b>46,395,544</b>	

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PRIOR PERIOD	CARRYING VALUE	AMOUNT OF CORRECTION	VALUE OF THE CAPITAL REPORT	EXPLANATION OF DIFFERENCES
Paid-in Capital	4,200,000	772,554	4,972,554	Inflation adjustments included in Paid-in Capital according to Regulation's Temporary Article 1
Capital Reserves	2,882,801	(842,188)	2,040,613	
Other Comprehensive Income According to TAS	2,869,030	(842,188)	2,026,842	
Securities Value Increase Fund	622,143	-	622,143	
Revaluation Surplus on Tangible Assets	1,626,437	-	1,626,437	
Revaluation Surplus on Intangible Assets	-	-	-	
Revaluation Surplus on Investment Property	-	-	-	
Hedging Reserves (Effective Portion)	(48,486)	(69,634)	(118,120)	Items not included in the calculation as per Regulation's Article 9-1-f
Revaluation Surplus on Assets Held for Sale and Assets of Discontinued Operations	-	-	-	
Other Capital Reserves	668,936	(772,554)	(103,618)	Inflation adjustments included in Paid-in Capital according to Regulation's Temporary Article 1
Bonus Shares of Associates, Affiliates and Joint-Ventures	1,891	-	1,891	
Share Premium	11,880	-	11,880	
Profit Reserves	23,385,730	-	23,385,730	
Profit or Loss	5,070,549	-	5,070,549	
Prior Periods Profit/Loss	-	-	-	
Current Period Net Profit/Loss	5,070,549	-	5,070,549	
Deductions from Common Equity Tier I Capital (-)	-		232,773	Deductions from Common Equity Tier 1 Capital as per the Regulation
<b>Common Equity Tier I Capital</b>	<b>35,539,080</b>		<b>35,236,673</b>	
Subordinated Debts			-	
Deductions from Tier I Capital (-)			85,338	Deductions from Tier 1 Capital as per the Regulation
<b>Tier I Capital</b>			<b>35,151,335</b>	
Subordinated Debts			-	
General Provisions			2,596,082	General Loan Provision added to Tier II Capital as per the Regulation's Article 8
Deductions from Tier II Capital (-)			-	
<b>Tier II Capital</b>			<b>2,596,082</b>	
Deductions from Total Capital (-)			92,885	Deductions from Capital as per the Regulation
<b>Total</b>			<b>37,654,532</b>	

## 4.2 CREDIT RISK

Credit risk is defined as risks and losses that may occur if the counterparty fails to comply with the agreement's requirements and cannot perform its obligations partially or completely on the terms set. In compliance with the legislation, the credit limits are set for the financial position and credit requirements of customers within the authorization limits assigned for Branches, Lending Departments, Executive Vice President responsible of Lending, General Manager, Credit Committee and Board of Directors. The limits are subject to revision if necessary.

The debtors or group of debtors are subject to credit risk limits. Sectoral risk concentrations are reviewed on a monthly basis.

Credit worthiness of debtors is reviewed periodically in compliance with the legislation by the internal risk rating models. The credit limits are revised and further collateral is required if the risk level of debtor deteriorates. For unsecured loans, the necessary documentation is gathered in compliance with the legislation.

Geographical concentration of credit customers is reviewed monthly. This is in line with the concentration of industrial and commercial activities in Turkey.

In accordance with the Bank's lending policies, the debtor's creditworthiness is analysed and the adequate collateral is obtained based on the financial position of the company and the type of loan; like cash collateral, bank guarantees, mortgages, pledges, bills and corporate guarantees.

The Bank has control limits on the position held through forwards, options and other similar agreements. Credit risk of such instruments is managed together with the risk from market fluctuations. The Bank follows up the risk arising from such instruments and takes the necessary actions to decrease it when necessary.

The liquidated non-cash loans are subject to the same risk weight with the overdue loans.

The Bank performs foreign trade finance and other interbank credit transactions through widespread correspondents network. Accordingly, the Bank assigns limits to domestic and foreign banks and other financial institutions based on review of their credit worthiness, periodically.

The Bank's largest 100 and 200 cash loan customers compose 24.36% (31 December 2016: 25.48%) and 30.21% (31 December 2016: 32.15%) of the total cash loan portfolio, respectively.

The Bank's largest 100 and 200 non-cash loan customers compose 46.35% (31 December 2016: 52.48%) and 55.49% (31 December 2016: 61.81%) of the total non-cash loan portfolio, respectively.

The Bank's largest 100 ve 200 cash and non-cash loan customers represent 8.31% (31 December 2016: 9.26%) and 10.51% (31 December 2016: 11.84%) of the total "on and off balance sheet" assets, respectively.

The general provision for credit risks amounts to TL 3,597,720 thousands (31 December 2016: TL 3,171,163 thousands).

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. Risk rating has become a requirement for loan applications, and ratings are used both to determine branch managers' credit authorization limits and in credit assessment process.

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

	CURRENT PERIOD		PRIOR PERIOD	
		%		%
Above Average		39.01		40.20
Average		47.68		47.99
Below Average		13.31		11.81
<b>Total</b>		<b>100.00</b>		<b>100.00</b>

Total amount of exposures after offsetting transactions but before applying credit risk mitigations and the average exposure amounts that are classified in different risk groups and types, are disclosed below for the relevant period:

EXPOSURE CATEGORIES	CURRENT PERIOD		PRIOR PERIOD	
	RISK AMOUNT (*)	AVERAGE RISK AMOUNT(**)	RISK AMOUNT (*)	AVERAGE RISK AMOUNT(**)
Conditional and unconditional exposures to central governments or central banks	88,112,162	80,372,235	63,012,273	70,027,891
Conditional and unconditional exposures to regional governments or local authorities	113,400	112,365	119,677	75,353
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	315,690	200,995	48,854	47,360
Conditional and unconditional exposures to multilateral development banks	1,816,462	1,660,442	1,443,371	1,136,416
Conditional and unconditional exposures to international organisations	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	34,665,400	35,503,213	42,679,125	37,815,617
Conditional and unconditional exposures to corporates	125,855,298	120,486,125	116,602,947	113,385,121
Conditional and unconditional retail exposures	77,175,976	71,565,466	62,984,633	56,101,792
Conditional and unconditional exposures secured by real estate property	37,150,411	39,049,473	35,952,134	30,167,033

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Past due items	793,659	759,777	705,142	632,390
Items in regulatory high-risk categories	681,813	642,191	512,758	3,354,838
Exposures in the form of bonds secured by mortgages	-	-	-	-
Securitisation positions	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-
Exposures in the form of collective investment undertakings	39,626	26,307	-	-
Shares (***)	6,569,959	6,701,828	5,266,254	4,192,217
Other items	9,595,351	7,895,649	9,044,068	8,998,966

(\*) Includes total risk amounts before the effect of credit risk mitigation but after credit conversions.

(\*\*) Average risk amounts are the arithmetical average of the amounts in monthly reports prepared as per the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks.

## 4.2.1 PROFILE OF SIGNIFICANT EXPOSURES IN MAJOR REGIONS

CURRENT PERIOD (***)	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO BANKS AND BROKERAGE HOUSES	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO CORPORATES	CONDITIONAL AND UNCONDITIONAL RETAIL EXPOSURES	CONDITIONAL AND UNCONDITIONAL EXPOSURES SECURED BY REAL ESTATE PROPERTY	ITEMS IN REGULATORY HIGH-RISK CATEGORIES	OTHER	TOTAL
Domestic	84,465,522	7,456,880	116,528,022	76,713,046	37,034,573	676,390	10,985,865	333,860,298
European Union (EU) Countries	2,717,376	23,081,160	1,677,292	42,353	78,642	3,160	1,803,333	29,403,316
OECD Countries (*)	139	1,010,355	2,586,752	5,042	6,971	65	92	3,609,416
Off-Shore Banking Regions	-	68,088	15	1,074	480	-	-	69,657
USA, Canada	1,079	1,863,326	1,403,416	5,122	4,124	-	13,368	3,290,435
Other Countries	928,046	127,842	1,623,427	409,339	25,621	2,198	6,390	3,122,863
Associates, Subsidiaries and Joint -Ventures	-	1,057,749	2,036,374	-	-	-	6,435,099	9,529,222
Unallocated Assets/Liabilities (**)	-	-	-	-	-	-	-	-
<b>Total</b>	<b>88,112,162</b>	<b>34,665,400</b>	<b>125,855,298</b>	<b>77,175,976</b>	<b>37,150,411</b>	<b>681,813</b>	<b>19,244,147</b>	<b>382,885,207</b>

PRIOR PERIOD (***)	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO BANKS AND BROKERAGE HOUSES	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO CORPORATES	CONDITIONAL AND UNCONDITIONAL RETAIL EXPOSURES	CONDITIONAL AND UNCONDITIONAL EXPOSURES SECURED BY REAL ESTATE PROPERTY	ITEMS IN REGULATORY HIGH-RISK CATEGORIES	OTHER	TOTAL
Domestic	61,853,834	11,052,564	107,275,365	62,571,431	35,868,863	495,276	10,111,602	289,228,935
European Union (EU) Countries	672,569	28,379,177	1,969,165	30,689	53,051	14,096	1,443,441	32,562,188
OECD Countries (*)	95	544,225	2,945,951	2,669	5,675	17	1	3,498,633
Off-Shore Banking Regions	-	3,051	305,653	1,290	580	-	1	310,575
USA, Canada	1,131	709,376	1,788,553	3,815	3,165	-	-	2,506,040
Other Countries	484,644	251,168	1,151,653	374,739	20,800	3,369	2,693	2,289,066
Associates, Subsidiaries and Joint -Ventures	-	1,739,564	1,166,607	-	-	-	5,069,628	7,975,799
Unallocated Assets/Liabilities (**)	-	-	-	-	-	-	-	-
<b>Total</b>	<b>63,012,273</b>	<b>42,679,125</b>	<b>116,602,947</b>	<b>62,984,633</b>	<b>35,952,134</b>	<b>512,758</b>	<b>16,627,366</b>	<b>338,371,236</b>

(\*) Includes OECD countries other than EU countries, USA and Canada.

(\*\*) Includes assets and liability items that can not be allocated on a consistent basis.

(\*\*\*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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## 4.2.2 RISK PROFILE BY SECTORS OR COUNTER PARTIES

CURRENT PERIOD (*)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	TL	FC	TOTAL
<b>Agriculture</b>	-	-	-	-	-	-	<b>680,037</b>	<b>683,752</b>	<b>415,965</b>	<b>13,589</b>	<b>5,540</b>	-	-	-	-	-	-	<b>1,373,783</b>	<b>425,100</b>	<b>1,798,883</b>
Farming and Stockbreeding	-	-	-	-	-	-	397,722	629,391	381,732	12,723	5,464	-	-	-	-	-	-	1,290,628	136,404	1,427,032
Forestry	-	-	-	-	-	-	78,184	24,740	24,253	611	2	-	-	-	-	-	-	34,251	93,539	127,790
Fishery	-	-	-	-	-	-	204,131	29,621	9,980	255	74	-	-	-	-	-	-	48,904	195,157	244,061
<b>Manufacturing</b>	-	-	<b>107,372</b>	-	-	-	<b>7,434,500</b>	<b>7,788,100</b>	<b>7,788,880</b>	<b>173,880</b>	<b>100,839</b>	-	-	-	-	-	-	<b>26,858,650</b>	<b>44,676,061</b>	<b>71,534,711</b>
Mining and Quarrying	-	-	-	-	-	-	2,122,445	324,062	85,733	3,142	224	-	-	-	-	-	-	847,521	1,688,085	2,535,606
Production	-	-	7	-	-	-	30,765,051	6,949,402	4,292,711	131,367	66,102	-	-	-	-	-	-	21,063,106	21,141,534	42,204,640
Electricity, Gas and Water	5	-	107,365	-	-	-	23,042,524	161,036	3,409,656	39,371	34,513	-	-	-	-	-	-	4,948,023	21,846,442	26,794,465
<b>Construction</b>	-	-	<b>128</b>	-	-	-	<b>6,756,896</b>	<b>3,982,784</b>	<b>2,621,920</b>	<b>41,874</b>	<b>45,459</b>	-	-	-	-	-	-	<b>9,928,298</b>	<b>3,520,763</b>	<b>13,449,061</b>
<b>Services</b>	<b>455</b>	-	<b>996</b>	<b>1,816,462</b>	<b>34,665,400</b>	<b>58,882,526</b>	<b>17,418,591</b>	<b>9,225,215</b>	<b>495,160</b>	<b>466,120</b>	-	-	-	-	<b>39,626</b>	<b>30,487</b>	-	<b>48,732,214</b>	<b>74,308,824</b>	<b>123,041,038</b>
Wholesale and Retail Trade	-	-	203	-	-	-	24,636,071	13,396,945	4,557,943	190,899	65,610	-	-	-	-	-	-	28,141,422	14,706,249	42,847,671
Accommodation and Dining	-	-	89	-	-	-	3,386,673	918,674	2,627,360	90,249	4,836	-	-	-	-	-	-	2,209,157	4,818,724	7,027,881
Transportation and Telecom.	-	-	177	-	-	-	14,674,487	2,063,072	491,204	204,775	10,667	-	-	-	-	-	-	4,789,912	12,654,470	17,444,382
Financial Institutions	-	-	-	-	1,816,462	-	34,665,400	7,962,180	72,063	628	380,813	-	-	-	39,626	30,487	-	10,391,685	34,742,018	45,133,703
Real Estate and Rental Services	-	-	-	-	-	-	4,583,648	241,093	911,885	5,849	487	-	-	-	-	-	-	1,369,018	4,373,944	5,742,962
Professional Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Educational Services	9	-	355	-	-	-	333,960	191,016	380,895	127	534	-	-	-	-	-	-	741,116	165,780	906,896
Health and Social Services	446	-	172	-	-	-	3,305,507	441,747	183,865	2,633	3,173	-	-	-	-	-	-	1,089,904	2,847,639	3,937,543
<b>Others</b>	<b>88,111,707</b>	<b>113,400</b>	<b>207,194</b>	-	-	-	<b>3,605,819</b>	<b>47,656,349</b>	<b>17,099,211</b>	<b>69,156</b>	<b>63,855</b>	-	-	-	-	-	-	<b>129,034,531</b>	<b>44,026,983</b>	<b>173,061,514</b>
<b>Total</b>	<b>88,112,162</b>	<b>113,400</b>	<b>315,690</b>	<b>1,816,462</b>	<b>34,665,400</b>	<b>125,855,298</b>	<b>77,175,976</b>	<b>77,175,976</b>	<b>37,150,411</b>	<b>793,659</b>	<b>681,813</b>	-	-	-	<b>39,626</b>	<b>6,539,472</b>	<b>9,595,351</b>	<b>215,927,476</b>	<b>166,957,731</b>	<b>382,885,207</b>

- 1- Conditional and unconditional exposures to central governments or central banks
- 2- Conditional and unconditional exposures to regional governments or local authorities
- 3- Conditional and unconditional exposures to administrative bodies and non-commercial undertakings
- 4- Conditional and unconditional exposures to multilateral development banks
- 5- Conditional and unconditional exposures to international organisations
- 6- Conditional and unconditional exposures to banks and brokerage houses
- 7- Conditional and unconditional exposures to corporates
- 8- Conditional and unconditional retail exposures
- 9- Conditional and unconditional exposures secured by real estate property
- 10- Past due receivables
- 11- Receivables in regulatory high-risk categories
- 12- Exposures in the form of bonds secured by mortgages
- 13- Securitisation positions
- 14- Short term exposures to banks, brokerage houses and corporates
- 15- Exposures in the form of collective investment undertakings
- 16- Shares
- 17- Other receivables

(\*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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<b>Agriculture</b>	-	-	-	-	-	-	<b>435,612</b>	<b>543,159</b>	<b>432,799</b>	<b>12,950</b>	<b>4,298</b>	-	-	-	-	-	<b>1,151,167</b>	<b>277,651</b>	<b>1,428,818</b>
Farming and Stockbreeding	-	-	-	-	-	-	285,797	502,588	395,558	12,546	4,055	-	-	-	-	-	1,079,632	120,912	1,200,544
Forestry	-	-	-	-	-	-	81,028	19,013	28,632	404	120	-	-	-	-	-	32,248	96,949	129,197
Fishery	-	-	-	-	-	-	68,787	21,558	8,609	-	123	-	-	-	-	-	39,287	59,790	99,077
<b>Manufacturing</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128,678</b>	<b>49,376,204</b>	<b>5,886,803</b>	<b>7,153,576</b>	<b>173,086</b>	<b>106,603</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,773,085</b>	<b>43,051,870</b>	<b>62,824,955</b>
Mining and Quarrying	-	-	-	-	-	-	2,059,850	248,550	117,122	4,201	1,182	-	-	-	-	-	754,606	1,676,299	2,430,905
Production	-	-	-	-	-	-	26,587,997	5,529,300	4,295,457	130,193	71,217	-	-	-	-	-	15,714,365	20,899,799	36,614,164
Electricity, Gas and Water	5	-	-	-	-	128,678	20,728,357	108,953	2,740,997	38,692	34,204	-	-	-	-	-	3,304,114	20,475,772	23,779,886
<b>Construction</b>	<b>-</b>	<b>-</b>	<b>173</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,887,167</b>	<b>2,881,476</b>	<b>2,370,595</b>	<b>89,145</b>	<b>53,471</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,212,587</b>	<b>4,069,440</b>	<b>11,282,027</b>
<b>Services</b>	<b>489</b>	<b>-</b>	<b>2,389</b>	<b>1,443,371</b>	<b>-41,624,542</b>	<b>51,999,308</b>	<b>13,585,101</b>	<b>13,585,101</b>	<b>9,510,218</b>	<b>376,715</b>	<b>268,489</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,693</b>	<b>-</b>	<b>79,962,914</b>	<b>38,903,401</b>	<b>118,866,315</b>
Wholesale and Retail Trade	-	-	268	-	-	-	21,269,667	10,338,394	4,959,252	147,569	79,675	-	-	-	-	-	22,611,794	14,183,031	36,794,825
Accommodation and Dining	-	-	13	-	-	-	2,962,373	774,569	2,689,619	80,017	6,117	-	-	-	-	-	1,753,450	4,759,258	6,512,708
Transportation and Telecom.	-	-	10	-	-	-	12,551,212	1,675,775	602,465	139,447	14,648	-	-	-	-	-	3,059,554	11,924,003	14,983,557
Financial Institutions	-	-	-	1,443,371	-41,624,542	7,496,410	104,881	104,881	65,118	350	162,431	-	-	-	55,693	-	49,697,828	1,254,968	50,952,796
Real Estate and Rental Services	-	-	-	-	-	-	4,932,407	198,883	621,903	5,087	631	-	-	-	-	-	1,307,888	4,451,023	5,758,911
Professional Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Educational Services	1	-	2,098	-	-	-	253,021	144,598	353,320	2,673	1,251	-	-	-	-	-	610,905	146,057	756,962
Health and Social Services	488	-	-	-	-	-	2,534,218	348,001	218,541	1,572	3,736	-	-	-	-	-	921,495	2,185,061	3,106,556
<b>Others</b>	<b>63,011,779</b>	<b>119,677</b>	<b>46,292</b>	<b>-</b>	<b>-</b>	<b>925,905</b>	<b>8,904,656</b>	<b>40,088,094</b>	<b>16,484,946</b>	<b>53,245</b>	<b>79,897</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,210,561</b>	<b>9,044,069</b>	<b>72,851,435</b>	<b>71,117,686</b>	<b>143,969,121</b>
<b>Total</b>	<b>63,012,273</b>	<b>119,677</b>	<b>48,854</b>	<b>1,443,371</b>	<b>-42,679,125</b>	<b>116,602,947</b>	<b>62,984,633</b>	<b>35,952,134</b>	<b>705,141</b>	<b>512,758</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,266,254</b>	<b>9,044,069</b>	<b>180,951,188</b>	<b>157,420,048</b>	<b>338,371,236</b>

- 1- Conditional and unconditional exposures to central governments or central banks
  - 2- Conditional and unconditional exposures to regional governments or local authorities
  - 3- Conditional and unconditional exposures to administrative bodies and non-commercial undertakings
  - 4- Conditional and unconditional exposures to multilateral development banks
  - 5- Conditional and unconditional exposures to international organisations
  - 6- Conditional and unconditional exposures to banks and brokerage houses
  - 7- Conditional and unconditional exposures to corporates
  - 8- Conditional and unconditional retail exposures
  - 9- Conditional and unconditional exposures secured by real estate property
  - 10- Past due receivables
  - 11- Receivables in regulatory high-risk categories
  - 12- Exposures in the form of bonds secured by mortgages
  - 13- Securitisation positions
  - 14- Short term exposures to banks, brokerage houses and corporates
  - 15- Exposures in the form of collective investment undertakings
  - 16- Shares
  - 17- Other receivables
- (\*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

## 4.2.3 ANALYSIS OF MATURITY-BEARING EXPOSURES ACCORDING TO REMAINING MATURITIES

CURRENT PERIOD EXPOSURE CATEGORIES (*)	TERM TO MATURITY				
	UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	OVER 1 YEAR
Conditional and unconditional exposures to central governments or central banks	14,819,696	23,751,196	1,645,356	115,625	39,430,461
Conditional and unconditional exposures to regional governments or local authorities	320	30	-	264	112,786
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	434	355	44,651	15,451	243,591
Conditional and unconditional exposures to multilateral development banks	1,613,682	13,369	51,562	71,012	66,837
Conditional and unconditional exposures to international organisations	-	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	9,075,891	1,502,142	622,784	1,130,952	19,290,918
Conditional and unconditional exposures to corporates	4,798,543	5,841,628	7,011,413	14,830,314	75,458,475
Conditional and unconditional retail exposures	8,258,338	4,679,762	2,144,115	4,833,107	39,812,993
Conditional and unconditional exposures secured by real estate property	141,451	284,719	629,636	1,567,403	31,566,099
Past due items	-	-	-	-	-
Items in regulatory high-risk categories	614	384,119	1,057	4,085	36,712
Exposures in the form of bonds secured by mortgages	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	-	-	-
Shares	-	-	-	-	-
Other items	36,363	775,428	-	-	-
<b>TOTAL</b>	<b>38,745,332</b>	<b>37,232,748</b>	<b>12,150,574</b>	<b>22,568,213</b>	<b>206,018,872</b>

(\*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

PRIOR PERIOD EXPOSURE CATEGORIES (*)	TERM TO MATURITY				
	UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	OVER 1 YEAR
Conditional and unconditional exposures to central governments or central banks	6,877,124	14,069,704	87,825	5,445	36,605,758
Conditional and unconditional exposures to regional governments or local authorities	-	-	-	1,881	117,796
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	394	104	1,500	189	43,973
Conditional and unconditional exposures to multilateral development banks	-	-	-	6,379	1,436,992
Conditional and unconditional exposures to international organisations	-	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	13,675,680	2,254,641	1,364,836	2,306,504	22,483,788
Conditional and unconditional exposures to corporates	6,445,897	8,331,269	10,638,293	16,181,977	69,832,703
Conditional and unconditional retail exposures	13,507,480	7,465,096	2,334,488	4,820,056	28,830,747
Conditional and unconditional exposures secured by real estate property	226,130	470,653	779,895	1,826,813	30,639,253
Past due items	-	-	-	-	-
Items in regulatory high-risk categories	1,244	162,801	2,350	3,446	42,770
Exposures in the form of bonds secured by mortgages	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	-	-	-
Other items	-	-	-	-	-
<b>Total</b>	<b>646,707</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>41,380,656</b>	<b>32,754,268</b>	<b>15,209,187</b>	<b>25,152,690</b>	<b>190,033,780</b>

(\*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

## 4.2.4 EXPOSURE CATEGORIES

An international rating firm, Fitch Ratings' external risk ratings are used to determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks"

The international risk ratings are used for the exposures to central governments and central banks, whereas for central governments and central banks that are not rated by Fitch Ratings, the published country ratings as announced by the Organisation for Economic Cooperation and Development (OECD) are used.

According to the regulation on capital adequacy, external risk ratings are used only for the exposures to banks and brokerage houses and to corporates where the counterparties are resident in abroad, to determine their risk weights. Where the counterparties are domestic, the related exposures are included in the calculation of capital adequacy as unrated.

In the determination of risk weights for items that are not included in trading book; if a relevant rating is available then such rating, but if it is an unrated exposure then the rating available for the issuer is used.

Fitch Ratings' risk ratings as per the credit quality grades and the risk weights according to exposure categories are presented below:

CREDIT QUALITY GRADE	FITCH RATINGS LONG TERM CREDIT RATING	EXPOSURE CATEGORIES			
		EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS	EXPOSURES TO BANKS AND BROKERAGE HOUSES		EXPOSURES TO CORPORATES
			EXPOSURES WITH ORIGINAL MATURITIES LESS THAN 3 MONTHS	EXPOSURES WITH ORIGINAL MATURITIES MORE THAN 3 MONTHS	
1	AAA to AA-	0%	20%	20%	20%
2	A+ to A-	20%	20%	50%	50%
3	BBB+ to BBB-	50%	20%	50%	100%
4	BB+ to BB-	100%	50%	100%	100%
5	B+ to B-	100%	50%	100%	150%
6	CCC+ and below	150%	150%	150%	150%

## 4.2.5 EXPOSURES BY RISK WEIGHTS

CURRENT PERIOD	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	DEDUCTIONS FROM EQUITY
<b>RISK WEIGHTS</b>											
Exposures before Credit Risk Mitigation	80,619,794	-	9,682,767	19,181,402	42,691,253	77,167,698	152,895,816	265,769	-	380,708	414,309
Exposures after Credit Risk Mitigation	81,890,487	-	8,775,200	19,166,589	23,773,442	70,938,785	144,333,914	265,768	-	380,708	414,309
<b>PRIOR PERIOD</b>											
<b>RISK WEIGHTS</b>											
Exposures before Credit Risk Mitigation	43,202,244	-	11,155,816	18,651,705	78,781,647	62,981,696	123,124,624	320,125	-	153,379	410,963
Exposures after Credit Risk Mitigation	38,772,528	-	7,701,489	18,645,667	59,084,603	62,393,126	120,613,171	320,121	-	153,379	410,963

## 4.2.6 INFORMATION BY MAJOR SECTORS AND TYPE OF COUNTERPARTIES

As per the TAS and TFRS;

*Impaired Credits*; are the credits that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such credits, "specific provisions" are allocated as per the Provisioning Regulation.

*Past Due Credits*; are the credits that overdue upto 90 days but not impaired. For such credits, "general provisions" are allocated as per the Provisioning Regulation.



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CURRENT PERIOD	CREDIT RISKS			
	IMPAIRED CREDITS	PAST DUE CREDITS	VALUE ADJUSTMENTS	PROVISIONS
<b>Agriculture</b>	<b>39,101</b>	<b>20,594</b>	<b>1,012</b>	<b>20,741</b>
Farming and Stockbreeding	35,266	13,328	464	18,117
Forestry	2,146	229	9	1,438
Fishery	1,689	7,037	539	1,186
<b>Manufacturing</b>	<b>607,299</b>	<b>215,972</b>	<b>21,165</b>	<b>393,054</b>
Mining and Quarrying	23,662	4,201	84	19,276
Production	427,043	207,558	19,692	291,227
Electricity, Gas and Water	156,594	4,213	1,389	82,551
<b>Construction</b>	<b>459,871</b>	<b>173,779</b>	<b>7,634</b>	<b>347,822</b>
<b>Services</b>	<b>1,560,475</b>	<b>4,326,232</b>	<b>338,674</b>	<b>937,691</b>
Wholesale and Retail Trade	726,262	258,032	9,914	434,914
Accommodation and Dining	156,435	308,270	5,623	57,730
Transportation and Telecommunication	596,997	3,679,145	321,824	380,224
Financial Institutions	18,421	46,471	384	17,489
Real Estate and Rental Services	13,777	12,101	229	7,182
Professional Services	-	-	-	-
Educational Services	30,401	8,548	151	28,721
Health and Social Services	18,182	13,665	549	11,431
<b>Others</b>	<b>3,111,708</b>	<b>3,862,016</b>	<b>85,834</b>	<b>2,787,346</b>
<b>Total</b>	<b>5,778,454</b>	<b>8,598,593</b>	<b>454,319</b>	<b>4,486,654</b>

PRIOR PERIOD	CREDIT RISKS			
	IMPAIRED CREDITS	PAST DUE CREDITS	VALUE ADJUSTMENTS	PROVISIONS
<b>Agriculture</b>	<b>40,139</b>	<b>15,965</b>	<b>509</b>	<b>23,619</b>
Farming and Stockbreeding	36,921	13,265	475	21,313
Forestry	2,077	1,002	14	1,352
Fishery	1,141	1,698	20	954
<b>Manufacturing</b>	<b>658,603</b>	<b>246,348</b>	<b>16,311</b>	<b>428,556</b>
Mining and Quarrying	29,767	3,882	114	23,429
Production	486,364	157,683	9,254	335,728
Electricity, Gas and Water	142,472	84,783	6,943	69,399
<b>Construction</b>	<b>464,155</b>	<b>105,302</b>	<b>4,593</b>	<b>297,577</b>
<b>Services</b>	<b>1,408,404</b>	<b>3,802,304</b>	<b>60,341</b>	<b>882,420</b>
Wholesale and Retail Trade	715,407	275,028	15,039	455,836
Accommodation and Dining	137,599	58,333	3,417	47,625
Transportation and Telecommunication	472,588	3,425,754	39,641	314,073
Financial Institutions	19,101	1,326	43	18,588
Real Estate and Rental Services	13,515	18,330	1,081	7,592
Professional Services	-	-	-	-
Educational Services	31,667	9,181	172	26,644
Health and Social Services	18,527	14,352	948	12,062
<b>Others</b>	<b>3,057,335</b>	<b>4,008,042</b>	<b>93,102</b>	<b>2,769,484</b>
<b>Total</b>	<b>5,628,636</b>	<b>8,177,961</b>	<b>174,856</b>	<b>4,401,656</b>

## 4.2.7 MOVEMENTS IN VALUE ADJUSTMENTS AND PROVISIONS

CURRENT PERIOD	OPENING BALANCE	PROVISION FOR PERIOD	PROVISION REVERSALS	OTHER ADJUSTMENTS	CLOSING BALANCE
Specific Provisions	4,401,656	2,111,667	2,026,669	-	4,486,654
General Provisions	3,171,163	422,935	(3,622)	-	3,597,720

PRIOR PERIOD	OPENING BALANCE	PROVISION FOR PERIOD	PROVISION REVERSALS	OTHER ADJUSTMENTS	CLOSING BALANCE
Specific Provisions	3,669,807	2,822,117	2,090,268	-	4,401,656
General Provisions	3,002,057	161,626	64	7,544	3,171,163

## 4.2.8 EXPOSURES SUBJECT TO COUNTERCYCLICAL CAPITAL BUFFER

COUNTRY CURRENT PERIOD	RWAS OF BANKING BOOK FOR PRIVATE SECTOR LENDING	RWAS OF TRADING BOOK	TOTAL
Turkey	178,738,435	576,857	179,315,292
the Netherlands	827,431	-	827,431
NCTR	664,051	-	664,051
Cayman Islands	602,595	-	602,595
Malta	581,547	-	581,547
UAE	472,994	-	472,994
Switzerland	438,653	-	438,653
Macedonian Republic	134,583	-	134,583
England	80,783	14,192	94,975
Sweden	94,362	-	94,362
Other	224,511	-	224,511

COUNTRY PRIOR PERIOD	RWAS OF BANKING BOOK FOR PRIVATE SECTOR LENDING	RWAS OF TRADING BOOK	TOTAL
Turkey	167,512,628	350,751	167,863,379
the Netherlands	965,364	-	965,364
Malta	800,187	-	800,187
NCTR	568,033	-	568,033
Cayman Islands	530,529	-	530,529
Switzerland	522,731	73	522,804
USA	155,705	-	155,705
Macedonian Republic	109,574	-	109,574
Sweden	75,583	-	75,583
Romania	66,050	-	66,050
Other	172,526	-	172,526

## 4.3 CURRENCY RISK

Foreign currency position limit is set in compliance with the legal standard ratio of net foreign currency position. As of 31 December 2017, the Bank's net 'on balance sheet' foreign currency short position amounts to TL 22,552,332 thousands (31 December 2016: TL 17,200,230 thousands), net 'off-balance sheet' foreign currency long position amounts to TL 24,944,380 thousands (31 December 2016: TL 18,461,666 thousands), while net foreign currency long open position amounts to TL 2,392,048 thousands (31 December 2016: TL 1,261,436 thousands).

The foreign currency position risk of the Bank is measured by "standard method" and "value-at-risk (VaR) model". Measurements by standard method are carried out monthly, whereas measurements by "VaR" are done daily. The foreign currency exchange risk is managed through transaction, dealer, desk and stop-loss limits approved by the board of directors for the trading portfolio beside the foreign currency net position standard ratio and the VaR limit.

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The Bank's effective exchange rates at the date of balance sheet and for the last five working days of the period announced by the Bank in TL are as follows:

	USD	EUR
<b>Foreign currency purchase rates at balance sheet date</b>	3.7758	4.5290
<b>Exchange rates for the days before balance sheet date;</b>		
Day 1	3.7758	4.5290
Day 2	3.7649	4.4987
Day 3	3.8137	4.5400
Day 4	3.7999	4.5116
Day 5	3.7983	4.5070
<b>Last 30-days arithmetical average rates</b>	3.8327	4.5376

The Bank's currency risk:

	EUR	USD	OTHER FCS	TOTAL
<b>CURRENT PERIOD</b>				
<b>Assets</b>				
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	8,367,558	10,535,836	6,873,153	25,776,547
Banks	7,576,481	5,689,326	847,031	14,112,838
Financial Assets at Fair Value through Profit/Loss	106,733	288,846	-	395,579
Interbank Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	89,152	433,018	-	522,170
Loans (*)	31,144,750	40,908,589	833,973	72,887,312
Investments in Associates, Affiliates and Joint-Ventures	3,725,770	-	-	3,725,770
Investments Held-to-Maturity	-	11,984,381	-	11,984,381
Derivative Financial Assets Held for Risk Management	4,165	108,496	-	112,661
Tangible Assets	-	260	-	260
Intangible Assets	-	-	-	-
Other Assets	227,217	692,600	5,790	925,607
<b>Total Assets</b>	<b>51,241,826</b>	<b>70,641,352</b>	<b>8,559,947</b>	<b>130,443,125</b>
<b>Liabilities</b>				
Bank Deposits	256,306	337,511	165,873	759,690
Foreign Currency Deposits	23,758,512	63,078,519	2,094,274	88,931,305
Interbank Money Market Takings	-	4,081,694	-	4,081,694
Other Fundings	11,139,125	28,916,588	6,527	40,062,240
Securities Issued	2,500,436	12,023,550	656,226	15,180,212
Miscellaneous Payables	60,896	412,480	10,539	483,915
Derivative Financial Liabilities Held for Risk Management	21,244	21,338	-	42,582
Other Liabilities (**)	495,525	752,078	2,206,216	3,453,819
<b>Total Liabilities</b>	<b>38,232,044</b>	<b>109,623,758</b>	<b>5,139,655</b>	<b>152,995,457</b>
<b>Net 'On Balance Sheet' Position</b>	<b>13,009,782</b>	<b>(38,982,406)</b>	<b>3,420,292</b>	<b>(22,552,332)</b>
<b>Net 'Off-Balance Sheet' Position</b>	<b>(10,350,797)</b>	<b>38,733,837</b>	<b>(3,438,660)</b>	<b>24,944,380</b>
Derivative Assets	8,549,883	77,928,229	2,448,005	88,926,117
Derivative Liabilities	18,900,680	39,194,392	5,886,665	63,981,737
Non-Cash Loans	-	-	-	-

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PRIOR PERIOD				
<b>Total Assets</b>	<b>42,167,078</b>	<b>75,254,202</b>	<b>2,640,045</b>	<b>120,061,325</b>
<b>Total Liabilities</b>	<b>36,222,880</b>	<b>96,223,885</b>	<b>4,814,790</b>	<b>137,261,555</b>
<b>Net 'On Balance Sheet' Position</b>	<b>5,944,198</b>	<b>(20,969,683)</b>	<b>(2,174,745)</b>	<b>(17,200,230)</b>
<b>Net 'Off-Balance Sheet' Position</b>	<b>(4,526,285)</b>	<b>20,945,530</b>	<b>2,042,421</b>	<b>18,461,666</b>
Derivative Assets	14,374,090	58,983,474	4,395,536	77,753,100
Derivative Liabilities	18,900,375	38,037,944	2,353,115	59,291,434
Non-Cash Loans	-	-	-	-

(\*) The foreign currency-indexed loans amounting TL 6,145,144 thousands included under TL loans in the accompanying balance sheet are presented above under the related foreign currency codes.

(\*\*) Includes subordinated securities issued and presented under subordinated debts in balance sheet.

(\*\*\*) Other liabilities include gold deposits of TL 2,194,714 thousands.

## 4.4 INTEREST RATE RISK

The interest rate risk resulting from balance sheet maturity mismatch presents the possible losses that may arise due to the changes in interest rates of interest sensitive assets and liabilities in the on- and off-balance sheet. Interest sensitivity of assets, liabilities and off-balance sheet items is evaluated during the Weekly Assessment Committee and Assets-Liabilities Committee meetings taking into consideration the developments in market conditions.

The Bank's interest rate risk is measured by using economic value, economic capital, net interest income, income at risk, market price sensitivity of marketable securities portfolio, duration-gap and sensitivity analysis.

The results are supported by the sensitivity and scenario analysis performed periodically due to the possible instabilities in the markets. Furthermore, the interest rate risk is monitored according to the limits approved by the board of directors.

### 4.4.1 INTEREST RATE SENSITIVITY OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS (based on repricing dates)

CURRENT PERIOD	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER	NON-INTEREST BEARING (*)	TOTAL
<b>Assets</b>							
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	15,356,607	-	-	-	-	18,055,896	33,412,503
Banks	4,018,738	836,682	1,435,693	-	-	8,027,360	14,318,473
Financial Assets at Fair Value through Profit/Loss	7,228	319,649	146,181	342,960	17,355	1,816,777	2,650,150
Interbank Money Market Placements	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	3,369,418	5,915,862	6,784,329	3,014,432	1,089,034	2,571,627	22,744,702
Loans	48,291,162	21,944,937	63,901,442	58,658,807	12,516,361	4,367,168	209,679,877
Investments Held-to-Maturity	983,796	2,557,519	6,615,860	3,706,564	7,446,829	3,574,775	24,885,343
Other Assets	7,699	-	-	21,530	-	17,511,997	17,541,226
<b>Total Assets</b>	<b>72,034,648</b>	<b>31,574,649</b>	<b>78,883,505</b>	<b>65,744,293</b>	<b>21,069,579</b>	<b>55,925,600</b>	<b>325,232,274</b>
<b>Liabilities</b>							
Bank Deposits	106,924	-	195,414	-	-	896,626	1,198,964
Other Deposits	100,799,685	18,720,599	15,112,628	15,217	32	45,268,880	179,917,041
Interbank Money Market Takings	16,650,220	-	-	-	-	14,368	16,664,588
Miscellaneous Payables	-	-	-	-	-	9,973,896	9,973,896
Securities Issued (**)	1,882,236	2,903,078	1,161,863	10,051,508	5,762,095	380,051	22,140,831
Other Fundings	18,534,278	7,575,524	9,486,746	4,700,259	338,258	169,758	40,804,823
Other Liabilities	5,887	8,317	14,954	2,581	-	54,500,392	54,532,131
<b>Total Liabilities</b>	<b>137,979,230</b>	<b>29,207,518</b>	<b>25,971,605</b>	<b>14,769,565</b>	<b>6,100,385</b>	<b>111,203,971</b>	<b>325,232,274</b>

# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Unconsolidated Financial Report as of and for the Year Ended 31 December 2017  
(Thousands of Turkish Lira (TL))

Convenience Translation  
of Financial Statements  
and Related Disclosures  
and Footnotes Originally  
Issued in Turkish

<b>On Balance Sheet Long Position</b>	-	<b>2,367,131</b>	<b>52,911,900</b>	<b>50,974,728</b>	<b>14,969,194</b>	-	<b>121,222,953</b>
<b>On Balance Sheet Short Position</b>	<b>(65,944,582)</b>	-	-	-	-	<b>(55,278,371)</b>	<b>(121,222,953)</b>
<b>Off-Balance Sheet Long Position</b>	<b>11,194,041</b>	<b>8,478,415</b>	<b>15,792,731</b>	<b>3,027,985</b>	<b>5,154,466</b>	-	<b>43,647,638</b>
<b>Off-Balance Sheet Short Position</b>	<b>(1,436,494)</b>	<b>(3,920,972)</b>	<b>(12,408,103)</b>	<b>(15,011,305)</b>	<b>(10,911,130)</b>	-	<b>(43,688,004)</b>
<b>Total Position</b>	<b>(56,187,035)</b>	<b>6,924,574</b>	<b>56,296,528</b>	<b>38,991,408</b>	<b>9,212,530</b>	<b>(55,278,371)</b>	<b>(40,366)</b>

(\*) Interest accruals are also included in non-interest bearing column.

(\*\*) Includes subordinated securities issued and presented under subordinated debts in balanced sheet.

PRIOR PERIOD	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER	NON-INTEREST BEARING (*)	TOTAL
<b>Assets</b>							
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	17,892,432	-	-	-	-	5,892,702	23,785,134
Banks	3,926,271	1,934,196	1,989,280	-	-	4,469,179	12,318,926
Financial Assets at Fair Value through Profit/Loss	7,624	22,679	15,205	26,655	42,663	3,391,602	3,506,428
Interbank Money Market Placements	351,690	-	-	-	-	1	351,691
Financial Assets Available-for-Sale	2,613,361	5,750,771	5,630,419	2,729,802	1,684,778	1,503,438	19,912,569
Loans	43,310,831	22,078,517	55,780,392	48,273,126	12,730,401	3,874,961	186,048,228
Investments Held-to-Maturity	1,025,906	2,002,859	5,554,835	5,329,013	7,297,741	2,429,830	23,640,184
Other Assets	3,886	176	-	16,494	2,306	14,569,378	14,592,240
<b>Total Assets</b>	<b>69,132,001</b>	<b>31,789,198</b>	<b>68,970,131</b>	<b>56,375,090</b>	<b>21,757,889</b>	<b>36,131,091</b>	<b>284,155,400</b>
<b>Liabilities</b>							
Bank Deposits	645,554	9,261	207,533	-	-	2,856,198	3,718,546
Other Deposits	88,684,664	20,652,616	11,479,265	180,101	-	36,516,405	157,513,051
Interbank Money Market Takings	9,763,295	-	-	-	-	6,092	9,769,387
Miscellaneous Payables	-	-	-	-	-	9,088,139	9,088,139
Securities Issued	506,828	1,335,786	4,599,655	7,523,662	2,143,691	327,257	16,436,879
Other Fundings	13,807,571	14,873,592	6,853,254	4,343,480	164,288	244,183	40,286,368
Other Liabilities	6,058	9,469	20,681	1,686	-	47,305,136	47,343,030
<b>Total Liabilities</b>	<b>113,413,970</b>	<b>36,880,724</b>	<b>23,160,388</b>	<b>12,048,929</b>	<b>2,307,979</b>	<b>96,343,410</b>	<b>284,155,400</b>
<b>On Balance Sheet Long Position</b>	-	-	<b>45,809,743</b>	<b>44,326,161</b>	<b>19,449,910</b>	-	<b>109,585,814</b>
<b>On Balance Sheet Short Position</b>	<b>(44,281,969)</b>	<b>(5,091,526)</b>	-	-	-	<b>(60,212,319)</b>	<b>(109,585,814)</b>
<b>Off-Balance Sheet Long Position</b>	<b>8,000,925</b>	<b>10,184,917</b>	<b>12,492,698</b>	<b>4,640,715</b>	<b>4,244,593</b>	-	<b>39,563,848</b>
<b>Off-Balance Sheet Short Position</b>	<b>(1,313,961)</b>	<b>(4,549,173)</b>	<b>(9,696,072)</b>	<b>(12,903,699)</b>	<b>(11,205,806)</b>	-	<b>(39,668,711)</b>
<b>Total Position</b>	<b>(37,595,005)</b>	<b>544,218</b>	<b>48,606,369</b>	<b>36,063,177</b>	<b>12,488,697</b>	<b>(60,212,319)</b>	<b>(104,863)</b>

(\*) Interest accruals are also included in non-interest bearing column.

## 4.4.2 AVERAGE INTEREST RATES ON MONETARY FINANCIAL INSTRUMENTS

	EUR	USD	JPY	TL
<b>CURRENT PERIOD</b>				
<b>Assets</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	-	1.32	-	2.54
Banks	0.02	1.43	-	8.56
Financial Assets at Fair Value through Profit/Loss	1.99	5.77	-	12.06
Interbank Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	-	5.31	-	12.31
Loans	4.15	6.21	-	16.58
Investments Held-to-Maturity	-	5.57	-	12.81
<b>Liabilities</b>				
Bank Deposits	-	1.00	-	11.39
Other Deposits	0.76	2.23	1.45	9.30
Interbank Money Market Takings	-	1.50	-	12.68
Miscellaneous Payables	-	-	-	-
Securities Issued	3.65	5.67	-	13.08
Other Fundings	1.37	3.29	-	8.43
	<b>EUR</b>	<b>USD</b>	<b>JPY</b>	<b>TL</b>
<b>PRIOR PERIOD</b>				
<b>Assets</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	-	0.52	-	4.22
Banks	0.05	0.90	-	9.09
Financial Assets at Fair Value through Profit/Loss	2.18	5.77	-	10.16
Interbank Money Market Placements	0.05	-	-	-
Financial Assets Available-for-Sale	-	5.64	-	10.08
Loans	3.92	5.61	3.41	15.26
Investments Held-to-Maturity	0.19	5.53	-	10.22
<b>Liabilities</b>				
Bank Deposits	0.20	1.21	-	9.39
Other Deposits	0.88	1.95	1.22	7.48
Interbank Money Market Takings	-	-	-	8.30
Miscellaneous Payables	-	-	-	-
Securities Issued	3.48	5.13	0.64	10.34
Other Fundings	0.95	2.60	-	10.26

## 4.5 POSITION RISK OF EQUITY SECURITIES IN BANKING BOOK

### 4.5.1 EQUITY SHARES IN ASSOCIATES AND AFFILIATES

Accounting policies for equity shares in associates and affiliates are disclosed in Note 3.3.

## 4.5.2 COMPARISON OF CARRYING, FAIR AND MARKET VALUES OF EQUITY SHARES

CURRENT PERIOD		COMPARISON		
EQUITY SECURITIES (SHARES)		CARRYING VALUE	FAIR VALUE(*)	MARKET VALUE
1	<b>Investment in Shares- Grade A</b>	<b>6,464,188</b>	<b>6,351,939</b>	<b>130,538</b>
	Quoted Securities	91,216	91,216	130,538
2	<b>Investment in Shares- Grade B</b>	<b>108,717</b>	<b>83,160</b>	<b>128,632</b>
	Quoted Securities	83,160	83,160	128,632
3	<b>Investment in Shares- Grade C</b>	<b>662</b>	-	-
	Quoted Securities	-	-	-
4	<b>Investment in Shares- Grade D</b>	-	-	-
	Quoted Securities	-	-	-
5	<b>Investment in Shares- Grade E</b>	<b>1,014</b>	-	-
	Quoted Securities	-	-	-
6	<b>Investment in Shares- Grade F</b>	<b>48</b>	-	-
	Quoted Securities	-	-	-

(\*) In current period, the balances are as per the results of equity accounting application.

PRIOR PERIOD		COMPARISON		
EQUITY SECURITIES (SHARES)		CARRYING VALUE	FAIR VALUE(*)	MARKET VALUE
1	<b>Investment in Shares- Grade A</b>	<b>5,109,467</b>	<b>4,997,355</b>	<b>83,689</b>
	Quoted Securities	79,275	79,275	83,689
2	<b>Investment in Shares- Grade B</b>	<b>99,371</b>	<b>72,273</b>	<b>82,466</b>
	Quoted Securities	72,273	72,273	82,466
3	<b>Investment in Shares- Grade C</b>	<b>662</b>	-	-
	Quoted Securities	-	-	-
4	<b>Investment in Shares- Grade D</b>	-	-	-
	Quoted Securities	-	-	-
5	<b>Investment in Shares- Grade E</b>	<b>1,014</b>	-	-
	Quoted Securities	-	-	-
6	<b>Investment in Shares- Grade F</b>	<b>48</b>	-	-
	Quoted Securities	-	-	-

(\*) In prior period, the balances are as per the results of equity accounting application.

## 4.5.3 REALISED GAINS/LOSSES, REVALUATION SURPLUSES AND UNREALISED GAINS/LOSSES ON EQUITY SECURITIES AND RESULTS INCLUDED IN CORE AND SUPPLEMENTARY CAPITALS

CURRENT PERIOD		REVALUATION SURPLUSES		UNREALISED GAINS AND LOSSES		
PORTFOLIO		TOTAL	AMOUNT IN TIER I CAPITAL(*)	TOTAL	AMOUNT IN CORE CAPITAL	AMOUNT IN TIER I CAPITAL(*)
1	Private Equity Investments	-	-	-	-	-
2	Quoted Shares	89,124	89,124	-	89,124	-
3	Other Shares	3,863,659	3,863,659	-	3,863,659	-
	<b>Total</b>	<b>3,952,783</b>	<b>3,952,783</b>	<b>-</b>	<b>3,952,783</b>	<b>-</b>

(\*) The balances are as per the results of equity accounting application.

PRIOR PERIOD	PORTFOLIO	GAINS/LOSSES IN CURRENT PERIOD	REVALUATION SURPLUSES		UNREALISED GAINS AND LOSSES		
			TOTAL	AMOUNT IN TIER I CAPITAL(*)	TOTAL	AMOUNT IN CORE CAPITAL	AMOUNT IN TIER I CAPITAL(*)
	1 Private Equity Investments	-	-	-	-	-	-
	2 Quoted Shares	-	66,295	66,295	-	-	-
	3 Other Shares	-	2,915,577	2,915,577	-	-	-
	<b>Total</b>	-	<b>2,981,873</b>	<b>2,981,873</b>	-	-	-

(\*) The balances are as per the results of equity accounting application.

#### 4.5.4 CAPITAL REQUIREMENT AS PER EQUITY SHARES

CURRENT PERIOD			
PORTFOLIO	CARRYING VALUE	RWA TOTAL	MINIMUM CAPITAL REQUIREMENT
1 Private Equity Investments	-	-	-
2 Quoted Shares	174,376	174,376	13,950
3 Other Shares	6,400,253	6,400,253	512,020
<b>Total</b>	<b>6,574,629</b>	<b>6,574,629</b>	<b>525,970</b>

PRIOR PERIOD			
PORTFOLIO	CARRYING VALUE	RWA TOTAL	MINIMUM CAPITAL REQUIREMENT
1 Private Equity Investments	-	-	-
2 Quoted Shares	151,548	151,548	12,124
3 Other Shares	5,059,013	5,059,013	404,721
<b>Total</b>	<b>5,210,561</b>	<b>5,210,561</b>	<b>416,845</b>

#### 4.6 LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO

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.

The board of directors reviews the liquidity risk management policy and approves the liquidity and funding risk policies, ensures the effective of practice of policies and integrations with the Bank's risk management system. The board of directors determines the basic metrics in liquidity risk measurement and monitoring. The board of directors 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 head 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 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 liquidity indicators 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.

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.

In the context of TL and foreign currencies liquidity management, the Bank monitors the cash flows regarding assets and liabilities and forecasts the required liquidity in future periods. 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 policy regarding liquidity risk and contingency funding plan is prepared within this framework.

There exists "Liquidity Emergency Plan" in the Bank including mechanisms to prevent increase in liquidity risk 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 and probable scenarios where liquidity risk crises and possible actions that can be taken.

The Bank's liabilities consist of TL and foreign currency funding, of which a large portion is USD/EUR. Deposits and capital constitute most of TL funding. For the reasons like real person customers can not use foreign currency credit but are able to deposit foreign currency funds, TL and foreign currency deposit and credit amount may differ. Long term funding obtained from foreign banks and creditors are mainly in foreign currency. For these reasons overall foreign currency liabilities are usually more than foreign currency liabilities. Unused portion of USD and EUR foreign currency funding is turned to TL via currency swap transactions and used in TL funding. Lines extended by CBRT and BIST aren't used to full extent, unused limits and high quality liquid asset stock is held is kept to use in the case of a liquidity scarcity in market. Also T.C. Eurobonds aren't used to secure funding and kept as reserve to use in the case of a foreign currency liquidity scarcity in market. In TL and foreign currency liquidity management, regulatory ratios, internally set warnings, limits and other liquidity and funding metrics are monitored.

## 4.6.1 LIQUIDITY COVERAGE RATIO

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" (the Regulation) 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.

Items in balance sheet and off balance sheet items are taken into account after being multiplied by the coefficients advised in the Regulation. In LCR calculation cash inflows are limited by 75% of cash outflows and cash inflows from high quality liquid assets aren't included.

High quality liquid assets consist of cash, deposits in central banks and securities considered as high quality liquid assets. Reserve deposits are included in high quality liquid assets, limited by the amount that is allowed by central bank to use in liquidity shortages. The Bank's high quality liquid assets are composed of 3.30% cash, 55.21% deposits in central banks and 41.48% securities considered as high quality liquid assets.

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The Bank's main funding sources are deposits, funds borrowed, money market borrowings and securities issued. Funding source composition in report date is 66.91% deposits, 21.23% funds borrowed and money market borrowings and 8.18% securities issued.

In LCR calculation, cash outflows are mainly consist of deposits, secured and unsecured borrowings, securities issued and off balance sheet items.

The cash flows from derivative financial instruments are included in LCR calculations according to Regulation's terms. The Bank also considers changes in fair value of the liabilities that result in margin calls when calculating cash outflows.

CURRENT PERIOD	TOTAL UNWEIGHTED VALUE (AVERAGE) (*)		TOTAL WEIGHTED VALUE (AVERAGE) (*)	
	TL+FC	FC	TL+FC	FC
<b>HIGH-QUALITY LIQUID ASSETS</b>			<b>60,570,265</b>	<b>35,888,322</b>
1 Total high-quality liquid assets (HQLA)	60,570,265	35,888,322	60,570,265	35,888,322
<b>CASH OUTFLOWS</b>				
2 Retail deposits and deposits from small business customers, of which:	122,987,360	55,053,474	11,000,314	5,505,347
3 Stable deposits	25,968,429	-	1,298,421	-
4 Less stable deposits	97,018,931	55,053,474	9,701,893	5,505,347
5 Unsecured wholesale funding, of which:	52,745,186	28,380,770	29,360,008	15,485,262
6 Operational deposits	-	-	-	-
7 Non-operational deposits	40,723,945	24,558,622	20,482,425	12,213,410
8 Unsecured funding	12,021,241	3,822,148	8,877,583	3,271,852
9 Secured wholesale funding			104,879	104,879
10 Other cash outflows of which:	51,404,512	11,127,147	10,619,737	10,439,764
11 Outflows related to derivative exposures and other collateral requirements	7,735,673	10,061,991	7,735,673	10,061,991
12 Outflows related to restructured financial instruments	-	-	-	-
13 Payment commitments and other off-balance sheet commitments granted for debts to financial markets	43,668,839	1,065,156	2,884,064	377,773
14 Other revocable off-balance sheet commitments and contractual obligations	1,066	1,066	53	53
15 Other irrevocable or conditionally revocable off-balance sheet obligations	59,256,775	40,701,513	2,962,839	2,035,076
<b>16 TOTAL CASH OUTFLOWS</b>			<b>54,047,830</b>	<b>33,570,381</b>
<b>CASH INFLOWS</b>				
17 Secured receivables	-	-	-	-
18 Unsecured receivables	17,463,600	5,236,978	11,444,451	3,937,072
19 Other cash inflows	1,429,820	8,134,626	1,429,820	8,134,626
<b>20 TOTAL CASH INFLOWS</b>	<b>18,893,420</b>	<b>13,371,604</b>	<b>12,874,271</b>	<b>12,071,698</b>
			<b>UPPER LIMIT APPLIED VALUES</b>	
<b>21 TOTAL HQLA</b>			<b>60,570,265</b>	<b>35,888,322</b>
<b>22 TOTAL NET CASH OUTFLOWS</b>			<b>41,173,559</b>	<b>21,498,683</b>
<b>23 LIQUIDITY COVERAGE RATIO (%)</b>			147.61	171.60

(\*) The average of last three months' liquidity coverage ratio calculated by weekly simple averages.

The table below presents highest, lowest and average liquidity coverage ratios of the last quarter of 2017:

CURRENT PERIOD	HIGHEST	DATE	LOWEST	DATE	AVERAGE
<b>TL+FC</b>	172.20	28.12.2017	135.01	27.11.2017	147.61
<b>FC</b>	232.86	16.12.2017	131.86	17.11.2017	171.60

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PRIOR PERIOD	TOTAL UNWEIGHTED VALUE (AVERAGE) (*)		TOTAL WEIGHTED VALUE (AVERAGE) (*)	
	TL+FC	FC	TL+FC	FC
<b>HIGH-QUALITY LIQUID ASSETS</b>			<b>38,835,305</b>	<b>19,540,092</b>
1 Total high-quality liquid assets (HQLA)	46,512,925	25,746,123	38,835,305	19,540,092
<b>CASH OUTFLOWS</b>				
2 Retail deposits and deposits from small business customers, of which:	105,424,258	46,163,615	8,669,017	4,286,621
3 Stable deposits	24,131,224	-	1,120,378	-
4 Less stable deposits	81,293,034	46,163,615	7,548,639	4,286,621
5 Unsecured wholesale funding, of which:	43,358,024	23,960,602	22,621,537	12,415,263
6 Operational deposits	-	-	-	-
7 Non-operational deposits	34,102,671	21,343,725	16,418,382	10,064,078
8 Unsecured funding	9,255,353	2,616,877	6,203,155	2,351,185
9 Secured wholesale funding			342,707	342,707
10 Other cash outflows of which:	51,592,370	14,605,068	10,661,642	9,671,066
11 Outflows related to derivative exposures and other collateral requirements	7,987,916	9,169,525	7,417,350	8,514,559
12 Outflows related to restructured financial instruments	-	-	-	-
13 Payment commitments and other off-balance sheet commitments granted for debts to financial markets	43,604,454	5,435,543	3,244,292	1,156,507
14 Other revocable off-balance sheet commitments and contractual obligations	1,451,196	1,444,887	67,377	67,084
15 Other irrevocable or conditionally revocable off-balance sheet obligations	55,210,937	38,427,025	2,563,365	1,784,112
16 <b>TOTAL CASH OUTFLOWS</b>			<b>44,925,645</b>	<b>28,566,853</b>
<b>CASH INFLOWS</b>				
17 Secured receivables	-	-	-	-
18 Unsecured receivables	14,943,851	4,830,047	9,153,351	3,425,254
19 Other cash inflows	1,325,052	5,914,162	1,230,405	5,491,722
20 <b>TOTAL CASH INFLOWS</b>	<b>16,268,903</b>	<b>10,744,209</b>	<b>10,383,756</b>	<b>8,916,976</b>
			<b>UPPER LIMIT APPLIED VALUES</b>	
21 <b>TOTAL HQLA</b>			<b>38,835,305</b>	<b>19,540,092</b>
22 <b>TOTAL NET CASH OUTFLOWS</b>			<b>34,541,889</b>	<b>19,649,877</b>
23 <b>LIQUIDITY COVERAGE RATIO (%)</b>			<b>113.06</b>	<b>94.26</b>

(\*) The average of last three months' liquidity coverage ratio calculated by weekly simple averages.

The table below presents highest, lowest and average liquidity coverage ratios of the last quarter of 2016:

PRIOR PERIOD	HIGHEST	DATE	LOWEST	DATE	AVERAGE
<b>TL+FC</b>	128.41	21.10.2016	99.22	23.11.2016	113.06
<b>FC</b>	128.99	22.12.2016	71.48	01.01.2017	94.26

## 4.6.2 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's financial liabilities as per their earliest likely contractual maturities.

	CARRYING VALUE	GROSS NOMINAL OUTFLOWS	DEMAND	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER
<b>CURRENT PERIOD</b>								
Bank Deposits	1,198,964	1,196,609	894,272	106,923	-	195,414	-	-
Other Deposits	179,917,041	179,102,455	44,454,292	100,796,323	18,712,875	15,087,540	44,155	7,270
Other Fundings	40,804,823	40,691,789	-	853,721	240,580	15,741,314	16,150,219	7,705,955
Interbank Money Market Takings	16,664,588	16,650,220	-	16,650,220	-	-	-	-
Securities Issued (**)	22,140,831	21,760,780	-	1,844,478	2,763,373	1,301,567	10,089,266	5,762,096
<b>Total</b>	<b>260,726,247</b>	<b>259,401,853</b>	<b>45,348,564</b>	<b>120,251,665</b>	<b>21,716,828</b>	<b>32,325,835</b>	<b>26,283,640</b>	<b>13,475,321</b>

(\*\*) Includes subordinated securities issued and presented under subordinated debts in balance sheet.

	CARRYING VALUE	GROSS NOMINAL OUTFLOWS	DEMAND	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER
<b>PRIOR PERIOD</b>								
Bank Deposits	3,718,546	3,711,684	2,849,336	645,554	9,261	207,533	-	-
Other Deposits	157,513,051	156,948,877	35,952,232	88,681,184	20,644,243	11,443,292	219,303	8,623
Other Fundings	40,286,368	40,042,185	-	446,491	1,466,844	17,535,162	13,512,311	7,081,377
Interbank Money Market Takings	9,769,387	9,763,295	-	9,763,295	-	-	-	-
Securities Issued	16,436,879	16,109,622	-	471,698	1,258,500	4,599,655	7,636,078	2,143,691
<b>Total</b>	<b>227,724,231</b>	<b>226,575,663</b>	<b>38,801,568</b>	<b>100,008,222</b>	<b>23,378,848</b>	<b>33,785,642</b>	<b>21,367,692</b>	<b>9,233,691</b>

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## 4.6.3 MATURITY ANALYSIS OF ASSETS AND LIABILITIES ACCORDING TO REMAINING MATURITIES:

	DEMAND	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER	UNDISTRIBUTED (*)	TOTAL
<b>CURRENT PERIOD</b>								
<b>ASSETS</b>								
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	7,175,777	26,236,726	-	-	-	-	-	33,412,503
Banks	8,018,481	2,138,511	82,685	77,036	4,001,760	-	-	14,318,473
Financial Assets at Fair Value through Profit/Loss	-	462,256	592,336	564,976	713,797	316,785	-	2,650,150
Interbank Money Market Placements	-	-	-	-	-	-	-	-
Financial Assets Available-for-Sale	258,341	545,142	16,315	1,203,581	12,185,082	8,536,241	-	22,744,702
Loans	589,195	35,079,114	17,081,297	52,224,720	79,368,763	20,962,906	4,373,882	209,679,877
Investments Held-to-Maturity	-	1,730	155,380	1,106,532	3,310,421	9,648,108	10,663,172	24,885,343
Other Assets	2,247,884	1,288,680	39	123,903	415,917	129,892	13,334,911	17,541,226
<b>Total Assets</b>	<b>18,289,678</b>	<b>65,752,159</b>	<b>17,928,052</b>	<b>55,300,748</b>	<b>99,995,740</b>	<b>39,593,932</b>	<b>28,371,965</b>	<b>325,232,274</b>
<b>LIABILITIES</b>								
Bank Deposits	894,483	107,087	-	197,394	-	-	-	1,198,964
Other Deposits	44,454,292	101,238,101	18,845,804	15,327,004	44,530	7,310	-	179,917,041
Other Fundings	-	977,542	211,170	15,759,937	16,150,219	7,705,955	-	40,804,823
Interbank Money Market Takings	-	16,664,588	-	-	-	-	-	16,664,588
Securities Issued (**)	-	1,853,586	2,783,299	1,325,924	10,343,342	5,834,680	-	22,140,831
Miscellaneous Payables	868,354	9,105,542	-	-	-	-	-	9,973,896
Other Liabilities (***)	1,781,844	1,262,404	798,430	1,076,738	114,497	224,039	49,274,179	54,532,131
<b>Total Liabilities</b>	<b>47,998,973</b>	<b>131,208,850</b>	<b>22,638,703</b>	<b>33,686,997</b>	<b>26,652,588</b>	<b>13,771,984</b>	<b>49,274,179</b>	<b>325,232,274</b>
<b>Liquidity Gap</b>	<b>(29,709,295)</b>	<b>(65,456,691)</b>	<b>(4,710,651)</b>	<b>21,613,751</b>	<b>73,343,152</b>	<b>25,821,948</b>	<b>(20,902,214)</b>	<b>-</b>
<b>Net Off-Balance Sheet Position</b>	<b>-</b>	<b>(509,274)</b>	<b>(165,205)</b>	<b>(361,219)</b>	<b>281,607</b>	<b>40,314</b>	<b>-</b>	<b>(713,777)</b>
Derivative Financial Assets	-	73,493,516	27,063,324	28,432,187	4,679,452	1,023,851	-	134,692,330
Derivative Financial Liabilities	-	74,002,790	27,228,529	28,793,406	4,397,845	983,537	-	135,406,107
Non-Cash Loans	-	7,984,082	3,161,722	5,910,547	48,073	-	93,029,057	110,133,481
<b>PRIOR PERIOD</b>								
<b>Total Assets</b>	<b>15,229,277</b>	<b>51,552,662</b>	<b>17,519,406</b>	<b>48,190,111</b>	<b>91,629,362</b>	<b>45,374,791</b>	<b>14,659,791</b>	<b>284,155,400</b>
<b>Total Liabilities</b>	<b>41,754,663</b>	<b>109,450,229</b>	<b>24,403,593</b>	<b>35,071,476</b>	<b>22,305,686</b>	<b>9,912,259</b>	<b>41,257,494</b>	<b>284,155,400</b>
<b>Liquidity Gap</b>	<b>(26,525,386)</b>	<b>(57,897,567)</b>	<b>(6,884,187)</b>	<b>13,118,635</b>	<b>69,323,676</b>	<b>35,462,532</b>	<b>(26,597,703)</b>	<b>-</b>
<b>Net Off-Balance Sheet Position</b>	<b>-</b>	<b>568,524</b>	<b>(102,511)</b>	<b>547,321</b>	<b>(14,041)</b>	<b>87,715</b>	<b>-</b>	<b>1,087,008</b>
Derivative Financial Assets	-	57,011,286	23,414,855	29,279,277	7,694,661	967,692	-	118,367,771
Derivative Financial Liabilities	-	56,442,762	23,517,366	28,731,956	7,708,702	879,977	-	117,280,763
Non-Cash Loans	-	5,280,818	3,890,088	5,972,633	136,128	-	89,084,131	104,363,798

(\*) Certain assets on the balance sheet that are necessary for the banking operations but not convertible into cash in short period such as tangible assets, investments in associates and affiliates, stationary supplies, prepaid expenses and loans under follow-up, are included in this column.

(\*\*) Includes subordinated securities issued and presented under subordinated debts in balance sheet.

(\*\*\*) Shareholders' equity is included in "other liabilities" line under "undistributed" column.

## 4.7 LEVERAGE RATIO

The leverage ratio table prepared in accordance with the communiqué "Regulation on Measurement and Assessment of Leverage Ratios of Banks" published in the Official Gazette no. 28812 dated 5 November 2013 is presented below:

The Bank's leverage ratio calculated by taking average of end of month leverage ratios for prior three-month period is 9.07% (31 December 2016: 8.83%). Main reason for the variance compared to December 2017, is the high increase in capital. While the capital increased by 15.90% mainly as a result of increase in net profits, the balance sheet exposure increased by 15.32% and the off balance sheet exposure increased by 5.51%. Therefore, the current period leverage ratio increased by 24 basis points compared to prior period.

ON-BALANCE SHEET ASSETS		CURRENT PERIOD (*)	PRIOR PERIOD (*)
1	On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	321,385,438	278,685,369
2	(Assets deducted in determining Tier I capital)	(346,406)	(300,326)
3	Total on-balance sheet risks (sum of lines 1 and 2)	321,039,032	278,385,043
DERIVATIVE FINANCIAL INSTRUMENTS AND CREDIT DERIVATIVES			
4	Replacement cost associated with all derivative instruments and credit derivatives	2,913,913	3,285,514
5	Add-on amounts for PFE associated with all derivative instruments and credit derivatives	11,031,830	8,303,567
6	Total risks of derivative financial instruments and credit derivatives (sum of lines 4 to 5)	13,945,743	11,589,081
SECURITIES OR COMMODITY FINANCING TRANSACTIONS (SCFT)			
7	Risks from SCFT assets (excluding on-balance sheet)	2,432,662	1,586,346
8	Risks from brokerage activities related exposures	-	-
9	Total risks related with securities or commodity financing transactions (sum of lines 7 to 8)	2,432,662	1,586,346
OTHER OFF-BALANCE SHEET TRANSACTIONS			
10	Gross notional amounts of off-balance sheet transactions	111,439,135	105,623,641
11	(Adjustments for conversion to credit equivalent amounts)	(3,765,170)	(2,550,420)
12	Total risks of off-balance sheet items (sum of lines 10 and 11)	107,673,965	103,073,221
CAPITAL AND TOTAL RISKS			
13	Tier I capital	40,383,538	34,842,798
14	Total risks (sum of lines 3, 6, 9 and 12)	445,091,402	394,633,691
LEVERAGE RATIO			
15	Leverage ratio	9.07	8.83

(\*) Amounts in the table are three-month average amounts.

## 4.8 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	CARRYING VALUE		FAIR VALUE	
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD
<b>Financial Assets</b>	<b>301,923,616</b>	<b>263,138,119</b>	<b>303,834,351</b>	<b>264,414,464</b>
Interbank Money Market Placements	-	351,691	-	351,691
Banks (*)	44,613,694	33,185,447	44,613,694	33,185,447
Financial Assets Available-for-Sale	22,744,702	19,912,569	22,744,702	19,912,569
Investments Held-to-Maturity	24,885,343	23,640,184	25,171,056	23,329,795
Loans	209,679,877	186,048,228	211,304,899	187,634,962
<b>Financial Liabilities</b>	<b>254,035,555</b>	<b>227,042,983</b>	<b>254,035,555</b>	<b>227,042,983</b>
Bank Deposits	1,198,964	3,718,546	1,198,964	3,718,546
Other Deposits	179,917,041	157,513,051	179,917,041	157,513,051
Other Fundings	40,804,823	40,286,368	40,804,823	40,286,368
Securities Issued (**)	22,140,831	16,436,879	22,140,831	16,436,879
Miscellaneous Payables	9,973,896	9,088,139	9,973,896	9,088,139

(\*) Including the balances at the Central Bank of Turkey

(\*\*) Including subordinated securities issued and presented under subordinated debts in balance sheet.

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Fair values of financial assets available-for-sale and investments held-to-maturity are derived from market prices or in case of absence of such prices, market prices of other securities quoted in similar qualified markets and having substantially similar characteristics in terms of interest, maturity and other conditions.

Fair values of loans are calculated discounting future cash flows at current market interest rates for fixed-rate loans. The carrying values of floating-rate loans are deemed an approximation for their fair values.

Fair values of other financial assets and liabilities represent the total acquisition costs and accrued interest.

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

CURRENT PERIOD	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial Assets Available-for-Sale	20,301,220	2,384,564	58,918	22,744,702
Financial Assets Held for Trading	833,030	87	2,717	835,834
Derivative Financial Assets Held for Trading	1,205	1,813,111	-	1,814,316
Derivative Financial Assets Held for Risk Management	-	648,275	-	648,275
<b>Financial Assets at Fair Value</b>	<b>21,135,455</b>	<b>4,846,037</b>	<b>61,635</b>	<b>26,043,127</b>
Derivative Financial Liabilities Held for Trading	230	2,752,500	-	2,752,730
Funds Borrowed	-	9,228,338	-	9,228,338
Derivative Financial Liabilities Held for Risk Management	-	180,070	-	180,070
<b>Financial Liabilities at Fair Value</b>	<b>230</b>	<b>12,160,908</b>	<b>-</b>	<b>12,161,138</b>
<b>PRIOR PERIOD</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	<b>TOTAL</b>
Financial Assets Available-for-Sale	19,104,438	246,183	561,948	19,912,569
Financial Assets Held for Trading	115,443	-	-	115,443
Derivative Financial Assets Held for Trading	12,449	3,378,536	-	3,390,985
Derivative Financial Assets Held for Risk Management	-	589,214	-	589,214
<b>Financial Assets at Fair Value</b>	<b>19,232,330</b>	<b>4,213,933</b>	<b>561,948</b>	<b>24,008,211</b>
Derivative Financial Liabilities Held for Trading	977	3,495,645	-	3,496,622
Funds Borrowed	-	6,583,861	-	6,583,861
Derivative Financial Liabilities Held for Risk Management	-	279,536	-	279,536
<b>Financial Liabilities at Fair Value</b>	<b>977</b>	<b>10,359,042</b>	<b>-</b>	<b>10,360,019</b>

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)

The movement of financial assets in Level 3 is presented below.

	CURRENT PERIOD	PRIOR PERIOD
<b>Balances at Beginning of Period</b>	<b>561,948</b>	<b>531,004</b>
Purchases during the Period	41,085	96,517
Disposals through Sale/Redemptions	(495,861)	(83,451)
Valuation Effect	3,221	(18,322)
Transfers	(48,758)	36,200
<b>Balances at End of Period</b>	<b>61,635</b>	<b>561,948</b>

## 4.9 TRANSACTIONS CARRIED OUT ON BEHALF OF CUSTOMERS AND ITEMS HELD IN TRUST

None.

## 4.10 RISK MANAGEMENT OBJECTIVES AND POLICIES

The notes under this caption are prepared as per the "Regulation on Calculation of Risk Management Disclosures" published in the Official Gazette no. 29511 dated 23 October 2015.

## 4.10.I RISK MANAGEMENT STRATEGY AND WEIGHTED AMOUNTS

### 4.10.I.I RISK MANAGEMENT STRATEGY

The Bank's risk management strategy is to ensure that risk management culture is recognized and risk management principles are widely embraced throughout the Bank and its affiliates, an integrated risk management system is established which pursues risk-return-capital relationship. Essential principles are adopted in order to ensure that policies determined to assess and manage risks the Bank is exposed to, are kept updated, adapted to changing conditions, applied and managed.

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

Policies and procedures regarding risk management are established for consolidated affiliates. Policies and procedures are prepared in compliance with applicable legislations that the affiliate subject to and the parent Bank's risk management strategy, reviewed regularly and revised if necessary. The parent Bank ensures that risk management system is applied in affiliates where risks are defined, measured, monitored and controlled.

Risk management activities are structured under the responsibility of the board of directors. The Risk Committee composed of the members of the board is responsible to oversee the Bank's risk management policies and practices, including the alignment with its strategic objectives and management's ability to assess and manage the various risks present in its activities including capital adequacy and planning and liquidity adequacy, as well as all other risk management functions envisioned under the applicable laws and regulations. Upper level management is responsible against the board of directors for the monitoring and management of risks that their departments are exposed to. Accordingly, the Risk Management, which performs risk management functions, reports to the board of directors via the Risk Committee, whereas the Internal Audit

Department, performing internal audit functions, the Internal Control Unit, performing internal control functions, and the Compliance Department, which implements compliance controls and performs activities to prevent laundering proceeds of crime, and financing of terrorism, report directly to the board of directors.

The Bank's main approach for the implementation of risk management model is establishing risk culture throughout the Bank, and aims that the importance of risk management for maintaining business operations is understood and risk awareness and sensitivity is ensured for decision making and implementation mechanisms process by all employees.

The Bank measures and monitors risks that exposed to, considering methods suitable with international standards, compliant with legislation. Risk measuring and reporting are performed via advanced methods and risk management softwares. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, periodic and non-periodic reports are prepared for board of directors, relevant committees and senior management.

The Bank's risk appetite framework determines the risk level that the board of directions is prepared to accept in order to accomplish the goals and strategies with due consideration to the capacity of the institution to safely absorbs those risks and the Bank monitors regularly risk appetite metrics regarding capital, liquidity, income recurrence and risk based limits. Risks that the Bank is exposed, is managed by providing effective control environment and monitoring limits. Unmitigated risks are either accepted with current risk levels or decreasing/terminating the activity that causes the risk.

The Risk Management function conducts the implementation of internal capital adequacy assessment report to be sent to the BRSA, by coordinating relevant parties. Stress test report is reported to the BRSA, which evaluates how adverse effects on macroeconomic parameters, in the scope of determined scenarios, affect the Bank's three year budget plan and results, and certain ratios, including capital adequacy.

Training programs for employees, risk reports to the board of directors, senior management and committees, risk appetite framework established by the Bank and internal capital adequacy assessment process generate significant inputs to ensure that risk management culture is widely embraced.



## 4.10.1.2 RISK WEIGHTED AMOUNTS

	RISK WEIGHTED AMOUNTS		MINIMUM CAPITAL REQUIREMENTS
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD
1 Credit risk (excluding counterparty credit risk) (CCR) (*)	216,037,567	202,032,520	17,283,005
2 Of which standardised approach (SA)	216,037,567	202,032,520	17,283,005
3 Of which internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	3,610,835	5,270,570	288,867
5 Of which standardised approach for counterparty credit risk (SA-CCR)	3,610,835	5,270,570	288,867
6 Of which internal model method (IMM)	-	-	-
7 Equity position in banking book under basic risk weighting or internal rating-based	-	-	-
8 Equity investments in funds - look-through approach	-	-	-
9 Equity investments in funds - mandate-based approach	-	-	-
10 Equity investments in funds - 1250% risk weighting approach	-	-	-
11 Settlement risk	-	-	-
12 Securitisation exposures in banking book	-	-	-
13 Of which IRB ratings-based approach (RBA)	-	-	-
14 Of which IRB supervisory formula approach (SFA)	-	-	-
15 Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	6,027,729	5,704,124	482,218
17 Of which standardised approach (SA)	6,027,729	5,704,124	482,218
18 Of which internal model approaches (IMM)	-	-	-
19 Operational risk	21,709,380	18,931,681	1,736,750
20 Of which basic indicator approach	21,709,380	18,931,681	1,736,750
21 Of which standardised approach	-	-	-
22 Of which advanced measurement approach	-	-	-
23 Amounts below the thresholds for deduction from capital (subject to 250% risk weight)	951,770	383,449	76,142
24 Floor adjustment	-	-	-
25 Total (1+4+7+8+9+10+11+12+16+19+23+24)	248,337,281	232,322,344	19,866,982

(\*) Excluding equity investments in funds and amounts below the thresholds for deductions from capital.

## 4.10.2 LINKAGES BETWEEN FINANCIAL STATEMENTS AND RISK AMOUNTS

### 4.10.2.1 DIFFERENCES AND MATCHING BETWEEN ASSET AND LIABILITIES' CARRYING VALUES IN FINANCIAL STATEMENTS AND RISK AMOUNTS IN CAPITAL ADEQUACY CALCULATION

CURRENT PERIOD	CARRYING VALUES IN FINANCIAL STATEMENTS PREPARED AS PER TAS	CARRYING VALUES OF ITEMS IN ACCORDANCE WITH TURKISH ACCOUNTING STANDARDS			
		SUBJECT TO CREDIT RISK	SUBJECT TO COUNTERPARTY CREDIT RISK	SUBJECT TO MARKET RISK (*)	NOT SUBJECT TO CAPITAL REQUIREMENTS OR SUBJECT TO DEDUCTION FROM CAPITAL
<b>ASSETS</b>					
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances With Central Bank of Turkey	33,412,503	33,412,503	-	-	-
Financial Assets Held for Trading	2,650,150	67,904	1,746,412	1,970,772	-
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-
Banks	14,318,473	14,318,293	-	-	-
Interbank Money Markets Placements	-	-	-	-	-
Financial Assets Available-for-Sale	22,744,702	22,571,524	13,994,778	171,784	1,394
Loans	209,679,877	209,648,998	-	-	30,879
Factoring Receivables	-	-	-	-	-
Investment Held-to-Maturity	24,885,343	24,885,343	1,010,967	-	-
Investment in Associates	35,158	35,158	-	-	-
Investment in Subsidiaries	6,539,471	6,539,471	-	-	-
Investment in Joint-Ventures	-	-	-	-	-
Lease Receivables	-	-	-	-	-
Derivative Financial Assets Held for Risk Management	648,275	-	648,275	-	-
Tangible Assets	3,769,379	3,648,973	-	-	120,406
Intangible Assets	285,654	24,024	-	-	261,630
Investment Property	690,588	690,588	-	-	-
Tax Asset	356,684	356,684	-	-	-
Assets Held for Sale and Assets of Discontinued Operations	775,428	775,428	-	-	-
Other Assets	4,440,589	4,440,589	-	-	-
<b>TOTAL ASSETS</b>	<b>325,232,274</b>	<b>321,415,480</b>	<b>17,400,432</b>	<b>2,142,556</b>	<b>414,309</b>
<b>LIABILITIES</b>					
Deposits	181,116,005	-	-	-	181,116,005
Derivative Financial Liabilities Held for Trading	2,752,730	-	-	-	2,752,730
Funds Borrowed	40,804,823	-	11,838,445	-	28,966,378
Interbank Money Markets	16,664,588	-	1,059,898	-	15,604,690
Securities Issued	19,291,360	-	-	-	19,291,360
Funds	-	-	-	-	-
Miscellaneous Payables	9,973,896	-	-	-	9,973,896

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Other External Fundings Payable	2,866,550	-	-	28,116	2,838,434
Factoring Payables	-	-	-	-	-
Lease Payables	6,939	-	-	-	6,939
Derivative Financial Liabilities Held for Risk Management	180,070	-	-	-	180,070
Provisions	6,306,654	-	-	-	6,306,654
Tax Liability	1,087,978	-	-	-	1,087,978
Liabilities for Assets Held for Sale and Assets of Discontinued Operations	-	-	-	-	-
Subordinated Debts	2,849,471	-	-	-	2,849,471
Shareholders' Equity	41,331,210	-	-	-	41,331,210
<b>TOTAL LIABILITIES</b>	<b>325,232,274</b>	<b>-</b>	<b>12,898,343</b>	<b>28,116</b>	<b>312,305,815</b>

(\*) Disclosed based on gross position amounts subject to general market risk and specific risk.

PRIOR PERIOD	CARRYING VALUES OF ITEMS IN ACCORDANCE WITH TURKISH ACCOUNTING STANDARDS				
	CARRYING VALUES IN FINANCIAL STATEMENTS PREPARED AS PER TAS	SUBJECT TO CREDIT RISK	SUBJECT TO COUNTERPARTY CREDIT RISK	SUBJECT TO MARKET RISK (*)	NOT SUBJECT TO CAPITAL REQUIREMENTS OR SUBJECT TO DEDUCTION FROM CAPITAL
<b>ASSETS</b>					
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances With Central Bank of Turkey	23,785,134	23,785,134	-	-	-
Financial Assets Held for Trading	3,506,428	7,840	3,383,147	1,298,044	-
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-
Banks	12,318,926	12,318,926	-	-	-
Interbank Money Markets Placements	351,691	351,691	-	-	-
Financial Assets Available-for-Sale	19,912,569	18,829,615	5,044,027	1,081,227	1,730
Loans	186,048,228	186,011,235	-	-	36,994
Factoring Receivables	-	-	-	-	-
Investment Held-to-Maturity	23,640,184	23,640,184	8,308,738	-	-
Investment in Associates	36,698	36,698	-	-	-
Investment in Subsidiaries	5,173,864	5,173,864	-	-	-
Investment in Joint-Ventures	-	-	-	-	-
Lease Receivables	-	-	-	-	-
Derivative Financial Assets Held for Risk Management	589,214	-	589,214	-	-
Tangible Assets	3,388,748	3,285,711	-	-	103,037
Intangible Assets	239,013	25,669	-	-	213,344
Investment Property	670,370	670,370	-	-	-
Tax Asset	127,709	127,709	-	-	-
Assets Held for Sale and Assets of Discontinued Operations	589,726	533,866	-	-	55,860
Other Assets	3,776,898	3,776,898	-	-	-

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TOTAL ASSETS	284,155,400	278,575,410	17,325,126	2,379,271	410,965
<b>LIABILITIES</b>					
Deposits	161,231,597	-	-	-	161,231,597
Derivative Financial Liabilities Held for Trading	3,496,622	-	-	-	3,496,622
Funds Borrowed	40,286,368	-	5,798,862	-	34,487,506
Interbank Money Markets	9,769,387	-	7,268,206	-	2,501,181
Securities Issued	16,436,879	-	-	-	16,436,879
Funds	-	-	-	-	-
Miscellaneous Payables	9,088,139	-	-	-	9,088,139
Other External Fundings Payable	2,981,312	-	-	21,136	2,960,176
Factoring Payables	-	-	-	-	-
Lease Payables	17,092	-	-	-	17,092
Derivative Financial Liabilities Held for Risk Management	279,536	-	-	-	279,536
Provisions	4,614,004	-	-	-	4,614,004
Tax Liability	415,384	-	-	-	415,384
Liabilities for Assets Held for Sale and Assets of Discontinued Operations	-	-	-	-	-
Subordinated Debts	-	-	-	-	-
Shareholders' Equity	35,539,080	-	-	-	35,539,080
<b>TOTAL LIABILITIES</b>	<b>284,155,400</b>	<b>-</b>	<b>13,067,068</b>	<b>21,136</b>	<b>271,067,196</b>

(\*) Disclosed based on gross position amounts subject to general market risk and specific risk.

## 4.10.2.2 MAJOR ITEMS CAUSING DIFFERENCES BETWEEN ASSETS AND LIABILITIES' CARRYING VALUES IN FINANCIAL STATEMENTS AND RISK AMOUNTS IN CAPITAL ADEQUACY CALCULATION

CURRENT PERIOD	TOTAL	CREDIT RISK	COUNTERPARTY CREDIT RISK	MARKET RISK (*)
1 Carrying Value of Assets in Accordance with Communiqué "Preparation of Financial Statements"	309,812,220	306,409,740	2,394,687	2,142,556
2 Carrying Value of Debt Instruments that are Subjected to Counterparty Credit Risk as per TAS	15,005,745	15,005,740	15,005,745	-
3 Carrying Value of Liabilities that are Subjected to Counterparty Credit Risk as per TAS	12,898,343	-	12,898,343	-
4 Carrying Value of Other Liabilities as per TAS	28,116	-	-	28,116
<b>5 Total Net Amount</b>	<b>311,891,506</b>	<b>321,415,480</b>	<b>4,502,089</b>	<b>2,114,440</b>
6 Off-balance Sheet Amounts (**)	285,642,143	42,302,266	1,767,029	172,634,319
7 Differences Resulted from the BRSA's Applications		(21,295,228)	(28,947)	-
8 Repurchase Transactions		-	862,204	-
<b>9 Risk Amounts</b>		<b>342,422,518</b>	<b>7,102,375</b>	<b>174,748,759</b>

(\*) Disclosed based on gross position amounts subject to general market risk and specific risk.

(\*\*) Off-balance sheet amounts subject to capital adequacy ratios.

PRIOR PERIOD	TOTAL	CREDIT RISK	COUNTERPARTY CREDIT RISK	MARKET RISK (*)
1 Carrying Value of Assets in Accordance with Communiqué "Preparation of Financial Statements"	270,391,670	265,222,644	3,972,361	2,379,271
2 Carrying Value of Debt Instruments that are Subjected to Counterparty Credit Risk as per TAS	13,352,765	13,352,766	13,352,765	-
3 Carrying Value of Liabilities that are Subjected to Counterparty Credit Risk as per TAS	13,067,068	-	13,067,068	-
4 Carrying Value of Other Liabilities as per TAS	21,136	-	-	21,136
<b>5 Total Net Amount</b>	<b>270,656,231</b>	<b>278,575,410</b>	<b>4,258,058</b>	<b>2,358,135</b>
6 Off-balance Sheet Amounts (**)	249,440,858	40,412,624	1,639,214	158,558,970
7 Differences Resulted from the BRSA's Applications		(18,671,213)	(9,751)	-
8 Repurchase Transactions		-	1,479,742	-
<b>9 Risk Amounts</b>		<b>300,316,821</b>	<b>7,367,263</b>	<b>160,917,105</b>

(\*) Disclosed based on gross position amounts subject to general market risk and specific risk.

(\*\*) Off-balance sheet amounts subject to capital adequacy ratios.

#### 4.10.2.3 EXPLANATIONS ON DIFFERENCES BETWEEN CARRYING VALUES IN FINANCIAL STATEMENTS AND RISK AMOUNTS IN CAPITAL ADEQUACY CALCULATION OF ASSETS AND LIABILITIES

There is no material differences between the carrying values in financial statements and the risk amounts in capital adequacy calculation of assets and liabilities.

#### 4.10.3 CREDIT RISK

##### 4.10.3.1 GENERAL INFORMATION ON CREDIT RISK

##### 4.10.3.1.1 GENERAL QUALITATIVE INFORMATION ON CREDIT RISK

The Bank's credit risk management policies; under the relevant legislation in line with the bank's credit strategy approved by the Board are created based on the prudence, sustainability and customer's credit worthiness principles.

Diversification to avoid concentrations are performed while determining the Bank's credit risk profile. Credit portfolios are evaluated depending upon the credit type, managed aggregately during their life cycle. Customer selection is made in accordance with the policies and strategies, affordability of the borrower to fulfil on a timely basis all financial obligations with his expected cash flows from foreseeable specific transactions or from its regular operations; without depending upon guarantors, bails or pledged assets is predicated. Necessary risk rating/scoring models are developed for the different portfolios of the Bank. These models are created by ensuring the best separation of the customers in terms of their credibility and grading them using the objective criteria. The outputs of the internal rating and scoring models that developed based on the each portfolio, as well as an important part of the loan approval process, but also these models are used measuring the default risk of the customer and the portfolio, doing analysis regarding expected loss, internal capital, risk-based analysis.

The general risk policy including the risk appetite and indicators is determined by the board of directors. Risk management is handled, in order to reach the determined targets, by carrying out a continuous monitoring process with a proper classification of risks and customers in scope of the effective management mentality. The limit framework and delegation rules are specified by establishing proper decision systems in order to assess the risks correctly. Optimum limit levels are determined by taking into account the loss and returns during the limit setting process.

The security intelligence and analysis are done in order to measure the creditworthiness of the customer that will be entered in a credit relationship. Before the credit decisions, customer analysis is examined and evaluated by producing all factors (qualitative and quantitative data) that effected and will be effected the historical, current and future performance of the customer.

Credit risk management is a structured process where credit risks are consistently assessed, quantified and monitored. In order to take the right decision, during the credit process which begins with the application of the customer and includes the phases of determination of the customer's credibility, collateralization, loan configuration, approval and usage, monitoring and closing the exposure, all required information and documents intended to identify the customer are collected in a centralized database, with this information the customer's financial strength is analysed, credit risk analysis is done, are graded according to customer segment and activity fields and the information is kept updated by inquiring the customers. Before a loan is granted, it is ensured that risks are well-understood, sufficient evaluation has been done and after the loan is granted the loan is monitored, controlled and reported.

Credit risk is managed on a portfolio basis considering the risk/return balance and asset quality of the Bank in the scope of the principles specified in the credit risk policy documents. Furthermore, loan based assessment, allocation and monitoring are carried out within the framework of related processes by related units in the Credit Group. Credit proposals, on the basis of the determined amount and in the framework of levels of authority, are concluded after being evaluated by the Regional Offices, Loans units of Headquarter, if required by the credit committee and the board of directors. The credit approval authority can be transferred starting from the board of directors. The authorities of the Headquarter and Credit Regional Offices are notified in written and the transfer of authority is done.

Each unit operating in credit risk management is responsible for identifying risks arising from its own process, activities and systems, informing senior management and taking necessary action to reduce risk level.

Risk management activities are conducted in accordance with the Bank's risk appetite and capacity by using risk measurement and management tools within the policies which is established by the board of directors.

In this context, organizational structure related to credit risk management and control functions are detailed below: Units within the scope of Credit Risk Management; Corporate and Special Loans, Commercial Loans, Featured Collections, Commercial Products Collection, Bank and Country Risk, Retail and SME Loans Risk Strategies, Retail and SME Loans Evaluation, Retail Products Collection, Risk Planning Monitoring and Reporting, Risk Analytics, Technology and Innovation, Market Risk and Credit Risk Control and Region Coordination.

In addition, decisions regarding the credit policy in the corporate governance framework are taken by the relevant committees. In this context, there are Corporate and Commercial Loans Risk Committee, Retail Loans Risk Committee, Risk Management Committee and Board of Risk Committee. Allocated limits and conditions that exceeding the limits with their usage, evaluations regarding major risks and non-performing loans with high risk, information regarding NPLs, the data regarding the portfolios of subsidiaries are reported to senior management on a regular basis.

The Risk Management function measures, monitors and reports credit risks by using the Bank's probability of defaults obtained from the Bank's rating models, loss that is caused by defaulted customer and credit conversion factors. Bank's internal capital is calculated and adequacy is assessed by considering stress tests and scenario analysis. Also, the limits are determined for credit portfolios by considering optimum risk return balance and credit concentrations are monitored.

For credit risk, on-site and centralized controls of guarantees and contract are carried out by employees of the Internal Control Center. In this context, it is implemented a strategy which covers all branches. Internal control activities are carried out under the control programs prepared for the designated checkpoints and methodologies.

#### 4.10.3.1.2 CREDIT QUALITY OF ASSETS

CURRENT PERIOD	GROSS CARRYING VALUE AS PER TAS		ALLOWANCES/ AMORTISATION AND IMPAIRMENTS	NET VALUES
	DEFAULTED	NON-DEFAULTED		
1 Loans	5,408,114	253,213,814	4,359,237	254,262,691
2 Debt securities	-	47,371,704	-	47,371,704
3 Off-balance sheet exposures	370,339	68,516,128	127,417	68,759,050
4 <b>Total</b>	<b>5,778,453</b>	<b>369,101,646</b>	<b>4,486,654</b>	<b>370,393,445</b>

PRIOR PERIOD	GROSS CARRYING VALUE AS PER TAS		ALLOWANCES/ AMORTISATION AND IMPAIRMENTS	NET VALUES
	DEFAULTED	NON-DEFAULTED		
1 Loans	5,272,774	218,543,090	4,267,491	219,548,373
2 Debt securities	-	42,400,852	-	42,400,852
3 Off-balance sheet exposures	355,861	68,200,685	134,609	68,421,937
4 <b>Total</b>	<b>5,628,635</b>	<b>329,144,627</b>	<b>4,402,100</b>	<b>330,371,162</b>

#### 4.10.3.1.3 CHANGES IN STOCK OF DEFAULT LOANS AND DEBT SECURITIES

	CURRENT PERIOD	PRIOR PERIOD
1 <b>Defaulted loans and debt securities at end of the previous reporting period</b>	<b>5,272,774</b>	<b>4,404,024</b>
2 Loans and debt securities defaulted since the last reporting period	2,424,023	3,232,458
3 Receivables back to non-defaulted status	-	-
4 Amounts written off	865,771	1,077,347
5 Other changes	1,422,912	1,286,361
6 <b>Defaulted loans and debt securities at end of the reporting period</b>	<b>5,408,114</b>	<b>5,272,774</b>

## 4.10.3.1.4 ADDITIONAL DISCLOSURE RELATED TO THE CREDIT QUALITY OF ASSETS

### 4.10.3.1.4.1 QUALITATIVE DISCLOSURES RELATED TO THE CREDIT QUALITY OF ASSETS

Taking into consideration the general economic outlook, sector specific situations and possible regulation changes, the Bank determines the provision rates that will be applied and the collateral types that will be taken into account in the calculations; provided that those rates cannot be lower than what is determined in the related regulation. Related decisions are applied after the approval of the Bank's Risk Management Committee.

A refinancing/restructuring refers to; extending a new loan with the purpose of repayment of a part or whole of the outstanding loans or related interest payments granted previously or, amending the conditions of such outstanding loans in order to facilitate the repayment capacity; due to current or foreseeable financial difficulties of the borrower or the related risk group.

### 4.10.3.1.4.2 BREAKDOWN OF EXPOSURES BY GEOGRAPHICAL AREAS, INDUSTRY AND AGEING

Disclosed under section 4.2 credit risk.

### 4.10.3.1.4.3 EXPOSURES PROVISIONED AGAINST BY MAJOR REGIONS AND SECTORS

CURRENT PERIOD	CURRENT PERIOD			PRIOR PERIOD		
	LOANS UNDER FOLLOW-UP	SPECIFIC PROVISIONS	WRITE-OFFS	LOANS UNDER FOLLOW-UP	SPECIFIC PROVISIONS	WRITE-OFFS
Domestic	5,279,274	4,239,256	863,504	5,140,707	4,144,576	1,073,843
European Union (EU) Countries	21,369	18,298	60	4,526	1,409	495
OECD Countries	201	44	1	20	3	-
Off-Shore Banking Regions	71,710	71,710	-	74,413	74,413	-
USA, Canada	-	-	-	-	-	1
Other Countries	35,560	29,929	2,206	53,108	47,090	3,008
<b>Total</b>	<b>5,408,114</b>	<b>4,359,237</b>	<b>865,771</b>	<b>5,272,774</b>	<b>4,267,491</b>	<b>1,077,347</b>
<b>Agriculture</b>	<b>44,581</b>	<b>25,580</b>	<b>498,116</b>	<b>42,998</b>	<b>26,300</b>	<b>10,734</b>
Farming and Stockbreeding	41,047	22,911	497,540	40,477	24,289	10,387
Forestry	2,058	1,448	91	1,488	1,084	201
Fishery	1,476	1,221	485	1,033	927	146
<b>Manufacturing</b>	<b>609,406</b>	<b>415,320</b>	<b>54,348</b>	<b>659,549</b>	<b>449,476</b>	<b>126,534</b>
Mining and Quarrying	22,997	19,831	1,301	29,091	23,832	4,636
Production	430,133	312,793	52,651	488,299	356,108	121,333
Electricity, Gas and Water	156,276	82,696	396	142,159	69,536	565
<b>Construction</b>	<b>395,126</b>	<b>326,358</b>	<b>26,364</b>	<b>404,457</b>	<b>278,947</b>	<b>60,051</b>
<b>Services</b>	<b>1,595,135</b>	<b>1,021,467</b>	<b>162,911</b>	<b>1,420,865</b>	<b>946,327</b>	<b>267,685</b>
Wholesale and Retail Trade	760,481	505,401	137,383	734,157	509,407	223,128
Accommodation and Dining	155,871	62,517	5,465	134,656	50,820	9,009
Transportation and Telecommunication	599,696	386,460	15,847	470,766	318,912	29,692
Financial Institutions	18,069	17,438	531	18,921	18,553	463
Real Estate and Rental Services	10,824	7,221	985	10,713	7,508	1,238
Professional Services	3,876	1,174	24	3,894	1,225	21
Educational Services	29,323	29,094	972	30,779	27,586	1,472
Health and Social Services	16,995	12,162	1,704	16,979	12,316	2,662
<b>Others</b>	<b>2,763,866</b>	<b>2,570,512</b>	<b>124,032</b>	<b>2,744,905</b>	<b>2,566,441</b>	<b>612,343</b>
<b>Total</b>	<b>5,408,114</b>	<b>4,359,237</b>	<b>865,771</b>	<b>5,272,774</b>	<b>4,267,491</b>	<b>1,077,347</b>

#### 4.10.3.1.4.4 AGEING OF PAST-DUE EXPOSURES

CURRENT PERIOD	UP TO 3 MONTHS	3-12 MONTHS	1-3 YEARS	3-5 YEARS	5 YEARS AND OVER
Corporate and Commercial Loans	415,984	284,729	1,514,804	284,263	402,784
Retail Loans	213,161	456,258	613,329	180,774	92,660
Credit Cards	96,004	260,175	345,478	112,714	134,997
Others	-	-	-	-	-
<b>Total</b>	<b>725,149</b>	<b>1,001,162</b>	<b>2,473,611</b>	<b>577,751</b>	<b>630,441</b>

PRIOR PERIOD	UP TO 3 MONTHS	3-12 MONTHS	1-3 YEARS	3-5 YEARS	5 YEARS AND OVER
Corporate and Commercial Loans	288,599	1,060,817	765,933	414,637	283,861
Retail Loans	211,890	515,627	552,775	139,108	53,015
Credit Cards	130,262	318,213	323,479	110,403	104,155
Others	-	-	-	-	-
<b>Total</b>	<b>630,751</b>	<b>1,894,657</b>	<b>1,642,187</b>	<b>664,148</b>	<b>441,031</b>

#### 4.10.3.2 CREDIT RISK MITIGATION

##### 4.10.3.2.1 QUALITATIVE DISCLOSURE ON CREDIT RISK MITIGATION TECHNIQUES

The Bank assesses the cash flow of the activity or investment subject to credit as the primary repayment source during the credit assignment process.

Calculating the value of the collateral depends on margins determined according to market and FX risks. Standard margins in use throughout the Bank are specific to type of the collateral and changes according to the currency of the collateral.

If credit assignment is conditioned to a collateral extension, the data of the collaterals must be entered to the banking information system. Operational transactions are handled by centralized Operation unit (ABACUS). During the credit utilization, compliance of all conditions between credit decision and credit utilization (such as collateral conditions) are controlled systematically.

The Bank monitors up to date value of the collaterals by type. Credit monitoring process involves the control of the balance between the value of the collateral and risk besides creditworthiness of the customer.

The Bank's credit risk exposure and mitigation techniques used in order to reduce the exposure level are taken into account according to the principles stated in the related regulation. The Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals. The standardized risk weights are applied to the rest of the loans and receivables that remained unprotected after credit risk mitigation techniques. Financial collaterals, that are composed of cash or cash equivalents, real estate mortgages, high quality securities and Credit Guarantee Fund suretyship having Treasury guarantee, have been used in credit risk mitigation.

##### 4.10.3.2.2 CREDIT RISK MITIGATION TECHNIQUES

CURRENT PERIOD	EXPOSURES UNSECURED: CARRYING AMOUNT AS PER TAS	EXPOSURES SECURED BY COLLATERAL	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY COLLATERAL	EXPOSURES SECURED BY FINANCIAL GUARANTEES	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY FINANCIAL GUARANTEES	EXPOSURES SECURED BY CREDIT DERIVATIVES	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY CREDIT DERIVATIVES
1 Loans	216,911,254	37,351,437	32,751,650	11,427,381	11,427,381	-	-
2 Debt securities	47,371,704	-	-	-	-	-	-
<b>3 Total</b>	<b>264,282,958</b>	<b>37,351,437</b>	<b>32,751,650</b>	<b>11,427,381</b>	<b>11,427,381</b>	-	-
4 Of which defaulted	5,408,114	-	-	-	-	-	-



PRIOR PERIOD	EXPOSURES UNSECURED: CARRYING AMOUNT AS PER TAS	EXPOSURES SECURED BY COLLATERAL	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY COLLATERAL	EXPOSURES SECURED BY FINANCIAL GUARANTEES	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY FINANCIAL GUARANTEES	EXPOSURES SECURED BY CREDIT DERIVATIVES	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY CREDIT DERIVATIVES
1 Loans	169,225,213	50,323,160	41,649,191	-	-	-	-
2 Debt securities	42,400,852	-	-	-	-	-	-
3 <b>Total</b>	<b>211,626,065</b>	<b>50,323,160</b>	<b>41,649,191</b>	-	-	-	-
4 Of which defaulted	5,263,721	9,053	3,539	-	-	-	-

#### 4.10.3.3 CREDIT RISK UNDER STANDARDISED APPROACH

##### 4.10.3.3.1 QUALITATIVE DISCLOSURES ON BANKS' USE OF EXTERNAL CREDIT RATINGS UNDER THE STANDARDISED APPROACH FOR CREDIT RISK

An international rating firm, Fitch Ratings' external risk ratings are used to determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks".

The international risk ratings are used for the exposures to central governments and central banks, whereas for central governments and central banks that are not rated by Fitch Ratings, the published country ratings as announced by the Organisation for Economic Cooperation and Development (OECD) are used.

According to the regulation on capital adequacy, external risk ratings are used only for the exposures to banks and brokerage houses and to corporates where the counterparties are resident in abroad, to determine their risk weights. Where the counterparties are domestic, the related exposures are included in the calculation of capital adequacy as unrated.

In the determination of risk weights; if a relevant rating is available then such rating, but if it is an unrated exposure then the rating available for the issuer is used.

Rating notes issued by Fitch Ratings are presented in the table below, as per credit quality levels and risk weights per risk classes:

CREDIT QUALITY LEVEL	FITCH RATINGS LONG TERM CREDIT RATING	RISK CLASSES			
		EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS	EXPOSURES TO BANKS AND BROKERAGE HOUSES		EXPOSURES TO CORPORATES
			EXPOSURES WITH ORIGINAL MATURITIES LESS THAN 3 MONTHS	EXPOSURES WITH ORIGINAL MATURITIES MORE THAN 3 MONTHS	
1	AAA to AA-	0%	20%	20%	20%
2	A+ to A-	20%	20%	50%	50%
3	BBB+ to BBB-	50%	20%	50%	100%
4	BB+ to BB-	100%	50%	100%	100%
5	B+ to B-	100%	50%	100%	150%
6	CCC+ and below	150%	150%	150%	150%

## 4.10.3.3.2 CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION TECHNIQUES

CURRENT PERIOD		EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
		ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	RWA	RWA DENSITY
RISK CLASSES							
1	Exposures to sovereigns and their central banks	76,980,009	138,844	88,320,867	84,035	12,267,015	13.88%
2	Exposures to regional and local governments	113,340	147	113,340	61	56,701	50.00%
3	Exposures to administrative bodies and non-commercial entities	291,277	65,417	291,274	16,401	307,675	100.00%
4	Exposures to multilateral development banks	202,781	-	202,781	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-
6	Exposures to banks and brokerage houses	17,462,341	17,027,960	13,047,033	2,287,277	7,501,409	48.92%
7	Exposures to corporates	100,214,992	50,521,673	91,934,711	20,611,110	110,717,318	98.38%
8	Retail exposures	72,803,185	45,162,863	66,868,788	4,066,972	53,199,768	75.00%
9	Exposures secured by residential property	19,129,299	103,738	19,116,374	50,215	6,708,289	35.00%
10	Exposures secured by commercial property	16,583,733	2,153,453	16,349,582	1,381,721	10,919,725	61.58%
11	Past-due items	793,659	54	793,659	-	706,423	89.01%
12	Exposures in high-risk categories	255,227	100,946	255,227	45,446	423,550	140.87%
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
15	Exposures in the form of collective investment undertakings	39,626	-	39,626	-	-	-
16	Other exposures	9,595,351	-	9,595,351	-	6,659,735	69.41%
17	Equity share investments	6,569,959	-	6,569,959	-	6,569,959	100.00%
18	<b>Total</b>	<b>321,034,779</b>	<b>115,275,095</b>	<b>313,498,572</b>	<b>28,543,238</b>	<b>216,037,567</b>	<b>68.91%</b>

PRIOR PERIOD		EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
		ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	RWA	RWA DENSITY
RISK CLASSES							
1	Exposures to sovereigns and their central banks	59,026,025	943,275	59,026,025	305,675	12,008,190	20.24%
2	Exposures to regional and local governments	119,617	144	119,617	60	56,248	47.00%
3	Exposures to administrative bodies and non-commercial entities	46,803	5,550	46,803	1,836	48,639	100.00%
4	Exposures to multilateral development banks	190,237	-	190,237	-	55,402	29.12%
5	Exposures to international organizations	-	-	-	-	-	-
6	Exposures to banks and brokerage houses	19,460,274	16,155,852	15,231,090	3,025,652	7,381,825	40.43%
7	Exposures to corporates	90,625,121	50,984,161	88,536,942	20,026,901	105,680,104	97.34%
8	Retail exposures	59,175,832	41,226,791	58,766,787	3,582,135	46,760,767	75.00%
9	Exposures secured by residential property	18,572,321	151,697	18,568,045	77,622	6,525,984	35.00%
10	Exposures secured by commercial property	16,338,647	1,655,679	16,323,202	960,619	11,054,150	63.96%
11	Past-due items	705,142	1,363	705,142	-	596,794	84.63%
12	Exposures in high-risk categories	300,186	129,325	300,186	58,543	509,274	141.97%
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
15	Exposures in the form of collective investment undertakings	-	-	-	-	-	-
16	Other exposures	9,044,069	-	9,044,069	-	6,125,946	67.73%
17	Equity share investments	5,266,254	-	5,266,254	-	5,229,197	99.30%
18	<b>Total</b>	<b>278,870,528</b>	<b>111,253,837</b>	<b>272,124,399</b>	<b>28,039,043</b>	<b>202,032,520</b>	<b>67.31%</b>

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## 4.10.3.3.3 EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

REGULATORY PORTFOLIO		0%	10%	20%	35% SECURED BY PROPERTY MORTGAGE	50%	75%	100%	150%	200%	OTHERS	TOTAL RISK AMOUNT (POST-CCF AND CRM)
1	Exposures to sovereigns and their central banks	76,137,763	-	102	-	85	-	12,266,952	-	-	-	88,404,902
2	Exposures to regional and local government	-	-	-	-	113,400	-	1	-	-	-	113,401
3	Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	-	307,675	-	-	-	307,675
4	Exposures to multilateral development banks	202,781	-	-	-	-	-	-	-	-	-	202,781
5	Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-
6	Exposures to banks and brokerage houses	-	-	7,254,330	-	4,058,875	-	4,021,105	-	-	-	15,334,310
7	Exposures to corporates	-	-	409,435	-	3,001,913	-	109,134,473	-	-	-	112,545,821
8	Retail exposures	-	-	-	-	8,278	70,927,482	-	-	-	-	70,935,760
9	Exposures secured by residential property	-	-	-	19,166,589	-	-	-	-	-	-	19,166,589
10	Exposures secured by commercial property	-	-	-	-	13,623,154	-	4,108,149	-	-	-	17,731,303
11	Past-due items	-	-	-	-	174,473	-	619,186	-	-	-	793,659
12	Exposures in high-risk categories	-	-	-	-	20,015	-	14,890	265,768	-	-	300,673
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-	-
15	Exposures in the form of collective investment undertakings	39,626	-	-	-	-	-	-	-	-	-	39,626
16	Equity share investments	-	-	-	-	-	-	6,569,959	-	-	-	6,569,959
17	Other exposures	2,935,372	-	305	-	-	-	6,659,674	-	-	-	9,595,351
18	<b>Total</b>	<b>79,315,542</b>	<b>-</b>	<b>7,664,172</b>	<b>19,166,589</b>	<b>21,000,193</b>	<b>70,927,482</b>	<b>143,702,064</b>	<b>265,768</b>	<b>-</b>	<b>-</b>	<b>342,041,810</b>

PRIOR PERIOD REGULATORY PORTFOLIO		0%	10%	20%	35% SECURED BY PROPERTY MORTGAGE	50%	75%	100%	150%	200%	OTHERS	TOTAL RISK AMOUNT (POST-CCF AND CRM)
1	Exposures to sovereigns and their central banks	35,315,311	-	25	-	24,016,357	-	7	-	-	-	59,331,700
2	Exposures to regional and local government	-	-	11,970	-	107,707	-	-	-	-	-	119,677
3	Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	-	48,639	-	-	-	48,639
4	Exposures to multilateral development banks	-	-	132,386	-	57,851	-	-	-	-	-	190,237
5	Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-
6	Exposures to banks and brokerage houses	-	-	6,040,661	-	12,084,776	-	131,305	-	-	-	18,256,742
7	Exposures to corporates	-	-	479,188	-	5,000,778	-	103,083,877	-	-	-	108,563,843
8	Retail exposures	-	-	630	-	2,307	62,345,985	-	-	-	-	62,348,922
9	Exposures secured by residential property	-	-	-	18,645,667	-	-	-	-	-	-	18,645,667
10	Exposures secured by commercial property	-	-	-	-	12,459,341	-	4,824,480	-	-	-	17,283,821
11	Past-due items	-	-	-	-	216,697	-	488,445	-	-	-	705,142
12	Exposures in high-risk categories	-	-	-	-	19,031	-	19,577	320,121	-	-	358,729
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-	-
15	Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-
16	Equity share investments	37,057	-	-	-	-	-	5,229,197	-	-	-	5,266,254
17	Other exposures	2,916,168	-	2,444	-	-	-	6,125,457	-	-	-	9,044,069
18	<b>Total</b>	<b>38,268,536</b>	<b>-</b>	<b>6,667,304</b>	<b>18,645,667</b>	<b>53,964,845</b>	<b>62,345,985</b>	<b>119,950,984</b>	<b>320,121</b>	<b>-</b>	<b>-</b>	<b>300,163,442</b>

## 4.10.4 COUNTERPARTY CREDIT RISK

### 4.10.4.1 QUALITATIVE DISCLOSURE ON COUNTERPARTY CREDIT RISK

Counterparty credit risk management policies include evaluating and monitoring risk developments, taking necessary measures, setting risk limits, ensuring that the risks remain within the limits, and establishing required reporting, control and audit mechanisms by using the methods aligned with both international standards and local regulations. The policies regarding counterparty credit risk measurement, monitoring, and limit settings are defined by the board of directors.

Counterparty credit risk arising from derivative transactions is periodically being monitored and reported by the Market Risk and Credit Risk Control units on product, country, counterparty and counterparty type basis.

International framework agreements (ISDA, CSA, GMRA, etc.) are being used through collateral and margin call mechanisms in order to mitigate the counterparty credit risk.

### 4.10.4.2 COUNTERPARTY CREDIT RISK (CCR) APPROACH ANALYSIS

CURRENT PERIOD		REPLACEMENT COST	POTENTIAL FUTURE EXPOSURE	EEPE(EFFECTIVE EXPECTED POSITIVE EXPOSURE)	ALPHA USED FOR COMPUTING REGULATORY EAD	EAD POST-CRM	RWA
1	Standardised Approach -CCR (for derivatives)	2,394,687	1,767,029		1.4	4,132,769	2,083,029
2	Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)				-	-	-
3	Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
4	Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					2,969,606	166,128
5	Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
6	<b>Total</b>						<b>2,249,157</b>

PRIOR PERIOD		REPLACEMENT COST	POTENTIAL FUTURE EXPOSURE	EEPE(EFFECTIVE EXPECTED POSITIVE EXPOSURE)	ALPHA USED FOR COMPUTING REGULATORY EAD	EAD POST-CRM	RWA
1	Standardised Approach -CCR (for derivatives)	3,972,361	1,639,214		1.4	5,601,824	2,911,950
2	Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)				-	-	-
3	Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
4	Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					1,765,439	552,309
5	Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
6	<b>Total</b>						<b>3,464,259</b>

#### 4.10.4.3 CAPITAL REQUIREMENT FOR CREDIT VALUATION ADJUSTMENT (CVA)

	CURRENT PERIOD		PRIOR PERIOD	
	EAD POST-CRM	RWA	EAD POST-CRM	RWA
Total portfolios subject to the Advanced CVA capital obligation	-	-	-	-
1 (i) VaR component (including the 3×multiplier)	-	-	-	-
2 (ii) Stressed VaR component (including the 3×multiplier)	-	-	-	-
3 All portfolios subject to the Standardised CVA capital obligation	4,132,769	1,361,678	5,601,824	1,806,311
<b>4 Total subject to the CVA capital obligation</b>	<b>4,132,769</b>	<b>1,361,678</b>	<b>5,601,824</b>	<b>1,806,311</b>

#### 4.10.4.4 CCR EXPOSURES BY RISK CLASS AND RISK WEIGHTS

CURRENT PERIOD REGULATORY PORTFOLIO	RISK WEIGHT									TOTAL CREDIT EXPOSURE
	0%	10%	20%	50%	75%	100%	150%	OTHER		
Exposures to sovereigns and their central banks	2,011,499	-	-	-	-	16,689	-	-	-	2,028,188
Exposures to regional and local governments	-	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	5	-	-	-	5
Exposures to multilateral development banks	563,446	-	-	-	-	-	-	-	-	563,446
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	-	-	1,110,969	2,698,564	-	43,008	-	-	-	3,852,541
Exposures to corporates	-	-	59	74,685	-	572,148	-	-	-	646,892
Retail exposures	-	-	-	-	11,303	-	-	-	-	11,303
Exposures secured by mortgage property	-	-	-	-	-	-	-	-	-	-
Exposures secured by commercial property	-	-	-	-	-	-	-	-	-	-
Past-due items	-	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	-	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,574,945</b>	<b>-</b>	<b>1,111,028</b>	<b>2,773,249</b>	<b>11,303</b>	<b>631,850</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,102,375</b>

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PRIOR PERIOD REGULATORY PORTFOLIO	RISK WEIGHT								TOTAL CREDIT EXPOSURE	
	0%	10%	20%	50%	75%	100%	150%	OTHER		
Exposures to sovereigns and their central banks	90,039	-	-	-	-	-	-	-	-	90,039
Exposures to regional and local governments	-	-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	4	-	-	-	4
Exposures to multilateral development banks	413,953	-	-	-	-	-	-	-	-	413,954
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses	-	-	1,033,639	5,082,247	-	-	-	-	-	6,115,886
Exposures to corporates	-	-	546	37,511	4	662,183	-	-	-	700,243
Retail exposures	-	-	-	-	47,137	-	-	-	-	47,137
Exposures secured by mortgage property	-	-	-	-	-	-	-	-	-	-
Exposures secured by commercial property	-	-	-	-	-	-	-	-	-	-
Past-due items	-	-	-	-	-	-	-	-	-	-
Exposures in high-risk categories	-	-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>503,992</b>	<b>-</b>	<b>1,034,185</b>	<b>5,119,758</b>	<b>47,141</b>	<b>662,187</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,367,263</b>

## 4.10.4.5 COLLATERALS FOR CCR

CURRENT PERIOD	COLLATERAL FOR DERIVATIVE TRANSACTIONS				COLLATERAL FOR OTHER TRANSACTIONS	
	FAIR VALUE OF COLLATERAL RECEIVED		FAIR VALUE OF COLLATERAL GIVEN		FAIR VALUE OF COLLATERAL RECEIVED	FAIR VALUE OF COLLATERAL GIVEN
	SEGREGATED	UNSEGREGATED	SEGREGATED	UNSEGREGATED		
Cash-domestic currency	6,514	-	-	-	10,838,019	-
Cash-foreign currency	22,433	-	-	-	2,059,306	-
Domestic sovereign debts	-	-	-	-	-	14,413,549
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	592,173
<b>Total</b>	<b>28,947</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,897,325</b>	<b>15,005,722</b>

PRIOR PERIOD	COLLATERAL FOR DERIVATIVE TRANSACTIONS				COLLATERAL FOR OTHER TRANSACTIONS	
	FAIR VALUE OF COLLATERAL RECEIVED		FAIR VALUE OF COLLATERAL GIVEN		FAIR VALUE OF COLLATERAL RECEIVED	FAIR VALUE OF COLLATERAL GIVEN
	SEGREGATED	UNSEGREGATED	SEGREGATED	UNSEGREGATED		
Cash-domestic currency	4,944	-	-	-	8,257,240	-
Cash-foreign currency	4,807	-	-	-	4,804,917	-
Domestic sovereign debts	-	-	-	-	-	13,323,129
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>9,751</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,062,157</b>	<b>13,323,129</b>

#### 4.10.4.6 CREDIT DERIVATIVES

	CURRENT PERIOD		PRIOR PERIOD	
	PROTECTION BOUGHT	PROTECTION SOLD	PROTECTION BOUGHT	PROTECTION SOLD
<b>Notionals</b>				
Single-name credit default swaps	75,516	-	87,825	-
Index credit default swaps	-	-	-	-
Total return swaps	-	9,272,286	-	7,026,000
Credit options	-	-	-	-
Other credit derivatives	-	-	-	-
<b>Total Notionals</b>	<b>75,516</b>	<b>9,272,286</b>	<b>87,825</b>	<b>7,026,000</b>
<b>Fair Values</b>	<b>(628)</b>	<b>(4,093)</b>	<b>215</b>	<b>(395,144)</b>
Positive fair values (asset)	-	38,977	215	6,677
Negative fair values (liability)	(628)	(43,070)	-	(401,821)

#### 4.10.5 SECURITISATIONS

None.

#### 4.10.6 MARKET RISK

##### 4.10.6.1 QUALITATIVE DISCLOSURE ON MARKET RISK

Market risk is managed in accordance with the strategies and policies defined by the Bank. The Bank takes economic climate, market and liquidity conditions and their effects on market risk, the structure of portfolio subject to market risk, the sufficiency of the Bank's definition, measurement, evaluation, monitoring, reporting, control and mitigation of market risk and the availability of the related processes into account while defining the Strategy. Market risk strategies and policies are reviewed by the board of directors and related top management by considering financial performance, capital required for market risk, and the existing market developments. Market risk for internal use, implementation fundamentals and procedures are being developed on bank-only and consolidated level in consideration of the size and complexity of the operations.

Market risk is managed through measuring the risks in parallel with the international standards, setting the limits, capital reserving and additionally through mitigating via hedging transactions.

Market Risk Function under Market Risk and Credit Risk Control Department monitors the activities of Treasury Department via risk reports and the limits approved by the Board of Directors.

Market Risk, which is defined as the risk arising from the price fluctuations in balance sheet and off-balance sheet trading positions, is being calculated and reported daily via Value at Risk (VaR) Model.

## 4.10.6.2 MARKET RISK UNDER STANDARDISED APPROACH

		RWA	
		CURRENT PERIOD	PRIOR PERIOD
<b>Outright products</b>		<b>5,849,017</b>	<b>5,266,724</b>
1	Interest rate risk (general and specific)	859,559	1,718,225
2	Equity risk (general and specific)	56,232	42,274
3	Foreign exchange risk	4,893,112	3,067,938
4	Commodity risk	40,114	438,287
<b>Options</b>		<b>178,712</b>	<b>437,400</b>
5	Simplified approach	-	-
6	Delta-plus method	178,712	437,400
7	Scenario approach	-	-
8	<b>Securitisation</b>	-	-
9	<b>Total</b>	<b>6,027,729</b>	<b>5,704,124</b>

## 4.10.7 OPERATIONAL RISK

The value at operational risk is calculated according to the basic indicator approach as per the Article 14 of "Regulation regarding Measurement and Assessment of Capital Adequacy Ratios of Banks".

The annual gross income is composed of net interest income and net non-interest income after deducting realised gains/losses from the sale of securities available-for-sale and held-to-maturity, extraordinary income and income derived from insurance claims at year-end.

### BASIC INDICATOR APPROACH

CURRENT PERIOD	31 DECEMBER 2013	31 DECEMBER 2014	31 DECEMBER 2015	TOTAL/ NO. OF YEARS OF POSITIVE GROSS	RATE (%)	TOTAL
Gross Income	10,097,151	11,101,647	13,536,209	11,578,336	15	1,736,750
<b>Value at Operational Risk (Total x % 12.5)</b>						<b>21,709,380</b>

PRIOR PERIOD	31 DECEMBER 2013	31 DECEMBER 2014	31 DECEMBER 2015	TOTAL/ NO. OF YEARS OF POSITIVE GROSS	RATE (%)	TOTAL
Gross Income	9,180,910	10,054,838	11,052,683	10,096,144	15	1,514,422
<b>Value at Operational Risk (Total x % 12.5)</b>						<b>18,930,270</b>

## 4.10.8 BANKING BOOK INTEREST RATE RISK

### 4.10.8.1 NATURE OF INTEREST RATE RISK RESULTING FROM BANKING BOOK. MAJOR ASSUMPTIONS ON EARLY REPAYMENT OF LOANS AND MOVEMENTS IN DEPOSITS OTHER THAN TERM DEPOSITS AND FREQUENCY OF MEASURING INTEREST RATE RISK

The interest rate risk resulting from the banking book is assessed in terms of repricing risk, yield-curve risk, base risk and option risk, measured as per international standards and managed through limitations and mitigations through hedging transactions.

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

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



Within the scope of monitoring the re-pricing risk arising from maturity mismatch, the sensitivity of the durations/gap, economic value, economic capital, net interest income, earnings at risk, market price of securities portfolio are measured and the internal early warning and limit levels in this context are monitored and reported regularly. Calculated risk metrics and generated reports are used in the management of the balance sheet interest risk under the supervision of the Asset and Liability Committee. In the said analyses, the present value and the net interest income are calculated over the cash flows of the sensitive assets and liability items by using the yield curves constructed by using the market interest rates. For non-matured products, maturity is determined based on interest rate determination frequency and customer behaviour. These results are supported by periodic sensitivities and scenario analyses against fluctuations that may be experienced in the markets.

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

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

Branches and lines of business are eliminated from interest rate risk through the transfer pricing system and these risks are transferred to the Asset and Liability Management Department (ALM) and managed by ALM in a central structure.

#### 4.10.8.2 ECONOMIC VALUE DIFFERENCES RESULTED FROM INTEREST RATE INSTABILITIES CALCULATED ACCORDING TO REGULATION ON MEASUREMENT AND EVALUATION OF INTEREST RATE RISK RESULTED FROM BANKING BOOK AS PER STANDARD SHOCK METHOD

CURRENT PERIOD		SHOCKS APPLIED (+/- BASIS POINTS)	GAINS/LOSSES	GAINS/EQUITY- LOSSES/EQUITY
TYPE OF CURRENCY				
1	TL	(+) 500bp	(4,855,405)	(10.47)%
2	TL	(-) 400bp	4,598,875	9.91%
3	USD	(+) 200bp	(98,558)	(0.21)%
4	USD	(-) 200bp	256,656	0.55%
5	EUR	(+) 200bp	(36,553)	(0.08)%
6	EUR	(-) 200bp	158,193	0.34%
<b>Total (of negative shocks)</b>			<b>5,013,724</b>	<b>10.81%</b>
<b>Total (of positive shocks)</b>			<b>(4,990,516)</b>	<b>(10.76)%</b>

PRIOR PERIOD		SHOCKS APPLIED (+/- BASIS POINTS)	GAINS/LOSSES	GAINS/EQUITY- LOSSES/EQUITY
TYPE OF CURRENCY				
1	TL	(+) 500bp	(4,209,703)	(11.18)%
2	TL	(-) 400bp	4,052,171	10.76%
3	USD	(+) 200bp	(810,330)	(2.15)%
4	USD	(-) 200bp	1,055,840	2.80%
5	EUR	(+) 200bp	(14,342)	(0.04)%
6	EUR	(-) 200bp	(44,364)	(0.12)%
<b>Total (of negative shocks)</b>			<b>5,063,647</b>	<b>13.44%</b>
<b>Total (of positive shocks)</b>			<b>(5,034,375)</b>	<b>(13.37)%</b>

## 4.10.9 REMUNERATION POLICY

### 4.10.9.1 QUALITATIVE DISCLOSURES REGARDING REMUNERATION POLICIES

#### 4.10.9.1.1 DISCLOSURES RELATED WITH REMUNERATION COMMITTEE

The Bank's Remuneration Committee is comprised of two non-executive members of the board. The committee has convened for once during the year. The duties and responsibilities of the Committee include the following:

- To conduct the necessary monitoring and audit process in order to ensure that the remuneration policy and practices are implemented in accordance with the related laws and regulations and risk management principles;
- To review and if necessary, revise the remuneration policy at least once a year in order to ensure its compliance with the laws and regulations or market practices in Turkey;
- To determine and approve remuneration packages of the executive and non-executive Board of Directors, Chief Executive Officer and Executive Vice Presidents;
- To follow up the revision requirements of the policies, procedures and regulations related with its areas of responsibility and to take actions in order to ensure that they are kept updated.

The Bank has received consultancy service within the framework of the activities for compliance with the Guidelines on Sound Remuneration Practices in Banks.

The fundamental principles of the remuneration policy are applicable for all bank employees.

The Bank board members, senior management and the Bank staff deemed to perform the functions having material impact on the Bank's risk profile are considered as identified staff; and by the end of 2017, the number of identified staff is 30.

#### 4.10.9.1.2 INFORMATION ON THE DESIGN AND STRUCTURE OF REMUNERATION PROCESS

The Bank relies on the following values while managing its Remuneration Policy. These values are considered in all compensation practices.

- a. Fair
- b. Transparent
- c. Based on measurable and balanced performance targets
- d. Encouraging sustainable success
- e. In line with the Bank Risk Management Principles

The main objective of the Remuneration Policy is to maintain the internal and external balances in the remuneration structure. Internal balance is ensured with the principles of "equal pay for equal work" and performance-based remuneration". As for external balance, the data obtained from employee reward and benefit researches conducted by independent research organizations are taken into account.

In the meeting dated 7 December 2017, the Remuneration Committee evaluated its decisions previously taken with respect to remuneration of the senior managers and members of the board of directors considering the provisions of the Guidelines on Sound Remuneration Practices in Banks.

Increases in the remuneration of employees working in the units responsible for internal systems are determined depending on the basic rate of increase specified by the Bank and their personal performances. In the variable remuneration, only the performance criteria associated with their personal performance or the performance of the unit that they work in are taken into account independently of the performance of the business units that they control.

#### 4.10.9.1.3 EVALUATION ABOUT HOW THE BANK'S REMUNERATION PROCESSES TAKE THE CURRENT AND FUTURE RISKS INTO ACCOUNT

The Bank follows the Risk Management Principles while implementing the remuneration processes. It adopts the remuneration policies that are in line with Bank's long-term objectives and risk management structures and avoiding excessive risk-taking.

#### 4.10.9.1.4 EVALUATION ABOUT HOW THE BANK ASSOCIATES VARIABLE REMUNERATIONS WITH PERFORMANCE

In the association of variable remunerations with performance, various indicators considered among financial and non-financial performance criteria specified by the Bank such as return on regulatory capital, efficiency, profitability, customer satisfaction (NTS), digital sales are taken into account.

In the variable remuneration for the identified staff, personal performance criteria, the Bank's performance criteria and BBVA Group's performance criteria are collectively taken into account. The weightings of such performances taken into account as such may vary according to the position of the identified staff member.

In case of occurrence of risky situations regarding capital adequacy or if and when necessary, Bank may pursue a more conservative policy in relation to all remuneration issues, particularly regarding variable remunerations. In this context, methodological changes such as deferral, retention, malus and clawback may be applied in relation to variable remunerations in accordance with the principles set out by the applicable laws.

#### 4.10.9.1.5 EVALUATION ABOUT THE BANK'S METHODS TO ADJUST REMUNERATIONS ACCORDING TO LONG-TERM PERFORMANCE

Regarding variable remunerations of identified staff, it has been adopted based on the principles in the "Guidelines on Sound Remuneration Practices in Banks" that at least 40% of variable remunerations will be deferred for at least 3 years and at least 50% of it will be paid in non-cash instruments.

Remuneration Committee decided on that variable remuneration of identified staff is subject to cancellation and clawback.

#### 4.10.9.1.6 EVALUATION ABOUT THE INSTRUMENTS USED BY THE BANK FOR VARIABLE REMUNERATIONS AND THE PURPOSES OF USE OF SUCH INSTRUMENTS

The variable remunerations of identified staff are paid using cash and share-linked non-cash instruments. Considering the principles in the "Guidelines on Sound Remuneration Practices in Banks" variable remunerations of identified staff are paid both with cash and non-cash (share-linked) instruments. Regarding variable remunerations of identified staff for the financial period of 2016, Banco Bilbao Vizcaya Argentaria S.A. shares are taken as reference for payments based on non-cash instruments.

The type and weight of non-cash instruments used in payment of variable remuneration are same for all identified staff.

### 5 DISCLOSURES AND FOOTNOTES ON UNCONSOLIDATED FINANCIAL STATEMENTS

#### 5.1 ASSETS

##### 5.1.1 CASH AND BALANCES WITH CENTRAL BANK

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TLP	FC
Cash in TL/Foreign Currency	1,297,556	1,359,209	1,357,688	681,875
Central Bank of Turkey	6,338,400	23,956,821	5,366,015	15,500,506
Others	-	460,517	-	879,050
<b>Total</b>	<b>7,635,956</b>	<b>25,776,547</b>	<b>6,723,703</b>	<b>17,061,431</b>

##### BALANCES WITH THE CENTRAL BANK OF TURKEY

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Unrestricted Demand Deposits	2,407,115	1,651,380	5,366,015	155
Unrestricted Time Deposits	-	-	-	38
Restricted Time Deposits	3,931,285	22,305,441	-	15,500,313
<b>Total</b>	<b>6,338,400</b>	<b>23,956,821</b>	<b>5,366,015</b>	<b>15,500,506</b>

The reserve deposits kept as per the Communiqué no. 2005/1 "Reserve Deposits" of the Central Bank of Turkey in Turkish Lira, foreign currencies and gold, are included in the table above.

##### 5.1.2 INFORMATION ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT/LOSS

##### 5.1.2.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT/LOSS SUBJECT TO REPURCHASE AGREEMENTS AND PROVIDED AS COLLATERAL/BLOCKED

None.

## 5.1.2.2 POSITIVE DIFFERENCES ON DERIVATIVE FINANCIAL ASSETS HELD FOR TRADING

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Forward Transactions	176,400	26,655	257,212	38,001
Swap Transactions	1,035,676	412,562	1,936,417	702,752
Futures	-	561	-	1,097
Options	151,689	10,773	426,694	28,812
Other	-	-	-	-
<b>Total</b>	<b>1,363,765</b>	<b>450,551</b>	<b>2,620,323</b>	<b>770,662</b>

## 5.1.2.3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT/LOSS

None.

## 5.1.3 BANKS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Banks				
Domestic banks	98,907	23,471	55,714	746
Foreign banks	106,728	14,089,367	390,940	11,871,526
Foreign headoffices and branches	-	-	-	-
<b>Total</b>	<b>205,635</b>	<b>14,112,838</b>	<b>446,654</b>	<b>11,872,272</b>

## DUE FROM FOREIGN BANKS

	UNRESTRICTED BALANCES		RESTRICTED BALANCES	
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD
EU Countries	2,604,794	4,263,606	8,671,970	6,943,130
USA and Canada	1,678,693	269,751	78,546	400,420
OECD Countries (*)	190,142	6,529	-	-
Off-Shore Banking Regions	790,826	248,595	134,832	96,147
Other	46,292	34,288	-	-
<b>Total</b>	<b>5,310,747</b>	<b>4,822,769</b>	<b>8,885,348</b>	<b>7,439,697</b>

(\*) OECD countries other than the EU countries, USA and Canada

The placements at foreign banks include blocked accounts amounting TL 8,885,348 thousands (31 December 2016: TL 7,439,697 thousands) of which TL 2,717,355 thousands (31 December 2016: TL 116,841 thousands) and TL 134,832 thousands (31 December 2016: TL 96,147 thousands) are kept at the central banks of Malta and Turkish Republic of Northern Cyprus, respectively as reserve deposits and TL 6,033,161 thousands (31 December 2016: TL 7,226,709 thousands) as collateral against funds borrowed at various banks.

## 5.1.4 FINANCIAL ASSETS AVAILABLE-FOR-SALE

### 5.1.4.1 FINANCIAL ASSETS SUBJECT TO REPURCHASE AGREEMENTS AND PROVIDED AS COLLATERAL/BLOCKED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Collateralised/Blocked Assets	11,212,879	7,522	2,976,848	-
Assets subject to Repurchase Agreements	120,152	-	4,306,605	-
<b>Total</b>	<b>11,333,031</b>	<b>7,522</b>	<b>7,283,453</b>	<b>-</b>

## 5.1.4.2 DETAILS OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

	CURRENT PERIOD	PRIOR PERIOD
<b>Debt Securities</b>	<b>20,261,926</b>	<b>18,572,775</b>
Quoted at Stock Exchange	20,163,949	18,035,819
Unquoted at Stock Exchange	97,977	536,956
<b>Common Shares/Investment Funds</b>	<b>174,780</b>	<b>155,150</b>
Quoted at Stock Exchange (*)	7,079	7,669
Unquoted at Stock Exchange	167,701	147,481
<b>Value Increases/Impairment Losses (-)</b>	<b>2,307,996</b>	<b>1,184,644</b>
<b>Total</b>	<b>22,744,702</b>	<b>19,912,569</b>

## 5.1.5 LOANS

### 5.1.5.1 LOANS AND ADVANCES TO SHAREHOLDERS AND EMPLOYEES OF THE BANK

	CURRENT PERIOD		PRIOR PERIOD	
	CASH LOANS	NON-CASH LOANS	CASH LOANS	NON-CASH LOANS
<b>Direct Lendings to Shareholders</b>	-	<b>428,794</b>	-	<b>166,331</b>
Corporates	-	428,794	-	166,331
Individuals	-	-	-	-
<b>Indirect Lendings to Shareholders</b>	<b>2,401,587</b>	<b>653,806</b>	<b>2,121,617</b>	<b>474,103</b>
<b>Loans to Employees</b>	<b>258,317</b>	<b>16</b>	<b>222,026</b>	<b>101</b>
<b>Total</b>	<b>2,659,904</b>	<b>1,082,616</b>	<b>2,343,643</b>	<b>640,535</b>

### 5.1.5.2 LOANS AND OTHER RECEIVABLES CLASSIFIED IN GROUPS I AND II INCLUDING CONTRACTS WITH REVISED TERMS

CURRENT PERIOD	PERFORMING LOANS AND OTHER RECEIVABLES			LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP			
	CASH LOANS	LOANS AND OTHER RECEIVABLES (TOTAL)	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS		LOANS AND OTHER RECEIVABLES (TOTAL) (*)	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS	
			EXTENSION OF REPAYMENT PLAN	OTHER CHANGES		EXTENSION OF REPAYMENT PLAN	OTHER CHANGES
<b>Loans</b>		<b>192,038,331</b>	<b>2,358,195</b>	<b>381,873</b>	<b>16,592,669</b>	<b>5,860,696</b>	<b>1,227,012</b>
Working Capital Loans		33,480,877	44,810	-	1,349,043	732,152	160,376
Export Loans		9,272,666	975	-	213,106	83,336	44,402
Import Loans		3,201	-	-	-	-	-
Loans to Financial Sector		3,808,532	-	-	7	-	-
Consumer Loans		46,426,598	2,177,666	-	1,779,776	519,219	53,035
Credit Cards		21,364,565	-	381,873	382,608	-	140,571
Others		77,681,892	134,744	-	12,868,129	4,525,989	828,628
<b>Specialization Loans</b>		-	-	-	-	-	-
<b>Other Receivables</b>		-	-	-	-	-	-
<b>Total</b>		<b>192,038,331</b>	<b>2,358,195</b>	<b>381,873</b>	<b>16,592,669</b>	<b>5,860,696</b>	<b>1,227,012</b>

(\*) The loans and interest accruals granted to the shareholder of a strategically important company operating in the telecommunication sector amounting to USD 1,060,263,379.13 and EUR 8,059,584.09 are classified under "Loans and Other Receivables Under Follow-Up". Discussions between the shareholders of the company, creditor banks and related sovereign institutions including also a possible change in shareholder structure regarding restructuring of loans granted continue, and a positive outcome of these discussions is expected.

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As of 31 December 2017, loans amounting to TL 6,861,412 thousands (31 December 2016: TL 5,269,501 thousands) are benefited as collateral under funding transactions.

PRIOR PERIOD	PERFORMING LOANS AND OTHER RECEIVABLES			LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP		
	CASH LOANS	LOANS AND OTHER RECEIVABLES (TOTAL) (*)	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS		LOANS AND OTHER RECEIVABLES (TOTAL)	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS
	EXTENSION OF REPAYMENT PLAN		OTHER CHANGES	EXTENSION OF REPAYMENT PLAN		OTHER CHANGES
<b>Loans</b>	<b>175,775,487</b>	<b>3,571,299</b>	<b>428,047</b>	<b>9,267,458</b>	<b>4,128,388</b>	<b>718,164</b>
Working Capital Loans	21,388,726	475,748	-	1,165,695	512,795	175,499
Export Loans	8,998,517	136,762	-	254,813	109,642	23,312
Import Loans	241	-	-	-	-	-
Loans to Financial Sector	4,913,881	318	-	48	-	-
Consumer Loans	40,856,208	2,333,953	-	1,919,430	647,127	55,300
Credit Cards	18,332,885	-	428,047	521,527	-	280,601
Others	81,285,029	624,518	-	5,405,945	2,858,824	183,452
<b>Specialization Loans</b>	-	-	-	-	-	-
<b>Other Receivables</b>	-	-	-	-	-	-
<b>Total</b>	<b>175,775,487</b>	<b>3,571,299</b>	<b>428,047</b>	<b>9,267,458</b>	<b>4,128,388</b>	<b>718,164</b>

(\*) The loans and interest accruals granted to the shareholder of a strategically important company operating in the telecommunication sector amounting to USD 996,291,045.41 were classified under "Performing Loans and Other Receivables".

Collaterals received for loans under follow-up;

CURRENT PERIOD	CORPORATE/COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
Loans Collateralized by Cash	39,714	4,244	-	43,958
Loans Collateralized by Mortgages	8,344,382	914,106	-	9,258,488
Loans Collateralized by Pledged Assets	685,338	75,559	-	760,897
Loans Collateralized by Cheques and Notes	63,740	604,763	-	668,503
Loans Collateralized by Other Collaterals	3,633,692	6,810	-	3,640,502
Unsecured Loans	1,663,419	174,294	382,608	2,220,321
<b>Total</b>	<b>14,430,285</b>	<b>1,779,776</b>	<b>382,608</b>	<b>16,592,669</b>

PRIOR PERIOD	CORPORATE/COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
Loans Collateralized by Cash	47,618	4,620	-	52,238
Loans Collateralized by Mortgages	3,995,662	974,409	-	4,970,071
Loans Collateralized by Pledged Assets	1,006,009	69,944	-	1,075,953
Loans Collateralized by Cheques and Notes	12,488	560,040	-	572,528
Loans Collateralized by Other Collaterals	1,370,667	9,058	-	1,379,725
Unsecured Loans	394,057	301,359	521,527	1,216,943
<b>Total</b>	<b>6,826,501</b>	<b>1,919,430</b>	<b>521,527</b>	<b>9,267,458</b>

Delinquency periods of loans under follow-up;

CURRENT PERIOD	CORPORATE/COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
31-60 days	168,191	823,072	166,444	1,157,707
61-90 days	127,120	241,228	43,258	411,606
Others	14,134,974	715,476	172,906	15,023,356
<b>Total</b>	<b>14,430,285</b>	<b>1,779,776</b>	<b>382,608</b>	<b>16,592,669</b>

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PRIOR PERIOD	CORPORATE/COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
31-60 days	174,568	740,357	194,622	1,109,547
61-90 days	153,267	261,027	56,740	471,034
Others	6,498,666	918,046	270,165	7,686,877
<b>Total</b>	<b>6,826,501</b>	<b>1,919,430</b>	<b>521,527</b>	<b>9,267,458</b>

Loans and other receivables with extended payment plans;

NO. OF EXTENSIONS	CURRENT PERIOD		PRIOR PERIOD	
	PERFORMING LOANS AND OTHER RECEIVABLES	LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP	PERFORMING LOANS AND OTHER RECEIVABLES	LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP
1 or 2 times	2,342,895	5,747,639	3,247,551	4,038,596
3, 4 or 5 times	14,635	85,253	106,419	78,645
Over 5 times	665	27,804	217,329	11,147

EXTENTION PERIODS	CURRENT PERIOD		PRIOR PERIOD	
	PERFORMING LOANS AND OTHER RECEIVABLES	LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP	PERFORMING LOANS AND OTHER RECEIVABLES	LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP
0-6 months	204,885	1,915,795	341,505	702,729
6-12 months	228,862	150,892	442,811	182,553
1-2 years	769,825	431,542	1,406,109	302,040
2-5 year	1,134,400	1,775,865	1,219,866	1,753,567
5 years and over	20,223	1,586,602	161,008	1,187,499

## 5.1.5.3 MATURITY ANALYSIS OF CASH LOANS

CURRENT PERIOD	PERFORMING LOANS AND OTHER RECEIVABLES		LOANS UNDER FOLLOW-UP AND OTHER RECEIVABLES	
	LOANS AND OTHER RECEIVABLES	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS	LOANS AND OTHER RECEIVABLES	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS
<b>Short-term Loans</b>	<b>55,285,094</b>	<b>443,974</b>	<b>1,157,156</b>	<b>354,352</b>
Loans	55,285,094	443,974	1,157,156	354,352
Specialization Loans	-	-	-	-
Other Receivables	-	-	-	-
<b>Medium and Long-term Loans</b>	<b>136,753,237</b>	<b>2,296,094</b>	<b>15,435,513</b>	<b>6,733,356</b>
Loans	136,753,237	2,296,094	15,435,513	6,733,356
Specialization Loans	-	-	-	-
Other Receivables	-	-	-	-

PRIOR PERIOD	PERFORMING LOANS AND OTHER RECEIVABLES		LOANS UNDER FOLLOW-UP AND OTHER RECEIVABLES	
	LOANS AND OTHER RECEIVABLES	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS	LOANS AND OTHER RECEIVABLES	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS
<b>Short-term Loans</b>	<b>51,681,248</b>	<b>683,937</b>	<b>1,299,908</b>	<b>492,861</b>
Loans	51,681,248	683,937	1,299,908	492,861
Specialization Loans	-	-	-	-
Other Receivables	-	-	-	-
<b>Medium and Long-term Loans</b>	<b>124,094,239</b>	<b>3,315,409</b>	<b>7,967,550</b>	<b>4,353,691</b>
Loans	124,094,239	3,315,409	7,967,550	4,353,691
Specialization Loans	-	-	-	-
Other Receivables	-	-	-	-

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## 5.1.5.4 CONSUMER LOANS, RETAIL CREDIT CARDS, PERSONNEL LOANS AND PERSONNEL CREDIT CARDS

CURRENT PERIOD	SHORT-TERM	MEDIUM AND LONG-TERM	TOTAL
<b>Consumer Loans - TL</b>	<b>908,935</b>	<b>45,957,542</b>	<b>46,866,477</b>
Housing Loans	29,632	23,171,465	23,201,097
Automobile Loans	72,369	2,283,541	2,355,910
General Purpose Loans	806,934	20,502,536	21,309,470
Other	-	-	-
<b>Consumer Loans - FC-indexed</b>	<b>-</b>	<b>165,624</b>	<b>165,624</b>
Housing Loans	-	165,579	165,579
Automobile Loans	-	-	-
General Purpose Loans	-	45	45
Other	-	-	-
<b>Consumer Loans - FC</b>	<b>643</b>	<b>61,408</b>	<b>62,051</b>
Housing Loans	458	33,446	33,904
Automobile Loans	164	16,405	16,569
General Purpose Loans	21	11,557	11,578
Other	-	-	-
<b>Retail Credit Cards - TL</b>	<b>17,163,201</b>	<b>527,872</b>	<b>17,691,073</b>
With Installment	8,452,785	527,872	8,980,657
Without Installment	8,710,416	-	8,710,416
<b>Retail Credit Cards - FC</b>	<b>92,791</b>	<b>-</b>	<b>92,791</b>
With Installment	-	-	-
Without Installment	92,791	-	92,791
<b>Personnel Loans - TL</b>	<b>19,264</b>	<b>115,539</b>	<b>134,803</b>
Housing Loan	-	1,498	1,498
Automobile Loans	-	4	4
General Purpose Loans	19,264	114,037	133,301
Other	-	-	-
<b>Personnel Loans - FC-indexed</b>	<b>-</b>	<b>405</b>	<b>405</b>
Housing Loans	-	405	405
Automobile Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
<b>Personnel Loans - FC</b>	<b>-</b>	<b>33</b>	<b>33</b>
Housing Loans	-	-	-
Automobile Loans	-	-	-
General Purpose Loans	-	33	33
Other	-	-	-
<b>Personnel Credit Cards - TL</b>	<b>120,550</b>	<b>880</b>	<b>121,430</b>
With Installment	50,773	880	51,653
Without Installment	69,777	-	69,777
<b>Personnel Credit Cards - FC</b>	<b>1,646</b>	<b>-</b>	<b>1,646</b>
With Installment	-	-	-
Without Installment	1,646	-	1,646
<b>Deposit Accounts- TL (Real persons)</b>	<b>976,981</b>	<b>-</b>	<b>976,981</b>
<b>Deposit Accounts- FC (Real persons)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>19,284,011</b>	<b>46,829,303</b>	<b>66,113,314</b>



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PRIOR PERIOD	SHORT-TERM	MEDIUM AND LONG-TERM	TOTAL
<b>Consumer Loans - TL</b>	<b>745,039</b>	<b>41,174,705</b>	<b>41,919,744</b>
Housing Loans	29,927	21,414,214	21,444,141
Automobile Loans	66,063	2,133,790	2,199,853
General Purpose Loans	649,049	17,626,701	18,275,750
Other	-	-	-
<b>Consumer Loans - FC-indexed</b>	<b>188</b>	<b>172,014</b>	<b>172,202</b>
Housing Loans	188	171,585	171,773
Automobile Loans	-	2	2
General Purpose Loans	-	427	427
Other	-	-	-
<b>Consumer Loans - FC</b>	<b>141</b>	<b>46,333</b>	<b>46,474</b>
Housing Loans	-	26,918	26,918
Automobile Loans	112	12,136	12,248
General Purpose Loans	29	7,279	7,308
Other	-	-	-
<b>Retail Credit Cards - TL</b>	<b>15,172,949</b>	<b>775,677</b>	<b>15,948,626</b>
With Installment	7,403,316	775,677	8,178,993
Without Installment	7,769,633	-	7,769,633
<b>Retail Credit Cards - FC</b>	<b>45,286</b>	<b>-</b>	<b>45,286</b>
With Installment	16	-	16
Without Installment	45,270	-	45,270
<b>Personnel Loans - TL</b>	<b>21,508</b>	<b>91,980</b>	<b>113,488</b>
Housing Loan	-	1,165	1,165
Automobile Loans	-	90	90
General Purpose Loans	21,508	90,725	112,233
Other	-	-	-
<b>Personnel Loans - FC-indexed</b>	<b>-</b>	<b>378</b>	<b>378</b>
Housing Loans	-	378	378
Automobile Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
<b>Personnel Loans - FC</b>	<b>-</b>	<b>163</b>	<b>163</b>
Housing Loans	-	-	-
Automobile Loans	-	-	-
General Purpose Loans	-	163	163
Other	-	-	-
<b>Personnel Credit Cards - TL</b>	<b>106,354</b>	<b>1,060</b>	<b>107,414</b>
With Installment	43,217	1,060	44,277
Without Installment	63,137	-	63,137
<b>Personnel Credit Cards - FC</b>	<b>583</b>	<b>-</b>	<b>583</b>
With Installment	-	-	-
Without Installment	583	-	583
<b>Deposit Accounts- TL (Real persons)</b>	<b>523,189</b>	<b>-</b>	<b>523,189</b>
<b>Deposit Accounts- FC (Real persons)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>16,615,237</b>	<b>42,262,310</b>	<b>58,877,547</b>

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## 5.1.5.5 INSTALLMENT BASED COMMERCIAL LOANS AND CORPORATE CREDIT CARDS

CURRENT PERIOD	SHORT-TERM	MEDIUM AND LONG-TERM	TOTAL
<b>Installment-based Commercial Loans - TL</b>	<b>1,621,458</b>	<b>14,720,433</b>	<b>16,341,891</b>
Real Estate Loans	850	788,851	789,701
Automobile Loans	138,541	2,283,802	2,422,343
General Purpose Loans	1,482,067	11,647,780	13,129,847
Other	-	-	-
<b>Installment-based Commercial Loans - FC-indexed</b>	<b>303,531</b>	<b>2,426,419</b>	<b>2,729,950</b>
Real Estate Loans	-	74,599	74,599
Automobile Loans	3,644	892,261	895,905
General Purpose Loans	299,887	1,459,559	1,759,446
Other	-	-	-
<b>Installment-based Commercial Loans - FC</b>	<b>113</b>	<b>108,431</b>	<b>108,544</b>
Real Estate Loans	-	284	284
Automobile Loans	86	20,075	20,161
General Purpose Loans	27	88,072	88,099
Other	-	-	-
<b>Corporate Credit Cards - TL</b>	<b>3,777,393</b>	<b>42,624</b>	<b>3,820,017</b>
With Installment	1,800,911	42,624	1,843,535
Without Installment	1,976,482	-	1,976,482
<b>Corporate Credit Cards - FC</b>	<b>20,216</b>	<b>-</b>	<b>20,216</b>
With Installment	15	-	15
Without Installment	20,201	-	20,201
<b>Deposit Accounts- TL (Corporates)</b>	<b>871,611</b>	<b>-</b>	<b>871,611</b>
<b>Deposit Accounts- FC (Corporates)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>6,594,322</b>	<b>17,297,907</b>	<b>23,892,229</b>
<b>PRIOR PERIOD</b>	<b>SHORT-TERM</b>	<b>MEDIUM AND LONG-TERM</b>	<b>TOTAL</b>
<b>Installment-based Commercial Loans - TL</b>	<b>1,767,307</b>	<b>11,094,610</b>	<b>12,861,917</b>
Real Estate Loans	3,262	831,376	834,638
Automobile Loans	107,647	2,174,041	2,281,688
General Purpose Loans	1,656,398	8,089,193	9,745,591
Other	-	-	-
<b>Installment-based Commercial Loans - FC-indexed</b>	<b>264,798</b>	<b>2,405,434</b>	<b>2,670,232</b>
Real Estate Loans	-	72,529	72,529
Automobile Loans	8,927	730,518	739,445
General Purpose Loans	255,871	1,602,387	1,858,258
Other	-	-	-
<b>Installment-based Commercial Loans - FC</b>	<b>710</b>	<b>86,457</b>	<b>87,167</b>
Real Estate Loans	-	637	637
Automobile Loans	42	14,356	14,398
General Purpose Loans	668	71,464	72,132
Other	-	-	-
<b>Corporate Credit Cards - TL</b>	<b>2,687,757</b>	<b>53,475</b>	<b>2,741,232</b>
With Installment	1,279,033	53,475	1,332,508
Without Installment	1,408,724	-	1,408,724
<b>Corporate Credit Cards - FC</b>	<b>11,271</b>	<b>-</b>	<b>11,271</b>
With Installment	176	-	176
Without Installment	11,095	-	11,095
<b>Deposit Accounts- TL (corporates)</b>	<b>881,614</b>	<b>-</b>	<b>881,614</b>
<b>Deposit Accounts- FC (corporates)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>5,613,457</b>	<b>13,639,976</b>	<b>19,253,433</b>

## 5.1.5.6 ALLOCATION OF LOANS BY CUSTOMERS

	CURRENT PERIOD	PRIOR PERIOD
Public Sector	674,605	792,965
Private Sector (*)	207,956,395	184,249,980
<b>Total</b>	<b>208,631,000</b>	<b>185,042,945</b>

## 5.1.5.7 ALLOCATION OF DOMESTIC AND FOREIGN LOANS

	CURRENT PERIOD	PRIOR PERIOD
Domestic Loans	204,701,003	181,422,064
Foreign Loans	3,929,997	3,620,881
<b>Total</b>	<b>208,631,000</b>	<b>185,042,945</b>

## 5.1.5.8 LOANS TO ASSOCIATES AND AFFILIATES

	CURRENT PERIOD	PRIOR PERIOD
Direct Lending	1,036,755	842,967
Indirect Lending	-	-
<b>Total</b>	<b>1,036,755</b>	<b>842,967</b>

## 5.1.5.9 SPECIFIC PROVISIONS FOR LOANS

	CURRENT PERIOD	PRIOR PERIOD
Substandard Loans and Receivables - Limited Collectibility	530,116	451,816
Doubtful Loans and Receivables	775,530	1,126,227
Uncollectible Loans and Receivables	3,053,591	2,689,448
<b>Total</b>	<b>4,359,237</b>	<b>4,267,491</b>

## 5.1.5.10 NON-PERFORMING LOANS AND OTHER RECEIVABLES (NPLs) (NET)

*Non-performing loans and other receivables restructured or rescheduled*

	GROUP III SUBSTANDARD LOANS AND RECEIVABLES	GROUP IV DOUBTFUL LOANS AND RECEIVABLES	GROUP V UNCOLLECTIBLE LOANS AND RECEIVABLES
<b>CURRENT PERIOD</b>			
(Gross Amounts before Specific Provisions)	250,388	501,170	853,454
Restructured Loans and Receivables	250,388	501,170	853,454
Rescheduled Loans and Receivables	-	-	-
<b>PRIOR PERIOD</b>			
(Gross Amounts before Specific Provisions)	125,617	665,093	717,588
Restructured Loans and Receivables	125,617	665,093	717,588
Rescheduled Loans and Receivables	-	-	-

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## Movements in non-performing loans and other receivables

CURRENT PERIOD	GROUP III	GROUP IV	GROUP V
	SUBSTANDARD LOANS AND RECEIVABLES	DOUBTFUL LOANS AND RECEIVABLES	UNCOLLECTIBLE LOANS AND RECEIVABLES
<b>Balances at Beginning of Period</b>	<b>576,487</b>	<b>1,476,489</b>	<b>3,219,798</b>
Additions during the Period (+)	2,285,166	51,494	87,363
Transfer from Other NPL Categories (+)	-	1,692,781	1,826,171
Transfer to Other NPL Categories (-)	1,692,781	1,826,171	-
Collections during the Period (-)	454,499	379,561	588,852
Write-offs (-) (*)	-	16,178	849,593
Corporate and Commercial Loans	-	15,693	369,827
Retail Loans	-	485	216,518
Credit Cards	-	-	263,248
Others	-	-	-
<b>Balances at End of Period</b>	<b>714,373</b>	<b>998,854</b>	<b>3,694,887</b>
Specific Provisions (-)	530,116	775,530	3,053,591
<b>Net Balance on Balance Sheet</b>	<b>184,257</b>	<b>223,324</b>	<b>641,296</b>

(\*) of which TL 865,748 thousands is resulted from sale of non-performing loans.

PRIOR PERIOD	GROUP III	GROUP IV	GROUP V
	SUBSTANDARD LOANS AND RECEIVABLES	DOUBTFUL LOANS AND RECEIVABLES	UNCOLLECTIBLE LOANS AND RECEIVABLES
<b>Balances at Beginning of Period</b>	<b>786,183</b>	<b>756,847</b>	<b>2,860,995</b>
Additions during the Period (+)	3,048,885	56,393	127,180
Transfer from Other NPL Categories (+)	-	2,781,448	1,798,932
Transfer to Other NPL Categories (-)	2,781,448	1,798,932	-
Collections during the Period (-)	477,133	317,939	491,290
Write-offs (-) (*)	-	1,328	1,076,019
Corporate and Commercial Loans	-	1,178	515,367
Retail Loans	-	-	289,608
Credit Cards	-	150	271,044
Others	-	-	-
<b>Balances at End of Period</b>	<b>576,487</b>	<b>1,476,489</b>	<b>3,219,798</b>
Specific Provisions (-)	451,816	1,126,227	2,689,448
<b>Net Balance on Balance Sheet</b>	<b>124,671</b>	<b>350,262</b>	<b>530,350</b>

(\*) of which TL 1,059,931 thousands is resulted from sale of non-performing loans.

## Movements in specific loan provisions

CURRENT PERIOD	CORPORATE/ COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
<b>Balances at End of Prior Period</b>	<b>1,916,652</b>	<b>1,364,327</b>	<b>986,512</b>	<b>4,267,491</b>
Additions during the Period(+)	749,651	797,652	516,519	2,063,822
Restructured/Rescheduled Loans (-)	-	-	-	-
Collections during the Period (-)	307,674	518,973	290,417	1,117,064
Write-offs (-) (*)	375,027	216,737	263,248	855,012
<b>Balances at End of Period</b>	<b>1,983,602</b>	<b>1,426,269</b>	<b>949,366</b>	<b>4,359,237</b>

(\*) of which TL 854,989 thousands is resulted from sale of non-performing loans.

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PRIOR PERIOD	CORPORATE/ COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
<b>Balances at End of Prior Period</b>	<b>1,329,001</b>	<b>1,270,403</b>	<b>968,294</b>	<b>3,567,698</b>
Additions during the Period(+)	1,255,839	897,204	591,817	2,744,860
Restructured/Rescheduled Loans (-)	-	-	-	-
Collections during the Period (-)	152,378	514,410	302,405	969,193
Write-offs (-)	515,810	288,870	271,194	1,075,874
<b>Balances at End of Period</b>	<b>1,916,652</b>	<b>1,364,327</b>	<b>986,512</b>	<b>4,267,491</b>

(\*) of which TL 1,058,459 thousands is resulted from sale of non-performing loans.

Non-performing loans and other receivables in foreign currencies

	GROUP III SUBSTANDARD LOANS AND RECEIVABLES	GROUP IV DOUBTFUL LOANS AND RECEIVABLES	GROUP V UNCOLLECTIBLE LOANS AND RECEIVABLES
<b>CURRENT PERIOD</b>			
<b>Balance at End of Period</b>	<b>173,363</b>	<b>350,092</b>	<b>720,531</b>
Specific Provisions (-)	104,334	214,188	483,037
<b>Net Balance at Balance Sheet</b>	<b>69,029</b>	<b>135,904</b>	<b>237,494</b>
<b>PRIOR PERIOD</b>			
<b>Balance at End of Period</b>	<b>34,476</b>	<b>363,587</b>	<b>722,774</b>
Specific Provisions (-)	29,951	234,409	512,422
<b>Net Balance at Balance Sheet</b>	<b>4,525</b>	<b>129,178</b>	<b>210,352</b>

Gross and net non-performing loans and receivables as per customer categories

	GROUP III SUBSTANDARD LOANS AND RECEIVABLES	GROUP IV DOUBTFUL LOANS AND RECEIVABLES	GROUP V UNCOLLECTIBLE LOANS AND RECEIVABLES
<b>CURRENT PERIOD (NET)</b>	<b>184,257</b>	<b>223,324</b>	<b>641,296</b>
Loans to Individuals and Corporates (Gross)	714,373	998,854	3,693,572
Specific Provision (-)	530,116	775,530	3,052,276
Loans to Individuals and Corporates (Net)	184,257	223,324	641,296
Banks (Gross)	-	-	311
Specific Provision (-)	-	-	311
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	1,004
Specific Provision (-)	-	-	1,004
Other Loans and Receivables (Net)	-	-	-
<b>PRIOR PERIOD (NET)</b>	<b>124,671</b>	<b>350,262</b>	<b>530,350</b>
Loans to Individuals and Corporates (Gross)	576,487	1,476,489	3,218,482
Specific Provision (-)	451,816	1,126,227	2,688,132
Loans to Individuals and Corporates (Net)	124,671	350,262	530,350
Banks (Gross)	-	-	311
Specific Provision (-)	-	-	311
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	1,005
Specific Provision (-)	-	-	1,005
Other Loans and Receivables (Net)	-	-	-

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## Collaterals received for non-performing loans

CURRENT PERIOD	CORPORATE/ COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
Loans Collateralized by Cash	2,872	260	-	3,132
Loans Collateralized by Mortgages	1,440,331	170,463	-	1,610,794
Loans Collateralized by Pledged Assets	166,121	48,274	-	214,395
Loans Collateralized by Cheques and Notes	146,989	4,666	-	151,655
Loans Collateralized by Other Collaterals	1,055,826	991,579	-	2,047,405
Unsecured Loans	90,426	340,941	949,366	1,380,733
<b>Total</b>	<b>2,902,565</b>	<b>1,556,183</b>	<b>949,366</b>	<b>5,408,114</b>

PRIOR PERIOD	CORPORATE/ COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
Loans Collateralized by Cash	3,016	184	-	3,200
Loans Collateralized by Mortgages	1,391,416	142,402	-	1,533,818
Loans Collateralized by Pledged Assets	192,660	47,119	-	239,779
Loans Collateralized by Cheques and Notes	211,665	7,286	-	218,951
Loans Collateralized by Other Collaterals	919,836	861,462	-	1,781,298
Unsecured Loans	95,253	413,963	986,512	1,495,728
<b>Total</b>	<b>2,813,846</b>	<b>1,472,416</b>	<b>986,512</b>	<b>5,272,774</b>

## 5.1.5.II LIQUIDATION POLICY FOR UNCOLLECTIBLE LOANS AND RECEIVABLES

Such loans and receivables are collected through legal follow-up and liquidation of collaterals.

## 5.1.5.I2 WRITE-OFF POLICY

The Bank's general policy for write-offs of loans and receivables under follow-up is to write off such loans and receivables that are proven to be uncollectible in legal follow-up process.

## 5.1.6 INVESTMENTS HELD-TO-MATURITY

### 5.1.6.1 INVESTMENT SUBJECT TO REPURCHASE AGREEMENTS AND PROVIDED AS COLLATERAL/BLOCKED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Collateralised/Blocked Investments	9,251,733	3,701,943	5,793,705	4,341,183
Investments subject to Repurchase Agreements	784,006	212,280	3,147,892	-
<b>Total</b>	<b>10,035,739</b>	<b>3,914,223</b>	<b>8,941,597</b>	<b>4,341,183</b>

### 5.1.6.2 GOVERNMENT SECURITIES HELD-TO-MATURITY

	CURRENT PERIOD	PRIOR PERIOD
Government Bonds	20,232,556	19,108,804
Treasury Bills	-	-
Other Government Securities	-	-
<b>Total</b>	<b>20,232,556</b>	<b>19,108,804</b>

### 5.1.6.3 INVESTMENTS HELD-TO-MATURITY

	CURRENT PERIOD	PRIOR PERIOD
<b>Debt Securities</b>	<b>21,390,419</b>	<b>21,236,112</b>
Quoted at Stock Exchange	20,799,386	20,462,344
Unquoted at Stock Exchange	591,033	773,768
Valuation Increase/(Decrease)	3,494,924	2,404,072
<b>Total</b>	<b>24,885,343</b>	<b>23,640,184</b>

## 5.1.6.4 MOVEMENT OF INVESTMENTS HELD-TO-MATURITY

	CURRENT PERIOD	PRIOR PERIOD
<b>Balances at Beginning of Period</b>	<b>23,640,184</b>	<b>21,755,812</b>
Foreign Currency Differences On Monetary Assets	838,293	1,963,183
Purchases during the Period	302,008	498,479
Disposals through Sales/Redemptions	(985,994)	(1,186,759)
Valuation Effect	1,090,852	609,469
<b>Balances at End of Period</b>	<b>24,885,343</b>	<b>23,640,184</b>

## 5.1.7 INVESTMENTS IN ASSOCIATES

### 5.1.7.1 INVESTMENTS IN ASSOCIATES

ASSOCIATE	ADDRESS (CITY/ COUNTRY)	BANK'S SHARE IF DIFFERENT. VOTING RIGHTS (%)	BANK'S RISK GROUP SHARE (%)
1 Bankalararası Kart Merkezi AŞ <sup>(1)</sup>	İstanbul/Turkey	10.15	10.15
2 Yatırım Finansman Menkul Değerler AŞ <sup>(1)</sup>	İstanbul/Turkey	0.77	0.77
3 İstanbul Takas ve Saklama Bankası AŞ <sup>(1)</sup>	İstanbul/Turkey	4.95	4.97
4 Borsa İstanbul AŞ <sup>(1)</sup>	İstanbul/Turkey	0.30	0.34
5 KKB Kredi Kayıt Bürosu AŞ <sup>(1)</sup>	İstanbul/Turkey	9.09	9.09
6 Türkiye Cumhuriyet Merkez Bankası AŞ <sup>(2)</sup>	Ankara /Turkey	2.48	2.48
7 Kredi Garanti Fonu AŞ <sup>(1)</sup>	Ankara /Turkey	1.54	1.54

	TOTAL ASSETS	SHAREHOLDERS' EQUITY	TOTAL FIXED ASSETS (*)	INTEREST INCOME	INCOME ON SECURITIES PORTFOLIO	CURRENT PERIOD PROFIT/ LOSS	PRIOR PERIOD PROFIT/LOSS	COMPANY'S FAIR VALUE
1	80,677	46,880	47,322	1,043	-	6,983	14,517	-
2	650,558	79,102	2,500	23,448	560	7,079	(3,130)	-
3	9,913,087	1,170,007	92,594	281,518	7,404	201,251	162,178	-
4	1,280,167	1,237,174	241,246	38,556	156	221,156	223,697	-
5	259,153	175,797	172,992	4,049	95	36,919	16,458	-
6	522,864,251	71,767,643	685,646	8,726,740	2,744,355	23,115,976	20,736,851	-
7	486,557	462,323	10,969	21,449	-	127,873	17,738	-

(1) Financial information is as of 30 September 2017.

(2) Financial information is as of 31 December 2016.

(\*) Total fixed assets include tangible and intangible assets.

### 5.1.7.2 MOVEMENT OF INVESTMENTS IN ASSOCIATES

	CURRENT PERIOD	PRIOR PERIOD
<b>Balance at Beginning of Period</b>	<b>36,698</b>	<b>36,698</b>
<b>Movements during the Period</b>	<b>(1,540)</b>	<b>-</b>
Acquisitions	-	-
Bonus Shares Received	-	-
Dividends from Current Year Profit	-	-
Sales	(1,540)	-
Increase in Market Values	-	-
Impairment Reversals/(Losses)	-	-
<b>Balance at End of Period</b>	<b>35,158</b>	<b>36,698</b>
<b>Capital Commitments</b>	<b>-</b>	<b>-</b>
<b>Share Percentage at the End of Period (%)</b>	<b>-</b>	<b>-</b>

## 5.1.7.3 SECTORAL DISTRIBUTION OF INVESTMENTS AND ASSOCIATES

INVESTMENTS IN ASSOCIATES	CURRENT PERIOD	PRIOR PERIOD
Banks	25,557	27,097
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Finance Companies	7,887	7,887
Other Associates	1,714	1,714

## 5.1.7.4 QUOTED ASSOCIATES

None.

## 5.1.7.5 VALUATION METHODS OF INVESTMENTS IN ASSOCIATES

Investments in Associates	CURRENT PERIOD	PRIOR PERIOD
Valued at Cost	35,158	36,698
Valued at Fair Value	-	-

## 5.1.7.6 INVESTMENTS IN ASSOCIATES SOLD DURING THE CURRENT PERIOD

None.

## 5.1.7.7 INVESTMENTS IN ASSOCIATES ACQUIRED DURING THE CURRENT PERIOD

None.



## 5.1.8 INVESTMENTS IN AFFILIATES

### 5.1.8.1 INFORMATION ON CAPITAL ADEQUACY OF MAJOR AFFILIATES

The Bank does not have any capital needs for its affiliates included in the calculation of its consolidated capital adequacy standard ratio. Information on capital adequacy of major affiliates is presented below.

CURRENT PERIOD	GARANTI BANK INTERNATIONAL NV	GARANTI FINANSAL KIRALAMA AŞ	GARANTI HOLDING BV
<b>COMMON EQUITY TIER I CAPITAL</b>			
Paid-in Capital to be Entitled for Compensation after All Creditors	624,487	357,848	1,745,428
Share Premium	-	-	58,760
Share Cancellation Profits	-	-	-
Legal Reserves	945,023	567,914	(254,424)
Other Comprehensive Income according to TAS	1,047,870	-	42,356
Current and Prior Periods' Profits	103,187	20,747	117,599
<b>Common Equity Tier I Capital Before Deductions</b>	<b>2,720,567</b>	<b>946,509</b>	<b>1,709,719</b>
<b>Deductions From Common Equity Tier I Capital</b>			
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	27,631	555	464,476
Leasehold Improvements on Operational Leases (-)	-	66	5,298
Goodwill and Other Intangible Assets and Related Deferred Taxes (-)	14,832	7,144	205,736
Net Deferred Tax Asset/Liability (-)	-	-	5,905
<b>Total Deductions from Common Equity Tier I Capital</b>	<b>42,463</b>	<b>7,765</b>	<b>681,415</b>
<b>Total Common Equity Tier I Capital</b>	<b>2,678,104</b>	<b>938,744</b>	<b>1,028,304</b>
<b>Total Deductions From Tier I Capital</b>	<b>3,708</b>	<b>1,786</b>	<b>52,910</b>
<b>Total Tier I Capital</b>	<b>2,674,396</b>	<b>936,958</b>	<b>975,394</b>
<b>TIER II CAPITAL</b>	<b>226,450</b>	<b>-</b>	<b>121,194</b>
<b>CAPITAL BEFORE DEDUCTIONS</b>	<b>2,900,846</b>	<b>936,958</b>	<b>1,096,588</b>
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	-	-	-
<b>TOTAL CAPITAL</b>	<b>2,900,846</b>	<b>936,958</b>	<b>1,096,588</b>

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PRIOR PERIOD	GARANTİ BANK INTERNATIONAL NV	GARANTİ FİNANSAL KİRALAMA AŞ	GARANTİ HOLDING BV
<b>COMMON EQUITY TIER I CAPITAL</b>			
Paid-in Capital to be Entitled for Compensation after All Creditors	511,324	357,848	1,426,711
Share Premium	-	-	48,030
Share Cancellation Profits	-	-	-
Legal Reserves	894,029	483,911	(267,654)
Other Comprehensive Income according to TAS	652,504	-	17,074
Current and Prior Periods' Profits	50,997	84,003	9,425
<b>Common Equity Tier I Capital Before Deductions</b>	<b>2,108,854</b>	<b>925,762</b>	<b>1,233,586</b>
<b>Deductions From Common Equity Tier I Capital</b>			
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	76,159	452	317,070
Leasehold Improvements on Operational Leases (-)	-	87	7,930
Goodwill and Other Intangible Assets and Related Deferred Taxes (-)	10,193	4,694	131,009
Net Deferred Tax Asset/Liability (-)	-	-	7,129
<b>Total Deductions from Common Equity Tier I Capital</b>	<b>86,352</b>	<b>5,233</b>	<b>463,138</b>
<b>Total Common Equity Tier I Capital</b>	<b>2,022,502</b>	<b>920,529</b>	<b>770,448</b>
<b>Total Deductions From Tier I Capital</b>	<b>6,795</b>	<b>3,129</b>	<b>92,092</b>
<b>Total Tier I Capital</b>	<b>2,015,707</b>	<b>917,400</b>	<b>678,356</b>
<b>TIER II CAPITAL</b>	<b>185,100</b>	<b>-</b>	<b>81,435</b>
<b>CAPITAL BEFORE DEDUCTIONS</b>	<b>2,200,807</b>	<b>917,400</b>	<b>759,791</b>
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	-	465	-
<b>TOTAL CAPITAL</b>	<b>2,200,807</b>	<b>916,935</b>	<b>759,791</b>

## 5.1.8.2 INVESTMENTS IN AFFILIATES

AFFILIATE	ADDRESS (CITY/ COUNTRY)	BANK'S SHARE - IF DIFFERENT, VOTING RIGHTS (%)	BANK'S RISK GROUP SHARE (%)
1 Garanti Bilişim Teknolojisi ve Tic. TAŞ	Istanbul/Turkey	100.00	100.00
2 Garanti Ödeme Sistemleri AŞ	Istanbul/Turkey	99.96	100.00
3 Garanti Hizmet Yönetimi AŞ	Istanbul/Turkey	96.40	99.40
4 Garanti Kültür AŞ	Istanbul/Turkey	100.00	100.00
5 Garanti Konut Finansmanı Danışmanlık Hiz. AŞ	Istanbul/Turkey	100.00	100.00
6 Garanti Finansal Kiralama AŞ	Istanbul/Turkey	100.00	100.00
7 Garanti Faktoring AŞ	Istanbul/Turkey	81.84	81.84
8 Garanti Yatırım Menkul Kıymetler AŞ	Istanbul/Turkey	100.00	100.00
9 Garanti Portföy Yönetimi AŞ	Istanbul/Turkey	100.00	100.00
10 Garanti Emeklilik ve Hayat AŞ	Istanbul/Turkey	84.91	84.91
11 Garanti Bank International NV	Amsterdam/the Netherlands	100.00	100.00
12 Garanti Holding BV	Amsterdam/the Netherlands	100.00	100.00

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	TOTAL ASSETS	SHAREHOLDERS' EQUITY	TOTAL FIXED ASSETS (*)	INTEREST INCOME	INCOME ON SECURITIES PORTFOLIO	CURRENT PERIOD PROFIT/LOSS	PRIOR PERIOD PROFIT/LOSS	COMPANY'S FAIR VALUE
1	83,704	71,762	37	7,557	3	9,699	3,157	-
2	37,642	15,337	318	938	-	612	1,270	-
3	3,764	3,288	-	452	48	(456)	(4,028)	-
4	2,619	1,847	1,132	-	49	247	69	-
5	3,920	2,696	39	218	-	882	694	-
6	5,440,877	945,954	10,318	403,026	-	20,747	84,003	-
7	3,451,880	212,985	7,430	288,268	-	27,603	19,716	-
8	170,260	117,635	13,407	4,897	2,422	49,931	20,156	-
9	80,928	71,147	3,408	4,824	-	18,891	12,971	-
10	2,164,598	1,648,492	38,969	204,397	1,590	323,576	245,940	-
11	19,371,398	2,693,389	140,785	560,541	59,295	103,187	50,996	-
12	1,541,868	1,541,596	-	-	-	(343)	(252)	-

(\*) Total fixed assets include tangible and intangible assets.

## 5.1.8.3 MOVEMENT OF INVESTMENTS IN AFFILIATES

	CURRENT PERIOD	PRIOR PERIOD
<b>Balance at Beginning of Period</b>	<b>5,173,864</b>	<b>4,446,499</b>
<b>Movements during the Period</b>	<b>1,365,607</b>	<b>727,365</b>
Acquisitions	150	53,484
Bonus Shares Received	-	-
Earnings from Current Year Profit	607,953	398,272
Sales/Liquidations	-	(157,635)
Reclassification of Shares	-	-
Increase/(Decrease) in Market Values	118,307	13,003
Currency Differences on Foreign Affiliates	639,197	420,241
Impairment Reversals/(Losses)	-	-
<b>Balance at End of Period</b>	<b>6,539,471</b>	<b>5,173,864</b>
<b>Capital Commitments</b>	-	-
<b>Share Percentage at the End of Period (%)</b>	-	-

## 5.1.8.4 SECTORAL DISTRIBUTION OF INVESTMENTS IN AFFILIATES

Affiliates	CURRENT PERIOD	PRIOR PERIOD
Banks	2,686,210	2,025,895
Insurance Companies	1,399,747	1,125,108
Factoring Companies	174,376	151,548
Leasing Companies	945,953	925,310
Finance Companies	1,228,813	841,767
Other Affiliates	104,372	104,236

## 5.1.8.5 QUOTED AFFILIATES

None.

## 5.1.8.6 VALUATION METHODS OF INVESTMENTS IN AFFILIATES

Affiliates	CURRENT PERIOD	PRIOR PERIOD
Valued at Cost	104,372	104,236
Valued at Equity Method of Accounting	6,435,099	5,069,628

## 5.1.8.7 INVESTMENTS IN AFFILIATES DISPOSED DURING THE CURRENT PERIOD

None.

## 5.1.8.8 INVESTMENTS IN AFFILIATES ACQUIRED DURING THE CURRENT PERIOD

None.

## 5.1.9 INVESTMENTS IN JOINT-VENTURES

None.

## 5.1.10 LEASE RECEIVABLES (NET)

None.

## 5.1.II DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGING PURPOSE

### 5.1.II.I POSITIVE DIFFERENCES ON DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSE

DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGING PURPOSE	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Fair Value Hedges	89,104	13,001	73,946	10,420
Cash Flow Hedges	446,457	99,713	5,526	499,322
Net Foreign Investment Hedges	-	-	-	-
<b>Total</b>	<b>535,561</b>	<b>112,714</b>	<b>79,472</b>	<b>509,742</b>

As of 31 December 2017, the face values and the net fair values, recognised in the balance sheet, of the derivative financial instruments held for hedging purpose, are summarized below:

	CURRENT PERIOD			PRIOR PERIOD		
	FACE VALUE	ASSET	LIABILITY	FACE VALUE	ASSET	LIABILITY
Interest Rate Swaps	36,960,864	204,154	48,808	30,864,971	144,968	115,007
-TL	5,552,476	91,493	6,227	8,307,595	79,472	26,671
-FC	31,408,388	112,661	42,581	22,557,376	65,496	88,336
Cross Currency Swaps	3,068,641	444,121	131,262	3,670,474	444,246	164,529
-TL	656,908	444,068	-	944,728	-	-
-FC	2,411,733	53	131,262	2,725,746	444,246	164,529
<b>Total</b>	<b>40,029,505</b>	<b>648,275</b>	<b>180,070</b>	<b>34,535,445</b>	<b>589,214</b>	<b>279,536</b>

## 5.1.II.1.1 FAIR VALUE HEDGE ACCOUNTING

CURRENT PERIOD HEDGING ITEM	HEDGED ITEM	TYPE OF RISK	FAIR VALUE CHANGE OF HEDGED ITEM	NET FAIR VALUE CHANGE OF HEDGING ITEM		INCOME STATEMENT EFFECT (GAINS/LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS)
				Asset	Liability	
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	2,442	30,275	(39,034)	(6,317)
Interest Rate Swaps	Fixed-rate mortgage loans	Interest rate risk	(53,789)	57,887	-	4,098
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	(19,552)	13,943	(7,695)	(13,305)
Cross Currency Swaps	Fixed-rate securities issued	Interest rate and foreign currency exchange rate risk	(3,527)	-	(131,262)	(134,788)

PRIOR PERIOD HEDGING ITEM	HEDGED ITEM	TYPE OF RISK	FAIR VALUE CHANGE OF HEDGED ITEM	NET FAIR VALUE CHANGE OF HEDGING ITEM		INCOME STATEMENT EFFECT (GAINS/LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS)
				Asset	Liability	
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	42,431	15,833	(75,781)	(17,517)
Interest Rate Swaps	Fixed-rate mortgage loans	Interest rate risk	(42,169)	48,387	(344)	5,874
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	(14,515)	19,803	(17,079)	(11,791)
Cross Currency Swaps	Fixed-rate securities issued	Interest rate and foreign currency exchange rate risk	(13,071)	-	(164,529)	(177,600)

## 5.1.II.1.2 CASH FLOW HEDGE ACCOUNTING

CURRENT PERIOD HEDGING ITEM	HEDGED ITEM	TYPE OF RISK	FAIR VALUE CHANGE OF HEDGED ITEM		GAINS/LOSSES ACCOUNTED UNDER SHAREHOLDERS' EQUITY IN THE PERIOD	GAINS/LOSSES ACCOUNTED UNDER INCOME STATEMENT IN THE PERIOD	INEFFECTIVE PORTION (NET) ACCOUNTED UNDER INCOME STATEMENT
			Asset	Liability			
Interest Rate Swaps	Floating-rate securities issued	Cash flow risk resulted from change in market interest rates	39	-	(55)	67	-
Interest Rate Swaps	Floating-rate funds borrowed	Cash flow risk resulted from change in market interest rates	61,409	(1,745)	34,891	(23,236)	672
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	40,601	(334)	18,621	(7,071)	6,932
Cross Currency Swaps	Floating-rate securities issued	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	53	-	1,094	(1,042)	-
Cross Currency Swaps	Floating-rate funds borrowed	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	444,068	-	45	(60,340)	7

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As of 31 December 2016, the loss reclassified from the shareholders' equity to the income statement due to the ceased hedging transactions amounted to TL 619 thousands (31 December 2017: nil).

PRIOR PERIOD HEDGING ITEM	HEDGED ITEM	TYPE OF RISK	FAIR VALUE CHANGE OF HEDGED ITEM		GAINS/LOSSES ACCOUNTED UNDER SHAREHOLDERS' EQUITY IN THE PERIOD	GAINS/LOSSES ACCOUNTED UNDER INCOME STATEMENT IN THE PERIOD	INEFFECTIVE PORTION (NET) ACCOUNTED UNDER INCOME STATEMENT
			Asset	Liability			
Interest Rate Swaps	Floating-rate securities issued	Cash flow risk resulted from change in market interest rates	66	-	(30)	(100)	-
Interest Rate Swaps	Floating-rate funds borrowed	Cash flow risk resulted from change in market interest rates	46,611	(21,803)	20,313	(20,654)	(135)
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	14,268	-	14,325	(3,344)	-
Cross Currency Swaps	Floating-rate securities issued	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	-	-	(6,677)	(12,091)	-
Cross Currency Swaps	Floating-rate funds borrowed	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	443,903	-	(17,541)	(89,625)	51

## 5.1.12 TANGIBLE ASSETS

	REAL ESTATES	LEASED TANGIBLE ASSETS	VEHICLES	OTHER TANGIBLE ASSETS	TOTAL
<b>AT END OF PRIOR PERIOD:</b>					
<b>Cost</b>	<b>2,624,545</b>	<b>281,583</b>	<b>16,102</b>	<b>1,982,431</b>	<b>4,904,661</b>
<b>Accumulated Depreciation (-)</b>	<b>(18,116)</b>	<b>(250,497)</b>	<b>(12,649)</b>	<b>(1,234,651)</b>	<b>(1,515,913)</b>
<b>Net Book Value at End of Prior Period</b>	<b>2,606,429</b>	<b>31,086</b>	<b>3,453</b>	<b>747,780</b>	<b>3,388,748</b>
<b>AT END OF CURRENT PERIOD:</b>					
Additions	317,883	1,573	3,720	319,539	642,715
Revaluation Model Difference	101,434	-	-	-	101,434
Transfers from Investment Property	-	-	-	-	-
Disposals (Costs)	(83,483)	(18,585)	(2,466)	(113,990)	(218,524)
Disposals (Accumulated Depreciation)	29,968	18,525	2,303	46,029	96,825
Impairment/Reversal of Impairment Losses	9,981	-	-	-	9,981
Depreciation Expense for Current Period (-)	(15,971)	(7,414)	(1,641)	(226,774)	(251,800)
<b>Cost at End of Current Period</b>	<b>2,970,360</b>	<b>264,571</b>	<b>17,356</b>	<b>2,187,980</b>	<b>5,440,267</b>
<b>Accumulated Depreciation at End of Current Period</b>	<b>(4,119)</b>	<b>(239,386)</b>	<b>(11,987)</b>	<b>(1,415,396)</b>	<b>(1,670,888)</b>
<b>Net Book Value at End of Current Period</b>	<b>2,966,241</b>	<b>25,185</b>	<b>5,369</b>	<b>772,584</b>	<b>3,769,379</b>

## 5.1.13 INTANGIBLE ASSETS

### 5.1.13.1 USEFUL LIVES AND AMORTISATION RATES

Intangible assets include softwares and other intangible assets. The estimated useful lives of such assets vary between 3 and 15 years.

### 5.1.13.2 AMORTISATION METHODS

Intangible assets are amortised on a straight-line basis from the date of capitalisation.

### 5.1.13.3 BALANCES AT BEGINNING AND END OF CURRENT PERIOD

	BEGINNING OF PERIOD		END OF PERIOD	
	Cost	Accumulated Amortisation	Cost	Accumulated Amortisation
Intangible Assets	590,449	304,795	487,362	248,349

### 5.1.13.4 MOVEMENTS OF INTANGIBLE ASSETS FOR CURRENT PERIOD

	CURRENT PERIOD	PRIOR PERIOD
<b>Net Book Value at End of Prior Period</b>	<b>239,013</b>	<b>182,590</b>
Internally Generated Intangibles	-	-
Additions due to Mergers, Transfers and Acquisition	113,412	107,247
Disposals (-)	(5,196)	(180)
Impairment Losses/Reversals to/from Revaluation Surplus	-	-
Impairment Losses Recorded in Income Statement	-	-
Impairment Losses Reversed from Income Statement	-	-
Amortisation Expense for Current Period (-)	(61,575)	(52,994)
Currency Translation Differences on Foreign Operations	-	-
Other Movements	-	2,350
<b>Net Book Value at End of Current Period</b>	<b>285,654</b>	<b>239,013</b>

### 5.1.13.5 DETAILS FOR ANY INDIVIDUALLY MATERIAL INTANGIBLE ASSETS

None.

### 5.1.13.6 INTANGIBLE ASSETS CAPITALISED UNDER GOVERNMENT INCENTIVES AT FAIR VALUES

None.

### 5.1.13.7 REVALUATION METHOD OF INTANGIBLE ASSETS CAPITALISED UNDER GOVERNMENT INCENTIVES AND VALUED AT FAIR VALUES AT CAPITALISATION DATES

None.

### 5.1.13.8 NET BOOK VALUE OF INTANGIBLE ASSET THAT ARE RESTRICTED IN USAGE OR PLEDGED

None.

### 5.1.13.9 COMMITMENTS TO ACQUIRE INTANGIBLE ASSETS

None.

### 5.1.13.10 DISCLOSURE ON REVALUED INTANGIBLE ASSETS

None.

## 5.1.13.II RESEARCH AND DEVELOPMENT COSTS EXPENSED DURING CURRENT PERIOD

None.

## 5.1.13.I2 GOODWILL

None.

## 5.1.13.I3 MOVEMENTS IN GOODWILL DURING CURRENT PERIOD

None.

## 5.1.14 INVESTMENT PROPERTY

	CURRENT PERIOD	PRIOR PERIOD
<b>Net Book Value at Beginning Period</b>	<b>670,370</b>	<b>381,270</b>
Additions	4,746	231,273
Transfers to Tangible Assets	4,430	50,110
Fair Value Change	11,042	7,717
<b>Net Book Value at End of Current Period</b>	<b>690,588</b>	<b>670,370</b>

The investment property is held for operational leasing purposes.

## 5.1.15 DEFERRED TAX ASSET

As of 31 December 2017, the Bank has a deferred tax asset of TL 356,684 thousands (31 December 2016: TL 127,709 thousands) calculated as the net amount remaining after netting of tax deductible timing differences and taxable timing differences.

The Bank does not have any deferred tax assets on tax losses carried forward or tax deductions and exemptions as of 31 December 2017. However, there is a deferred tax asset of TL 640,025 thousands (31 December 2016: TL 407,822 thousands) and deferred tax liability of TL 283,341 thousands (31 December 2016: TL 280,113 thousands) presented as net in the accompanying financial statements on all taxable temporary differences arising between the carrying amounts and the taxable amounts of assets and liabilities on the financial statements that will be considered in the calculation of taxable earnings in the future periods.

For the cases where such differences are related with certain items on the shareholders' equity accounts, the deferred taxes are charged or credited directly to these accounts.

	CURRENT PERIOD		PRIOR PERIOD	
	TAX BASE	DEFERRED TAX AMOUNT	TAX BASE	DEFERRED TAX AMOUNT
Provisions (*)	1,268,109	262,529	944,764	188,953
Differences between the Carrying Values and Taxable Values of Financial Assets (**)	1,045,923	230,712	(506,334)	(115,638)
Revaluation Differences on Real Estates	(1,864,352)	(186,435)	(1,722,648)	(22,865)
Other	226,718	49,878	386,302	77,259
<b>Total Deferred Tax Asset, Net</b>	<b>676,398</b>	<b>356,684</b>	<b>(897,916)</b>	<b>127,709</b>

(\*) Consists of reserve for employee benefits, provision for promotion expenses of credit cards and other provisions.

(\*\*) Calculations are performed at the relevant tax rates applicable in the country of the foreign branches' financial assets.

As of 31 December 2017, TL 329,630 thousands of deferred tax income (31 December 2016: TL 338,418 thousands of deferred tax expense) and TL 101,516 thousands of deferred tax income (31 December 2016: TL 84,586 thousands of deferred tax expense) are recognised in the income statement and the shareholders' equity, respectively.



## 5.1.16 ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS

	CURRENT PERIOD	PRIOR PERIOD
<b>End of Prior Period</b>		
<b>Cost</b>	<b>606,380</b>	<b>356,160</b>
<b>Accumulated Depreciation (-)</b>	<b>(16,654)</b>	<b>(9,181)</b>
<b>Net Book Value</b>	<b>589,726</b>	<b>346,979</b>
<b>End of Current Period</b>		
Additions	309,218	335,793
Disposals (Cost)	(125,470)	(82,753)
Disposals (Accumulated Depreciation)	1,900	1,358
Impairment Losses (-)	54	(2,820)
Depreciation Expense for Current Period (-)	-	(8,831)
<b>Cost</b>	<b>790,182</b>	<b>606,380</b>
<b>Accumulated Depreciation (-)</b>	<b>(14,754)</b>	<b>(16,654)</b>
<b>Net Book Value</b>	<b>775,428</b>	<b>589,726</b>

As of balance sheet date, the net book values of assets held for sale on which rights of repurchase exist amounting to TL 471,433 thousands (31 December 2016: TL 359,660 thousands).

## 5.1.17 OTHER ASSETS

### 5.1.17.1 RECEIVABLES FROM TERM SALE OF ASSETS

	CURRENT PERIOD	PRIOR PERIOD
Sale of Investments in Associates, Affiliates and Joint Ventures	-	-
Sale of Real Estates	-	-
Sale of Financial Assets Available-for-Sale	20,394	16,670
Sale of Other Assets	1,136	2,305
<b>Total</b>	<b>21,530</b>	<b>18,975</b>

### 5.1.17.2 PREPAID EXPENSES, TAXES AND SIMILAR ITEMS

	CURRENT PERIOD	PRIOR PERIOD
Prepaid Expenses	866,958	477,898
Prepaid Taxes	-	-

## 5.1.18 ACCRUED INTEREST AND INCOME

The details of accrued interest and income allocated to the related items on the assets side of the balance sheet are as follows:

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Central Bank of Turkey	83,712	-	79,969	38
Financial Assets at Fair Value through Profit or Loss	2,273	189	19	599
Banks	2,120	12,662	3,611	21,752
Interbank Money Markets	-	-	-	1
Financial Assets Available-for-Sale	2,305,646	7,640	1,299,160	9,371
Loans	2,196,470	1,121,821	2,031,750	837,928
Investments Held-to-Maturity	3,436,933	137,842	2,302,531	127,299
Other Accruals	4,173	3,402	3,799	-
<b>Total</b>	<b>8,031,327</b>	<b>1,283,556</b>	<b>5,720,839</b>	<b>996,988</b>

# TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

Unconsolidated Financial Report as of and for the Year Ended 31 December 2017  
(Thousands of Turkish Lira (TL))

Convenience Translation  
of Financial Statements  
and Related Disclosures  
and Footnotes Originally  
Issued in Turkish

## 5.2 LIABILITIES

### 5.2.1 MATURITY PROFILE OF DEPOSITS

CURRENT PERIOD	DEMAND	7 DAYS NOTICE	UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	1 YEAR AND OVER	ACCUMULATING DEPOSIT ACCOUNTS	TOTAL
<b>Saving Deposits</b>	<b>10,899,855</b>	-	<b>2,591,208</b>	<b>42,834,706</b>	<b>1,876,797</b>	<b>589,939</b>	<b>803,336</b>	<b>4,104</b>	<b>59,599,945</b>
<b>Foreign Currency Deposits</b>	<b>21,383,545</b>	-	<b>7,035,070</b>	<b>45,574,240</b>	<b>2,282,354</b>	<b>3,175,778</b>	<b>9,426,930</b>	<b>53,388</b>	<b>88,931,305</b>
Residents in Turkey	20,494,963	-	6,870,179	42,503,373	1,614,303	1,478,046	952,124	52,147	73,965,135
Residents in Abroad	888,582	-	164,891	3,070,867	668,051	1,697,732	8,474,806	1,241	14,966,170
<b>Public Sector Deposits</b>	<b>539,397</b>	-	<b>2,151</b>	<b>23,704</b>	<b>5,309</b>	<b>10</b>	-	-	<b>570,571</b>
<b>Commercial Deposits</b>	<b>9,546,293</b>	-	<b>5,119,441</b>	<b>7,458,863</b>	<b>460,815</b>	<b>321,390</b>	<b>1,236,562</b>	-	<b>24,143,364</b>
<b>Other</b>	<b>240,019</b>	-	<b>138,566</b>	<b>1,351,057</b>	<b>93,816</b>	<b>406,570</b>	<b>2,247,113</b>	-	<b>4,477,141</b>
<b>Precious Metal Deposits</b>	<b>1,845,183</b>	-	<b>57,205</b>	<b>47,640</b>	<b>3,777</b>	<b>8,013</b>	<b>232,897</b>	-	<b>2,194,715</b>
<b>Bank Deposits</b>	<b>894,483</b>	-	<b>83,799</b>	<b>15,090</b>	<b>10,240</b>	<b>20,474</b>	<b>174,878</b>	-	<b>1,198,964</b>
Central Bank of Turkey	-	-	-	-	-	-	-	-	-
Domestic Banks	5,597	-	5,664	15,090	2,048	20,474	10,239	-	59,112
Foreign Banks	604,000	-	78,135	-	8,192	-	164,639	-	854,966
Special Financial Institutions	284,886	-	-	-	-	-	-	-	284,886
Other	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>45,348,775</b>	-	<b>15,027,440</b>	<b>97,305,300</b>	<b>4,733,108</b>	<b>4,522,174</b>	<b>14,121,716</b>	<b>57,492</b>	<b>181,116,005</b>

PRIOR PERIOD	DEMAND	7 DAYS NOTICE	UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	1 YEAR AND OVER	ACCUMULATING DEPOSIT ACCOUNTS	TOTAL
<b>Saving Deposits</b>	<b>9,362,638</b>	-	<b>3,519,154</b>	<b>39,387,584</b>	<b>523,583</b>	<b>360,800</b>	<b>470,517</b>	<b>4,046</b>	<b>53,628,322</b>
<b>Foreign Currency Deposits</b>	<b>15,943,064</b>	-	<b>5,585,618</b>	<b>41,555,186</b>	<b>1,796,018</b>	<b>5,229,260</b>	<b>9,800,564</b>	<b>56,941</b>	<b>79,966,651</b>
Residents in Turkey	15,250,673	-	5,462,031	39,058,254	1,582,659	1,059,641	1,085,221	55,783	63,554,262
Residents in Abroad	692,391	-	123,587	2,496,932	213,359	4,169,619	8,715,343	1,158	16,412,389
<b>Public Sector Deposits</b>	<b>493,327</b>	-	<b>72,724</b>	<b>27,688</b>	<b>116</b>	<b>4,994</b>	<b>24</b>	-	<b>598,873</b>
<b>Commercial Deposits</b>	<b>8,186,591</b>	-	<b>4,193,368</b>	<b>5,320,846</b>	<b>126,355</b>	<b>163,481</b>	<b>872,965</b>	-	<b>18,863,606</b>
<b>Other</b>	<b>212,836</b>	-	<b>140,766</b>	<b>1,023,250</b>	<b>52,904</b>	<b>447,810</b>	<b>553,501</b>	-	<b>2,431,067</b>
<b>Precious Metal Deposits</b>	<b>1,753,776</b>	-	-	<b>82,984</b>	<b>12,264</b>	<b>22,493</b>	<b>153,015</b>	-	<b>2,024,532</b>
<b>Bank Deposits</b>	<b>2,849,464</b>	-	<b>392,429</b>	<b>73,408</b>	<b>183,837</b>	<b>121,962</b>	<b>97,446</b>	-	<b>3,718,546</b>
Central Bank of Turkey	-	-	-	-	-	-	-	-	-
Domestic Banks	3,619	-	391,559	15,107	16,180	118,267	14,442	-	559,174
Foreign Banks	1,685,663	-	870	58,301	167,657	3,695	83,004	-	1,999,190
Special Financial Institutions	1,160,182	-	-	-	-	-	-	-	1,160,182
Other	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>38,801,696</b>	-	<b>13,904,059</b>	<b>87,470,946</b>	<b>2,695,077</b>	<b>6,350,800</b>	<b>11,948,032</b>	<b>60,987</b>	<b>161,231,597</b>

#### 5.2.1.1 SAVING DEPOSITS AND OTHER DEPOSIT ACCOUNTS INSURED BY SAVING DEPOSIT INSURANCE FUND

##### SAVING DEPOSITS COVERED BY DEPOSIT INSURANCE AND TOTAL AMOUNT OF DEPOSITS EXCEEDING INSURANCE COVERAGE LIMIT:

	COVERED BY DEPOSIT INSURANCE		OVER DEPOSIT INSURANCE LIMIT	
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD
Saving Deposits	29,036,944	27,807,137	30,090,207	25,449,970
Foreign Currency Saving Deposits	10,539,819	8,323,858	35,968,349	34,340,843
Other Saving Deposits	1,117,225	821,559	946,409	1,114,240
Deposits held at Foreign Branches Under Foreign Insurance Coverage	-	-	-	-
Deposits held at Off-Shore Branches Under Foreign Insurance Coverage	-	-	-	-

## 5.2.1.2 SAVING DEPOSITS AT DOMESTIC BRANCHES OF FOREIGN BANKS IN TURKEY UNDER THE COVERAGE OF FOREIGN INSURANCE

None.

## 5.2.1.3 SAVING DEPOSITS NOT COVERED BY INSURANCE LIMITS

	CURRENT PERIOD	PRIOR PERIOD
Deposits and Other Accounts held at Foreign Branches	1,009,774	860,876
Deposits and Other Accounts held by Shareholders and their Relatives	-	-
Deposits and Other Accounts of the Chairman and Members of Board of Directors, Chief Executive Officer, Senior Executive Officers and their Relatives	231,412	748,443
Deposits and Other Accounts held as Assets subject to the Crime defined in the Article 282 of the Turkish Criminal Code no. 5237 dated 26 September 2004	-	-
Deposits at Depository Banks established for Off-Shore Banking Activities in Turkey	-	-

## 5.2.2 NEGATIVE DIFFERENCES ON DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Forward transactions	173,801	30,817	242,659	61,117
Swap transactions	2,070,861	352,945	1,993,468	745,041
Futures	-	91	-	964
Options	114,525	9,690	372,549	80,824
Other	-	-	-	-
<b>Total</b>	<b>2,359,187</b>	<b>393,543</b>	<b>2,608,676</b>	<b>887,946</b>

## 5.2.3 FUNDS BORROWED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Central Bank of Turkey	-	685,843	-	1,880,102
Domestic Banks and Institutions	237,352	905,944	343,595	502,401
Foreign Banks, Institutions and Funds	505,231	38,470,453	1,778,067	35,782,203
<b>Total</b>	<b>742,583</b>	<b>40,062,240</b>	<b>2,121,662</b>	<b>38,164,706</b>

### 5.2.3.1 MATURITIES OF FUNDS BORROWED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Short-Term	231,700	1,188,679	341,819	2,452,722
Medium and Long-Term	510,883	38,873,561	1,779,843	35,711,984
<b>Total</b>	<b>742,583</b>	<b>40,062,240</b>	<b>2,121,662</b>	<b>38,164,706</b>

In accordance with TAS 39 paragraph 9, the Bank classified a part of borrowings obtained through securitisations amounting to USD 2,455,714,286, as financial liability at fair value through profit/loss at the initial recognition in order to eliminate the accounting mismatch. As of 31 December 2017, the accumulated credit risk change and the credit risk change recognised in the income statement amounted to TL 43,948 thousands and a loss of TL 398,191 thousands, respectively. The carrying value of the related financial liability amounted to TL 9,228,338 thousands, and the related current period loss amounted to TL 398,191 thousands.

## 5.2.3.2 DISCLOSURES FOR CONCENTRATION AREAS OF BANK'S LIABILITIES

The Bank finances its ordinary banking activities through deposits and funds borrowed. Its deposit structure has a balanced TL and foreign currency concentration. The Bank's other funding sources specifically consist of foreign currency funds borrowed from abroad, TL funds obtained through repurchase transactions, and TL and foreign currency securities issued.

## 5.2.4 OTHER EXTERNAL FUNDS

### 5.2.4.1 SECURITIES ISSUED

CURRENT PERIOD	TL		FC	
	SHORT-TERM	MEDIUM AND LONG-TERM	SHORT-TERM	MEDIUM AND LONG-TERM
Nominal	2,988,767	4,088,187	-	12,842,638
Cost	2,923,775	3,917,598	-	12,775,272
Carrying Value (*)	2,975,784	3,984,835	-	12,330,741

PRIOR PERIOD	TL		FC	
	SHORT-TERM	MEDIUM AND LONG-TERM	SHORT-TERM	MEDIUM AND LONG-TERM
Nominal	1,240,773	3,756,256	-	12,121,238
Cost	1,197,023	3,477,513	-	12,044,056
Carrying Value (*)	1,213,929	3,555,294	-	11,667,656

(\*) The Bank repurchased its own TL securities with a total face value of TL 111,041 thousands (31 December 2016: TL 107,896 thousands) and foreign currency securities with a total face value of USD 206,730,000 (31 December 2016: USD 206,730,000) and netted off such securities in the accompanying financial statements.

In accordance with TAS 39 paragraph 9, the Bank classified certain securities amounting to RON 34,500,000 as financial liability at fair value through profit/loss at the initial recognition in order to eliminate the accounting mismatch. As of 31 December 2017, the accumulated negative credit risks change, and the positive credit risk changes recognised in the income statement amounted to TL 908 thousands and TL 1,815 thousands. The carrying value of the related financial liability amounted to TL 34,983 thousands, and the related current period gains amounted to TL 1,898 thousands.

### 5.2.4.2 FUNDS PROVIDED THROUGH REPURCHASE TRANSACTIONS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
<b>Domestic Transactions</b>	<b>870,169</b>	<b>-</b>	<b>7,268,205</b>	<b>-</b>
Financial Institutions and Organizations	750,756	-	7,189,589	-
Other Institutions and Organizations	78,658	-	31,248	-
Individuals	40,755	-	47,368	-
<b>Foreign Transactions</b>	<b>296</b>	<b>189,433</b>	<b>2</b>	<b>-</b>
Financial Institutions and Organizations	-	189,433	-	-
Other Institutions and Organizations	-	-	-	-
Individuals	296	-	2	-
<b>Total</b>	<b>870,465</b>	<b>189,433</b>	<b>7,268,207</b>	<b>-</b>

### 5.2.4.3 MISCELLANEOUS PAYABLES

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Payables from credit card transactions	8,985,632	44,725	7,833,260	37,377
Other	504,349	439,190	358,186	859,316
<b>Total</b>	<b>9,489,981</b>	<b>483,915</b>	<b>8,191,446</b>	<b>896,693</b>

## 5.2.5 LEASE PAYABLES (NET)

### 5.2.5.1 FINANCIAL LEASE PAYABLES

	CURRENT PERIOD		PRIOR PERIOD	
	GROSS	NET	GROSS	NET
Up to 1 Year	5,123	5,358	16,612	15,406
1-4 Years	2,780	1,581	1,792	1,686
More than 4 Years	-	-	-	-
<b>Total</b>	<b>7,903</b>	<b>6,939</b>	<b>18,404</b>	<b>17,092</b>

### 5.2.5.2 OPERATIONAL LEASE AGREEMENTS

The operational leasing agreements are signed for some branches and ATM's. The agreements are prepared annually and annual rents are paid in advance and recorded as prepaid expense in "other assets". The Bank does not have any commitments arising on the existing operational lease agreements.

## 5.2.6 DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT

Derivative Financial Liabilities held for Risk Management	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Fair Value Hedges	6,227	171,764	26,671	231,062
Cash Flow Hedges	-	2,079	-	21,803
Net Foreign Investment Hedges	-	-	-	-
<b>Total</b>	<b>6,227</b>	<b>173,843</b>	<b>26,671</b>	<b>252,865</b>

## 5.2.7 PROVISIONS

### 5.2.7.1 GENERAL PROVISIONS

	CURRENT PERIOD	PRIOR PERIOD
<b>General Provision for</b>	<b>3,597,720</b>	<b>3,171,163</b>
Loans and Receivables in Group I	1,622,511	1,713,424
Loans and Receivables in Group II	1,367,940	869,171
Non-Cash Loans	368,498	359,927
Others	238,771	228,641

### 5.2.7.2 RESERVE FOR EMPLOYEE SEVERANCE INDEMNITY

	CURRENT PERIOD	PRIOR PERIOD
<b>Balances at Beginning of Period</b>	<b>341,657</b>	<b>296,776</b>
Provision for the Period	86,623	63,237
Actuarial Gain/Loss	21,806	7,804
Payments During the Period	(42,431)	(26,160)
<b>Balances at End of Period</b>	<b>407,655</b>	<b>341,657</b>

### 5.2.7.3 PROVISIONS FOR FOREIGN EXCHANGE DIFFERENCES ON FOREIGN CURRENCY INDEXED LOANS AND FINANCIAL LEASE RECEIVABLES

	CURRENT PERIOD	PRIOR PERIOD
Short-Term Loans	14,419	1,241
Medium and Long-Term Loans	2,800	270
<b>Total</b>	<b>17,219</b>	<b>1,511</b>

Foreign exchange differences on foreign currency indexed loans are netted with loans on the asset side.

## 5.2.7.4 PROVISIONS FOR NON-CASH LOANS THAT ARE NOT INDEMNIFIED OR CONVERTED INTO CASH

	CURRENT PERIOD	PRIOR PERIOD
Substandard Loans and Receivables - Limited Collectibility	16,649	27,731
Doubtful Loans and Receivables	13,593	22,716
Uncollectible Loans and Receivables	97,175	84,162
<b>Total</b>	<b>127,417</b>	<b>134,609</b>

## 5.2.7.5 OTHER PROVISIONS

### 5.2.7.5.1 GENERAL RESERVES FOR POSSIBLE LOSSES

	CURRENT PERIOD	PRIOR PERIOD
General Reserves for Possible Losses	1,160,000	300,000

### 5.2.7.5.2 OTHER PROVISIONS

	CURRENT PERIOD	PRIOR PERIOD
Reserve for Employee Benefits	852,817	679,871
Provision for Promotion Expenses of Credit Cards	107,272	95,340
Provision for Lawsuits (*)	243,791	53,174
Provision for Non-Cash Loans	127,417	134,609
Other Provisions (**)	217,637	179,847
<b>Total</b>	<b>1,548,934</b>	<b>1,142,841</b>

(\*) In the current period, a provision of EUR 33,000,000 is provided for the ongoing lawsuit against the Bank in Paris, which was disclosed in the Public Disclosure Platform on 20 September 2017.

(\*\*) In the current period, a provision of TL 33,887 thousands is allocated for the dormant "other temporary accounts" standing longer than a year within the scope of "TAS 37 Provisions, Contingent Liabilities and Contingent Assets" Standard.

### Recognized liability for defined benefit plan obligations

The Bank obtained an actuarial report dated 13 December 2017 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the Law and it is determined that the assets of the Plan are above the amount that will be required to be paid to transfer the obligation and the asset surplus amounts to TL 3,125,485 thousands (31 December 2016: TL 2,772,742 thousands) at 31 December 2017 as details are given in the table below.

Furthermore, an actuarial report was prepared as of 31 December 2017 as per the requirements of the Law explained in Note 3.17, the accounting policies related with "employee benefits" for the benefits transferable to the SSF and as per TAS 19 for other benefits not transferable to the SSF and arising from other social rights and payments covered by the existing trust indenture of the Fund and medical benefits provided for employees. Based on the actuary's 13 December 2017 dated report, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully covers the benefits not transferable and still a surplus of TL 1,198,065 thousands (31 December 2016: TL 1,482,852 thousands) remains as of 31 December 2017 as details are given in the table below.

The Bank's management, acting prudently, did not consider the health premium surplus amounting TL 551,028 thousands (31 December 2016: TL 531,665 thousands) as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF as of 31 December 2017. However, despite this treatment there are no excess obligation that needs to be provided against.

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	CURRENT PERIOD	PRIOR PERIOD
<b>Transferable Pension and Medical Benefits:</b>		
Net present value of pension benefits transferable to SSF	(989,677)	(770,448)
Net present value of medical benefits and health premiums transferable to SSF	551,028	531,665
General administrative expenses	(45,215)	(39,405)
<b>Present Value of Pension and Medical Benefits Transferable to SSF (1)</b>	<b>(483,864)</b>	<b>(278,188)</b>
<b>Fair Value of Plan Assets (2)</b>	<b>3,609,349</b>	<b>3,050,930</b>
<b>Asset Surplus over Transferable Benefits ((2)-(1)=(3))</b>	<b>3,125,485</b>	<b>2,772,742</b>
<b>Non-Transferable Benefits:</b>		
Other pension benefits	(846,997)	(662,751)
Other medical benefits	(1,080,423)	(627,139)
<b>Total Non-Transferable Benefits (4)</b>	<b>(1,927,420)</b>	<b>(1,289,890)</b>
<b>Asset Surplus over Total Benefits ((3)-(4)=(5))</b>	<b>1,198,065</b>	<b>1,482,852</b>
<b>Net Present Value of Medical Benefits and Health Premiums Transferable to SSF – but not considered acting prudently (6)</b>	<b>(551,028)</b>	<b>531,665</b>
<b>Present Value of Asset Surplus/(Defined Benefit Obligation) ((5)-(6))</b>	<b>647,037</b>	<b>951,187</b>

Movement of recognized liability for asset shortage over the Bank's defined benefit plan

	CURRENT PERIOD	PRIOR PERIOD
<b>Balance at Beginning of Period</b>	-	-
Actual contributions paid during the period	(71,463)	(63,291)
Total expense recognized in the income statement	44,052	36,552
Amount recognized in the shareholders' equity	27,411	26,739
<b>Balance at End of Period</b>	-	-

The major actuarial assumptions used in the calculation of other benefits not transferable to SSF in compliance with TAS 19 are as follows:

	CURRENT PERIOD	PRIOR PERIOD
	%	%
Discount Rate (*)	11.70	10.30
Inflation Rate (*)		11.50
Future Real Salary Increase Rate	8.40	7.80
Medical Cost Trend Rate	1.50	1.50
Future Pension Increase Rate (*)	50% above inflation	40% above inflation
	8.40	7.80

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

The sensitivity analysis of defined benefit obligation of excess liabilities and retirement indemnities are as follow:

DEFINED BENEFIT OBLIGATION	PENSION BENEFITS EFFECT	MEDICAL BENEFITS EFFECT	OVERALL EFFECT
Assumption change	%	%	
Discount rate +1%	(13.90)	(19.00)	(16.80)
Discount rate -1%	17.80	26.10	22.40
Medical inflation (+10% of CPI)	-	20.80	11.60
Medical inflation (-10% of CPI)	-	(16.20)	(9.10)

RETIREMENT INDEMNITIES	SENSITIVITY OF PAST SERVICE LIABILITY	SENSITIVITY OF NORMAL COST
Assumption change	%	%
Discount rate +1%	(12.20)	(16.30)
Discount rate -1%	14.80	20.40
Inflation rate +1%	14.40	20.00
Inflation rate -1%	(11.80)	(15.90)

## 5.2.8 TAX LIABILITY

### 5.2.8.1 CURRENT TAX LIABILITY

#### 5.2.8.1.1 TAX LIABILITY

As of 31 December 2017, the Bank had a current tax liability of TL 739,544 thousands (31 December 2016: TL 94,095 thousands) after offsetting with prepaid taxes.

#### 5.2.8.1.2 TAXES PAYABLE

	CURRENT PERIOD	PRIOR PERIOD
Corporate Taxes Payable	739,544	94,095
Taxation on Securities Income	131,422	122,010
Taxation on Real Estates Income	4,080	3,752
Banking Insurance Transaction Tax	149,122	114,846
Foreign Exchange Transaction Tax	89	86
Value Added Tax Payable	12,321	10,398
Others	47,413	66,639
<b>Total</b>	<b>1,083,991</b>	<b>411,826</b>

#### 5.2.8.1.3 PREMIUMS

	CURRENT PERIOD	PRIOR PERIOD
Social Security Premiums-Employees	61	51
Social Security Premiums-Employer	74	62
Bank Pension Fund Premium-Employees	25	21
Bank Pension Fund Premium-Employer	25	21
Pension Fund Membership Fees and Provisions-Employees	-	-
Pension Fund Membership Fees and Provisions-Employer	-	-
Unemployment Insurance-Employees	1,252	1,118
Unemployment Insurance-Employer	2,523	2,258
Others	27	27
<b>Total</b>	<b>3,987</b>	<b>3,558</b>

#### 5.2.8.2 DEFERRED TAX LIABILITY

None.

### 5.2.9 LIABILITIES FOR ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS

None.



## 5.2.10 SUBORDINATED DEBTS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Domestic Banks	-	-	-	-
Domestic Other Institutions	-	-	-	-
Foreign Banks	-	-	-	-
Foreign Other Institutions	-	2,849,471	-	-
<b>Total</b>	-	<b>2,849,471</b>	-	-

Disclosures on subordinated debts are reported in Note 4.1.2.

## 5.2.II SHAREHOLDERS' EQUITY

### 5.2.II.1 PAID-IN CAPITAL

	CURRENT PERIOD	PRIOR PERIOD
Common Shares	4,200,000	4,200,000
Preference Shares	-	-

### 5.2.II.2 REGISTERED SHARE CAPITAL SYSTEM

CAPITAL	PAID-IN CAPITAL	CEILING PER REGISTERED SHARE CAPITAL
Registered Shares	4,200,000	10,000,000

### 5.2.II.3 CAPITAL INCREASES IN CURRENT PERIOD

None.

### 5.2.II.4 CAPITAL INCREASES FROM CAPITAL RESERVES IN CURRENT PERIOD

None.

### 5.2.II.5 CAPITAL COMMITMENTS FOR CURRENT AND FUTURE FINANCIAL PERIODS

None.

### 5.2.II.6 POSSIBLE EFFECT OF ESTIMATIONS MADE FOR THE PARENT BANK'S REVENUES, PROFITABILITY AND LIQUIDITY ON EQUITY CONSIDERING PRIOR PERIOD INDICATORS AND UNCERTAINTIES

None.

### 5.2.II.7 INFORMATION ON PRIVILEGES GIVEN TO STOCKS REPRESENTING THE CAPITAL

None.

### 5.2.II.8 SECURITIES VALUE INCREASE FUND

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
<b>Investments in Associates, Affiliates and Joint-Ventures</b>	<b>1,754,416</b>	<b>136,482</b>	<b>1,115,043</b>	<b>18,255</b>
Valuation difference	1,754,416	136,482	1,115,043	18,255
Exchange rate difference	-	-	-	-
<b>Securities Available-for-Sale</b>	<b>(425,322)</b>	<b>55,176</b>	<b>(484,665)</b>	<b>(26,490)</b>
Valuation difference	(425,322)	55,176	(484,665)	(26,490)
Exchange rate difference	-	-	-	-
<b>Total</b>	<b>1,329,094</b>	<b>191,658</b>	<b>630,378</b>	<b>(8,235)</b>

## 5.2.II.9 REVALUATION SURPLUS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Movables	-	-	-	-
Real Estates	1,431,478	-	1,450,022	-
Gain on Sale of Investments in Associates and Affiliates and Real Estates allocated for Capital Increases	227,994	-	176,415	-
Revaluation Surplus on Leasehold Improvements	-	-	-	-

## 5.2.II.10 BONUS SHARES OF ASSOCIATES, AFFILIATES AND JOINT-VENTURES

	CURRENT PERIOD	PRIOR PERIOD
Garanti Yatırım Menkul Değerler AŞ	942	942
Kredi Kartları Bürosu AŞ	481	481
Garanti Ödeme Sistemleri AŞ	401	401
Tat Konserve AŞ	-	36
Doğuş Gayrimenkul Yatırım Ortaklığı AŞ	22	22
Yatırım Finansman Menkul Değerler AŞ	9	9
<b>Total</b>	<b>1,855</b>	<b>1,891</b>

## 5.2.II.11 LEGAL RESERVES

	CURRENT PERIOD	PRIOR PERIOD
I. Legal Reserve	961,534	960,320
II. Legal Reserve	349,840	245,840
Special Reserves	-	-

## 5.2.II.12 EXTRAORDINARY RESERVES

	CURRENT PERIOD	PRIOR PERIOD
Legal reserves that was allocated to be in compliance with the decisions made on the Annual General Assembly	25,659,125	21,972,914
Retained Earnings	-	-
Accumulated Losses	-	-
Exchange Rate Difference on Foreign Currency Capital	-	-

## 5.2.I2 ACCRUED INTEREST AND EXPENSES

The details of accrued interest and expenses allocated to the related items on the liability side of the balance sheet are as follows:

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Deposits	586,987	229,954	355,115	215,921
Funds Borrowed	15,075	229,028	87,549	156,634
Interbank Money Markets	13,295	1,073	6,092	-
Other Accruals	146,052	524,181	110,766	758,635
<b>Total</b>	<b>761,409</b>	<b>984,236</b>	<b>559,522</b>	<b>1,131,190</b>

## 5.3 OFF-BALANCE SHEET ITEMS

### 5.3.1 OFF-BALANCE SHEET CONTINGENCIES

#### 5.3.1.1 IRREVOCABLE CREDIT COMMITMENTS

The Bank has term asset purchase and sale commitments of TL 7,214,533 thousands (31 December 2016: TL 3,281,772 thousands), commitments for cheque payments of TL 3,797,901 thousands (31 December 2016: TL 3,555,087 thousands) and commitments for credit card limits of TL 29,021,192 thousands (31 December 2016: TL 27,849,612 thousands).

#### 5.3.1.2 POSSIBLE LOSSES, COMMITMENTS AND CONTINGENCIES RESULTED FROM OFF-BALANCE SHEET ITEMS

	CURRENT PERIOD	PRIOR PERIOD
Letters of Guarantee in Foreign Currency	19,534,558	20,378,358
Letters of Guarantee in TL	19,404,733	17,101,636
Letters of Credit	13,891,067	15,010,812
Bills of Exchange and Acceptances	1,550,650	2,127,334
Prefinancings	-	-
Other Guarantees	170,332	155,016
<b>Total</b>	<b>54,551,340</b>	<b>54,773,156</b>

A specific provision of TL 127,417 thousands (31 December 2016: TL 134,609 thousands) is made for unliquidated non-cash loans of TL 370,339 thousands (31 December 2016: TL 355,861 thousands) recorded under the off-balance sheet items.

The detailed information for commitments, guarantees and sureties are provided under the statement of "off-balance sheet items".

#### 5.3.1.3 NON-CASH LOANS

	CURRENT PERIOD	PRIOR PERIOD
Non-Cash Loans against Cash Risks	7,327,429	5,128,893
With Original Maturity of 1 Year or Less	644,377	331,380
With Original Maturity of More Than 1 Year	6,683,052	4,797,513
Other Non-Cash Loans	47,223,911	49,644,263
<b>Total</b>	<b>54,551,340</b>	<b>54,773,156</b>

#### 5.3.1.4 SECTORAL RISK CONCENTRATION OF NON-CASH LOANS

	CURRENT PERIOD				PRIOR PERIOD			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
<b>Agriculture</b>	<b>69,304</b>	<b>0.36</b>	<b>56,214</b>	<b>0.16</b>	<b>70,323</b>	<b>0.41</b>	<b>35,294</b>	<b>0.10</b>
Farming and Stockbreeding	58,351	0.30	42,554	0.12	59,983	0.35	24,619	0.07
Forestry	9,214	0.05	10,981	0.03	8,973	0.05	2,810	0.01
Fishery	1,739	0.01	2,679	0.01	1,367	0.01	7,865	0.02
<b>Manufacturing</b>	<b>5,509,578</b>	<b>28.37</b>	<b>17,451,653</b>	<b>49.68</b>	<b>4,388,090</b>	<b>25.62</b>	<b>17,478,679</b>	<b>46.43</b>
Mining and Quarrying	170,850	0.88	215,217	0.61	194,627	1.14	192,037	0.51
Production	3,013,861	15.52	13,398,195	38.14	2,432,210	14.20	12,714,045	33.77
Electricity, Gas, Water	2,324,867	11.97	3,838,241	10.93	1,761,253	10.28	4,572,597	12.15
<b>Construction</b>	<b>3,541,815</b>	<b>18.23</b>	<b>3,753,635</b>	<b>10.69</b>	<b>2,767,922</b>	<b>16.16</b>	<b>4,129,403</b>	<b>10.97</b>
<b>Services</b>	<b>8,857,539</b>	<b>45.61</b>	<b>12,337,562</b>	<b>35.12</b>	<b>8,578,393</b>	<b>50.07</b>	<b>13,853,148</b>	<b>36.80</b>
Wholesale and Retail Trade	5,966,692	30.72	7,497,467	21.34	5,889,557	34.38	8,725,717	23.18
Accommodation and Dining	232,237	1.20	509,408	1.45	236,345	1.38	297,645	0.79
Transportation and Telecommunication	738,939	3.80	1,401,543	3.99	601,547	3.51	1,649,457	4.38

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Financial Institutions	1,502,741	7.74	2,644,788	7.53	1,442,429	8.42	2,928,416	7.78
Real Estate and Rental Services	224,964	1.16	222,647	0.63	251,658	1.47	221,317	0.59
Professional Services	-	-	-	-	-	-	-	-
Educational Services	25,522	0.13	1,015	-	24,350	0.14	3,531	0.01
Health and Social Services	166,444	0.86	60,694	0.17	132,507	0.77	27,065	0.07
<b>Others</b>	<b>1,445,568</b>	<b>7.43</b>	<b>1,528,472</b>	<b>4.35</b>	<b>1,324,754</b>	<b>7.74</b>	<b>2,147,150</b>	<b>5.70</b>
<b>Total</b>	<b>19,423,804</b>	<b>100.00</b>	<b>35,127,536</b>	<b>100.00</b>	<b>17,129,482</b>	<b>100.00</b>	<b>37,643,674</b>	<b>100.00</b>

## 5.3.I.5 NON-CASH LOANS CLASSIFIED UNDER GROUP I AND II

CURRENT PERIOD	GROUP I		GROUP II	
	TL	FC	TL	FC
<b>Non-Cash Loans</b>	<b>19,020,240</b>	<b>34,496,599</b>	<b>403,564</b>	<b>630,937</b>
Letters of Guarantee	19,001,169	19,092,052	403,564	442,506
Bills of Exchange and Bank Acceptances	14,273	1,536,377	-	-
Letters of Credit	4,798	13,697,838	-	188,431
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other Guarantees and Surities	-	170,332	-	-

PRIOR PERIOD	GROUP I		GROUP II	
	TL	FC	TL	FC
<b>Non-Cash Loans</b>	<b>16,912,826</b>	<b>36,802,927</b>	<b>216,656</b>	<b>840,747</b>
Letters of Guarantee	16,884,980	19,713,157	216,656	665,201
Bills of Exchange and Bank Acceptances	27,846	2,099,488	-	-
Letters of Credit	-	14,835,266	-	175,546
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other Guarantees and Surities	-	155,016	-	-

## 5.3.2 FINANCIAL DERIVATIVE INSTRUMENTS

CURRENT PERIOD	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER	TOTAL
<b>Derivative Financial Instruments held for Risk Management</b>						
<b>A. Total Derivative Financial Instruments held for Risk Management</b>	<b>57,218</b>	<b>75,516</b>	<b>4,909,643</b>	<b>23,804,155</b>	<b>11,182,973</b>	<b>40,029,505</b>
Fair Value Hedges	-	-	1,439,191	7,691,889	7,238,464	16,369,544
Cash Flow Hedges	57,218	75,516	3,470,452	16,112,266	3,944,509	23,659,961
Net Foreign Investment Hedges	-	-	-	-	-	-
<b>Trading Derivatives</b>						
<b>Foreign Currency related Derivative Transactions (I)</b>	<b>142,262,557</b>	<b>54,133,652</b>	<b>54,335,561</b>	<b>3,865,472</b>	<b>145,843</b>	<b>254,743,085</b>
Currency Forwards-Purchases	9,779,015	3,316,845	3,009,953	623,545	-	16,729,358
Currency Forwards-Sales	9,801,560	3,322,793	3,091,290	696,561	-	16,912,204
Currency Swaps-Purchases	58,989,694	20,433,707	18,773,237	1,107,479	72,182	99,376,299
Currency Swaps-Sales	54,303,076	20,617,972	19,104,290	1,018,937	73,661	95,117,936
Currency Options-Purchases	4,580,437	3,181,984	5,112,068	192,500	-	13,066,989
Currency Options-Sales	4,801,114	3,225,621	5,164,430	226,450	-	13,417,615
Currency Futures-Purchases	3,931	7,066	37,758	-	-	48,755
Currency Futures-Sales	3,730	27,664	42,535	-	-	73,929
<b>Interest Rate related Derivative Transactions (II)</b>	<b>60,000</b>	<b>18,879</b>	<b>5,137,249</b>	<b>17,834,188</b>	<b>22,169,602</b>	<b>45,219,918</b>
Interest Rate Swaps-Purchases	30,000	-	1,351,963	5,671,198	10,429,017	17,482,178
Interest Rate Swaps-Sales	30,000	-	1,351,963	5,671,198	10,429,017	17,482,178
Interest Rate Options-Purchases	-	-	2,433,323	5,502,795	1,311,568	9,247,686
Interest Rate Options-Sales	-	-	-	988,997	-	988,997
Securities Options-Purchases	-	-	-	-	-	-
Securities Options-Sales	-	-	-	-	-	-
Interest Rate Futures-Purchases	-	-	-	-	-	-
Interest Rate Futures-Sales	-	18,879	-	-	-	18,879
<b>Other Trading Derivatives (III)</b>	<b>5,351,180</b>	<b>58,816</b>	<b>52,208</b>	<b>2,611,040</b>	<b>6,742,500</b>	<b>14,815,744</b>
<b>B. Total Trading Derivatives (I+II+III)</b>	<b>147,673,737</b>	<b>54,211,347</b>	<b>59,525,018</b>	<b>24,310,700</b>	<b>29,057,945</b>	<b>314,778,747</b>
<b>Total Derivative Transactions (A+B)</b>	<b>147,730,955</b>	<b>54,286,863</b>	<b>64,434,661</b>	<b>48,114,855</b>	<b>40,240,918</b>	<b>354,808,252</b>

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PRIOR PERIOD	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER	TOTAL
<b>Derivative Financial Instruments held for Risk Management</b>						
<b>A. Total Derivative Financial Instruments held for Risk Management</b>	-	<b>80,000</b>	<b>1,500,547</b>	<b>19,041,969</b>	<b>13,912,929</b>	<b>34,535,445</b>
Fair Value Hedges	-	80,000	500,547	9,119,275	9,590,333	19,290,155
Cash Flow Hedges	-	-	1,000,000	9,922,694	4,322,596	15,245,290
Net Foreign Investment Hedges	-	-	-	-	-	-
<b>Trading Derivatives</b>						
<b>Foreign Currency related Derivative Transactions (I)</b>	<b>112,982,256</b>	<b>45,942,375</b>	<b>55,050,292</b>	<b>8,490,852</b>	-	<b>222,465,775</b>
Currency Forwards-Purchases	7,727,483	2,486,686	2,824,657	772,388	-	13,811,214
Currency Forwards-Sales	7,712,360	2,427,200	2,875,583	785,068	-	13,800,211
Currency Swaps-Purchases	40,085,771	15,670,209	16,004,366	2,189,473	-	73,949,819
Currency Swaps-Sales	39,802,745	15,711,078	15,823,773	2,378,007	-	73,715,603
Currency Options-Purchases	8,663,673	4,678,793	8,465,924	1,143,233	-	22,951,623
Currency Options-Sales	8,990,224	4,828,242	9,042,572	1,222,683	-	24,083,721
Currency Futures-Purchases	-	72,411	8,720	-	-	81,131
Currency Futures-Sales	-	67,756	4,697	-	-	72,453
<b>Interest Rate related Derivative Transactions (II)</b>	<b>10,624</b>	<b>117,305</b>	<b>6,146,838</b>	<b>17,917,866</b>	<b>18,424,620</b>	<b>42,617,253</b>
Interest Rate Swaps-Purchases	42	337	3,073,419	6,238,093	8,547,633	17,859,524
Interest Rate Swaps-Sales	42	337	3,073,419	6,238,093	8,547,633	17,859,524
Interest Rate Options-Purchases	-	-	-	4,598,560	1,329,354	5,927,914
Interest Rate Options-Sales	-	-	-	843,120	-	843,120
Securities Options-Purchases	5,270	8,255	-	-	-	13,525
Securities Options-Sales	5,270	8,255	-	-	-	13,525
Interest Rate Futures-Purchases	-	-	-	-	-	-
Interest Rate Futures-Sales	-	100,121	-	-	-	100,121
<b>Other Trading Derivatives (III)</b>	<b>170,236</b>	<b>672,615</b>	<b>693,095</b>	<b>1,945,734</b>	<b>5,269,501</b>	<b>8,751,181</b>
<b>B. Total Trading Derivatives (I+II+III)</b>	<b>113,163,116</b>	<b>46,732,295</b>	<b>61,890,225</b>	<b>28,354,452</b>	<b>23,694,121</b>	<b>273,834,209</b>
<b>Total Derivative Transactions (A+B)</b>	<b>113,163,116</b>	<b>46,812,295</b>	<b>63,390,772</b>	<b>47,396,421</b>	<b>37,607,050</b>	<b>308,369,654</b>

## 5.3.3 CREDIT DERIVATIVES AND RISK EXPOSURES ON CREDIT DERIVATIVES

As of 31 December 2017, there are total return swaps of the Bank with a total face value of USD 2,455,714,286 (31 December 2016: USD 2,000,000,000) classified under "other derivative financial instruments", where the Bank is on the selling side of the protection.

## 5.3.4 CONTINGENT LIABILITIES AND ASSETS

The Bank made a total provision amounting to TL 243,791 thousands (31 December 2016: TL 53,174 thousands) for the lawsuits filed by various customers and institutions against the Bank which are likely to occur and for which cash outflow might be necessary, and disclosed it under Note 5.2.7.5.2, other provisions. The Bank has various other lawsuits which are unlikely to occur and for which cash outflow is not expected to incur.

It is possible that the Bank may be required to provide additional collateral for the derivative transactions involved due to changes in certain financial indicators such as CDS levels, currency exchange rates, interest rates etc. As of 31 December 2017, there was no payment made related with such contingent liabilities.

## 5.3.5 SERVICES RENDERED ON BEHALF OF THIRD PARTIES

The Bank acts as an investment agent for banking transactions on behalf of its customers and provides custody services. Such transactions are followed under off-balance sheet accounts.

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## 5.4 INCOME STATEMENT

### 5.4.1 INTEREST INCOME

#### 5.4.1.1 INTEREST INCOME FROM LOANS (\*)

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Short-term loans	5,360,099	244,394	5,061,808	170,849
Medium and long-term loans	11,869,730	3,523,631	8,295,879	3,186,033
Loans under follow-up	96,457	-	68,875	-
Premiums Received from Resource Utilization Support Fund	-	-	-	-
<b>Total</b>	<b>17,326,286</b>	<b>3,768,025</b>	<b>13,426,562</b>	<b>3,356,882</b>

(\*) Includes also the fee and commission income on cash loans

#### 5.4.1.2 INTEREST INCOME FROM BANKS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Central Bank of Turkey	183,942	40,641	-	16,194
Domestic Banks	12,780	291	16,929	410
Foreign Banks	2,965	63,487	2,374	53,629
Foreign Head Offices and Branches	-	-	-	-
<b>Total</b>	<b>199,687</b>	<b>104,419</b>	<b>19,303</b>	<b>70,233</b>

#### 5.4.1.3 INTEREST INCOME FROM SECURITIES PORTFOLIO

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Financial Assets Held for Trading	35,212	2,066	15,517	1,944
Financial Assets Valued at Fair Value through Profit or Loss	-	-	-	-
Financial Assets Available-for-Sale	2,373,490	91,292	1,799,474	104,163
Investments Held-to-Maturity	1,599,271	631,152	1,110,089	546,080
<b>Total</b>	<b>4,007,973</b>	<b>724,510</b>	<b>2,925,080</b>	<b>652,187</b>

As disclosed in the accounting policies, the Bank values CPI-indexed government bonds in its securities portfolio according to the reference index on the issue date and the index that is calculated according to the expected inflation rate. The inflation rate used during the valuation is being updated during the year when it is considered necessary. As of 31 December 2017, the valuation of such securities was made according to annual inflation as a balance sheet date.

#### 5.4.1.4 INTEREST INCOME RECEIVED FROM ASSOCIATES AND AFFILIATES

	CURRENT PERIOD	PRIOR PERIOD
Interest Received from Investments in Associates and Affiliates	75,698	38,427

## 5.4.2 INTEREST EXPENSES

### 5.4.2.1 INTEREST EXPENSES ON FUNDS BORROWED (\*)

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
<b>Banks</b>	<b>111,204</b>	<b>570,947</b>	<b>223,254</b>	<b>422,426</b>
Central Bank of Turkey	-	289	-	-
Domestic Banks	20,147	11,308	20,278	6,816
Foreign Banks	91,057	559,350	202,976	415,610
Foreign Head Offices and Branches	-	-	-	-
<b>Other Institutions</b>	<b>-</b>	<b>454,323</b>	<b>-</b>	<b>299,374</b>
<b>Total</b>	<b>111,204</b>	<b>1,025,270</b>	<b>223,254</b>	<b>721,800</b>

(\*) Includes also the fee and commission expenses on borrowings

### 5.4.2.2 INTEREST EXPENSES PAID TO ASSOCIATES AND AFFILIATES

	CURRENT PERIOD	PRIOR PERIOD
Interest Paid to Investments in Associates and Affiliates	139,017	81,420

### 5.4.2.3 INTEREST EXPENSES ON SECURITIES ISSUED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Interest Paid on Securities Issued	650,877	787,587	432,604	531,696

### 5.4.2.4 MATURITY STRUCTURE OF INTEREST EXPENSE ON DEPOSITS

ACCOUNT DESCRIPTION	CURRENT PERIOD DEMAND DEPOSITS	TIME DEPOSITS					ACCUMULATING DEPOSIT ACCOUNTS	TOTAL
		UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	1 YEAR AND OVER		
<b>Turkish Lira</b>								
Bank Deposits	990	105,486	-	-	-	-	-	106,476
Saving Deposits	48	219,953	4,368,920	142,877	38,301	61,578	-	4,831,677
Public Sector Deposits	-	1,808	2,800	376	261	1	-	5,246
Commercial Deposits	81	564,310	868,337	31,643	52,016	96,286	-	1,612,673
Other	4	17,708	94,131	19,304	23,829	147,150	-	302,126
"7 Days Notice" Deposits	-	-	-	-	-	-	-	-
<b>Total TL</b>	<b>1,123</b>	<b>909,265</b>	<b>5,334,188</b>	<b>194,200</b>	<b>114,407</b>	<b>305,015</b>	<b>-</b>	<b>6,858,198</b>
<b>Foreign Currency</b>								
Foreign Currency Deposits	19	86,742	987,520	55,880	116,997	247,794	779	1,495,731
Bank Deposits	-	17,827	-	-	-	-	-	17,827
"7 Days Notice" Deposits	-	-	-	-	-	-	-	-
Precious Metal Deposits	-	13	42	-	16	4,020	-	4,091
<b>Total FC</b>	<b>19</b>	<b>104,582</b>	<b>987,562</b>	<b>55,880</b>	<b>117,013</b>	<b>251,814</b>	<b>779</b>	<b>1,517,649</b>
<b>Grand Total</b>	<b>1,142</b>	<b>1,013,847</b>	<b>6,321,750</b>	<b>250,080</b>	<b>231,420</b>	<b>556,829</b>	<b>779</b>	<b>8,375,847</b>



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PRIOR PERIOD ACCOUNT DESCRIPTION	DEMAND DEPOSITS	TIME DEPOSITS					ACCUMULATING DEPOSIT ACCOUNTS	TOTAL
		UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	1 YEAR AND OVER		
<b>Turkish Lira</b>								
Bank Deposits	1,093	251,424	-	-	-	-	-	252,517
Saving Deposits	45	244,786	3,700,535	87,873	39,154	48,930	-	4,121,323
Public Sector Deposits	-	890	4,680	11	86	2	-	5,669
Commercial Deposits	42	327,543	599,974	47,201	24,968	74,107	-	1,073,835
Other	9	12,739	81,804	11,671	65,656	29,683	-	201,562
"7 Days Notice" Deposits	-	-	-	-	-	-	-	-
<b>Total TL</b>	<b>1,189</b>	<b>837,382</b>	<b>4,386,993</b>	<b>146,756</b>	<b>129,864</b>	<b>152,722</b>	<b>-</b>	<b>5,654,906</b>
<b>Foreign Currency</b>								
Foreign Currency Deposits	240	59,078	722,519	46,276	97,238	285,142	825	1,211,318
Bank Deposits	-	15,601	-	-	-	-	-	15,601
"7 Days Notice" Deposits	-	-	-	-	-	-	-	-
Precious Metal Deposits	-	-	69	11	32	1,382	-	1,494
<b>Total FC</b>	<b>240</b>	<b>74,679</b>	<b>722,588</b>	<b>46,287</b>	<b>97,270</b>	<b>286,524</b>	<b>825</b>	<b>1,228,413</b>
<b>Grand Total</b>	<b>1,429</b>	<b>912,061</b>	<b>5,109,581</b>	<b>193,043</b>	<b>227,134</b>	<b>439,246</b>	<b>825</b>	<b>6,883,319</b>

## 5.4.2.5 INTEREST EXPENSE ON REPURCHASE AGREEMENTS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Interest Paid on Repurchase Agreements	1,147,506	17,939	969,896	28,657

## 5.4.2.6 FINANCIAL LEASE EXPENSES

	CURRENT PERIOD	PRIOR PERIOD
Financial Lease Expenses	1,295	2,132

## 5.4.2.7 INTEREST EXPENSES ON FACTORING PAYABLES

None.

## 5.4.3 DIVIDEND INCOME

	CURRENT PERIOD	PRIOR PERIOD
Trading Financial Assets	-	-
Financial Assets Valued at Fair Value through Profit or Loss	-	-
Financial Assets Available-for-Sale	2,116	966
Others	4,757	5,936
<b>Total</b>	<b>6,873</b>	<b>6,902</b>

## 5.4.4 TRADING INCOME/LOSSES (NET)

	CURRENT PERIOD	PRIOR PERIOD
<b>Income</b>	<b>60,495,638</b>	<b>75,155,487</b>
Trading Account Income	257,805	564,189
Gains from Derivative Financial Instruments	9,151,286	10,269,269
Foreign Exchange Gains	51,086,547	64,322,029
<b>Losses (-)</b>	<b>62,411,669</b>	<b>75,946,728</b>
Trading Account Losses	645,016	274,162
Losses from Derivative Financial Instruments	12,381,889	11,011,854
Foreign Exchange Losses	49,384,764	64,660,712
<b>Total</b>	<b>(1,916,031)</b>	<b>(791,241)</b>

TL 4,455,305 thousands (31 December 2016: TL 3,262,341 thousands) of foreign exchange gains and TL 3,169,253 thousands (31 December 2016: TL 3,879,841 thousands) of foreign exchange losses are resulted from the exchange rate changes of derivative financial transactions.

The Bank 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 Bank applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of USD 500,000,000, maturity of 10 years and maturity date of 20 April 2021 which were priced at 6.375% originally and had a coupon rate of 6.25%, by designating interest rate swaps with the same face values and terms. 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 TAS 39.

The Bank also enters into interest rate and cross currency swap 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 Bank applied cash flow hedge accounting for funds borrowed amounting to USD 63,861,622 and EUR 34,210,526 securitization borrowings amounting to USD 43,750,000 and EUR 104,794,733 and commitments amounting to USD 7,857,183 by designating cross currency swaps with the same face values and terms, and eurobonds with a total nominal value of USD 10,000,000, the collateralised borrowings amounting to USD 250,000,000, borrowings amounting to USD 650,000,000, securitizations amounting to USD 755,121,951 and EUR 90,000,000 and deposits amounting to TL 50,000 thousands, USD 955,000,000 and EUR 136,473,684 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, gains of TL 47,621 thousands (31 December 2016: TL 46,482 thousands) and TL 93,010 thousands (31 December 2016: TL 39,553 thousands) resulting from cross currency and interest rate swap agreements were recognised under shareholders' equity, respectively.

The Bank also applied fair value hedge accounting for its fixed-rate loans with a total principal of TL 1,876,938 thousands, USD 957,763,108 and EUR 225,212,078, for its bonds with a total face value of TL 855,000 thousands and USD 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, losses of TL 51,347 thousands (31 December 2016: a gain of TL 492 thousands) and TL 19,552 thousands (31 December 2016: TL 14,515 thousands) resulted from the related fair value calculations for the hedged loans and bonds were accounted for under net trading income/losses in the income statement, respectively.

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 3,527 thousands (31 December 2016: TL 13,071 thousands) 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 income statement.

## 5.4.5 OTHER OPERATING INCOME

The items under "other operating income" generally consists of collection or reversals of prior year provisions, banking services related costs recharged to customers, fair value increase of investment property and income on custody services.

In the current period, a part of non-performing receivables of the Bank amounting to TL 865,748 thousands were sold for a consideration of TL 56,015 thousands. Considering the related provision of TL 854,989 thousands made in the financial statements, a gain of TL 45,256 thousands is recognized under "Other Operating Income".

## 5.4.6 PROVISION FOR LOSSES ON LOANS OR OTHER RECEIVABLES

	CURRENT PERIOD	PRIOR PERIOD
<b>Specific Provisions for Loans and Other Receivables</b>	<b>1,605,865</b>	<b>2,366,782</b>
Loans and Receivables in Group III	530,087	420,692
Loans and Receivables in Group IV	579,386	1,127,274
Loans and Receivables in Group V	496,392	818,816
<b>General Provisions</b>	<b>422,935</b>	<b>161,626</b>
<b>Provision for Possible Losses</b>	<b>860,000</b>	<b>100,000</b>
<b>Impairment Losses on Securities</b>	-	<b>19</b>
Financial Assets at Fair Value through Profit or Loss	-	19
Financial Assets Available-for-Sale	-	-
<b>Impairment Losses on Associates, Affiliates and Investments Held-to-Maturity</b>	-	-
Associates	-	-
Affiliates	-	-
Joint Ventures	-	-
Investments Held-to-Maturity	-	-
<b>Others</b>	<b>271,528</b>	<b>186,437</b>
<b>Total</b>	<b>3,160,328</b>	<b>2,814,864</b>

## 5.4.7 OTHER OPERATING EXPENSES

	CURRENT PERIOD	PRIOR PERIOD
Personnel Costs	2,716,304	2,466,135
Reserve for Employee Termination Benefits	44,191	37,077
Defined Benefit Obligation	-	-
Impairment Losses on Tangible Assets	-	-
Depreciation Expenses of Tangible Assets	251,800	212,422
Impairment Losses on Intangible Assets	-	-
Impairment Losses on Goodwill	-	-
Amortisation Expenses of Intangible Assets	61,575	52,994
Impairment Losses on Investments Accounted under Equity Method	-	-
Impairment Losses on Assets to be Disposed	-	2,820
Depreciation Expenses of Assets to be Disposed	-	8,831
Impairment Losses on Assets Held for Sale	-	-
Other Operating Expenses	2,831,949	2,638,821
Operational Lease related Expenses	426,713	391,615
Repair and Maintenance Expenses	50,738	58,260
Advertisement Expenses	191,482	178,677
Other Expenses (*)	2,163,016	2,010,269
Loss on Sale of Assets	12,372	1,494
Others (**)	599,458	697,944
<b>Total</b>	<b>6,517,649</b>	<b>6,118,538</b>

(\*) Includes lawsuits, execution and other legal expenses borne by the Bank, of fees and commissions income recognized in prior years but reimbursed, in the amount of TL 30,715 thousands (31 December 2016: TL 56,209 thousands), as per the decision of the Turkish Competition Board or the related courts.

(\*\*) Includes repayments, by the Bank in the current period, of fees and commissions income recognized in prior years in the amount of TL 31,330 thousands (31 December 2016: TL 110,146 thousands), as per the decision of the Turkish Competition Board or the related courts.

## 5.4.8 INFORMATION ON PROFIT/LOSS BEFORE TAXES FROM CONTINUED AND DISCONTINUED OPERATIONS

The profit before taxes includes a net interest income of TL 14,468,350 thousands (31 December 2016: TL 11,096,942 thousands), a net fees and commissions income of TL 3,680,204 thousands (31 December 2016: TL 3,151,738 thousands) and operating expenses of TL 6,517,649 thousands (31 December 2016: TL 6,118,538 thousands). The Bank's profit before taxes realized at TL 8,151,324 thousands (31 December 2016: TL 6,293,438 thousands) increasing by 29.52% as compared to prior year.

## 5.4.9 INFORMATION ON PROVISION FOR TAXES FROM CONTINUED AND DISCONTINUED OPERATIONS

As of 31 December 2017, the Bank recorded a tax charge of TL 2,137,034 thousands (31 December 2016: TL 884,471 thousands) and a deferred tax income of TL 329,630 thousands (31 December 2016: a deferred tax expense of TL 338,418 thousands).

Deferred tax benefit/charge on timing differences:

Deferred tax benefit/(charge) on timing differences	CURRENT PERIOD	PRIOR PERIOD
Increase in tax deductible timing differences (+)	288,325	59,516
Decrease in tax deductible timing differences (-)	(53,559)	(240,479)
Increase in taxable timing differences (-)	(93,165)	(169,619)
Decrease in taxable timing differences (+)	188,029	12,164
<b>Total</b>	<b>329,630</b>	<b>(338,418)</b>

Deferred tax benefit/charge in the income statement arising on timing differences, tax losses and tax deductions and exemptions:

Deferred tax benefit/(charge) arising on timing differences, tax losses and tax deductions and exemptions	CURRENT PERIOD	PRIOR PERIOD
Increase/(decrease) in tax deductible timing differences (net)	234,766	(180,963)
Increase/(decrease) in taxable timing differences (net)	94,864	(157,455)
Increase/(decrease) in tax losses (net)	-	-
Increase/(decrease) in tax deductions and exemptions (net)	-	-
<b>Total</b>	<b>329,630</b>	<b>(338,418)</b>

## 5.4.10 NET OPERATING PROFIT/LOSS AFTER TAXES INCLUDING NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS

None.

## 5.4.11 NET PROFIT/LOSS

### 5.4.11.1 ANY FURTHER EXPLANATION ON OPERATING RESULTS NEEDED FOR BETTER UNDERSTANDING OF THE BANK'S PERFORMANCE

None.

### 5.4.11.2 ANY CHANGES IN ESTIMATIONS THAT MIGHT HAVE A MATERIAL EFFECT ON CURRENT AND SUBSEQUENT PERIOD RESULTS

None.

## 5.4.12 COMPONENTS OF OTHER ITEMS IN INCOME STATEMENT

The items in others under "Fees and commissions received" and "Fees and commissions paid" in the income statement include mainly fees and commissions related with credit card transactions and other banking services.

## 5.5 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

### 5.5.1 ANY INCREASES ARISING FROM APPLICATION OF ACCOUNTING FOR FINANCIAL INSTRUMENTS

#### 5.5.1.1 INCREASES FROM VALUATION OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

None.

#### 5.5.1.2 INCREASES DUE TO CASH FLOW HEDGES

The Bank enters into swap contracts to convert variable interest rates on its borrowings to fixed interest rates for cash flow hedging purposes. After netting with the related deferred tax effect, an increase of TL 41,079 thousands (31 December 2016: TL 9,473 thousands) is presented in the shareholders' equity for such hedges assessed as effective.

#### 5.5.1.3 RECONCILIATION OF FOREIGN EXCHANGE DIFFERENCES AT BEGINNING AND END OF CURRENT PERIOD

An increase of TL 688,571 thousands (31 December 2016: TL 497,265 thousands) that was resulted from the foreign currency translation of the Bank, is presented under translation differences in the shareholders' equity.

### 5.5.2 ANY DECREASES ARISING FROM APPLICATION OF ACCOUNTING FOR FINANCIAL INSTRUMENTS

#### 5.5.2.1 DECREASES FROM VALUATION OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

As of 31 December 2017, an increase of TL 89,051 thousands (31 December 2016: a decrease of TL 135,618 thousands) resulted from the revaluation of financial assets available-for-sale at fair value after being netted with the related deferred tax liability effect and a gain of TL 51,958 thousands (31 December 2016: a loss of TL 158,603 thousands) that was transferred to the income statement from "securities value increase fund" are presented as the current period movements in securities value increase fund in the statement of changes in shareholders' equity.

## 5.5.2.2 DECREASES DUE TO CASH FLOW HEDGES

None.

## 5.5.3 TRANSFERS TO LEGAL RESERVES

	CURRENT PERIOD	PRIOR PERIOD
Transfers to Legal Reserves from Prior Year Profits	104,000	35,700
Transfers to Extraordinary Reserves from Prior Year Profits	3,488,938	2,799,084

## 5.5.4 ISSUANCE OF SHARE CERTIFICATES

Please refer to Note 5.2.11.3.

## 5.5.5 EFFECTS OF PRIOR YEARS' CORRECTIONS TO BEGINNING BALANCES OF CURRENT PERIOD

Please refer to Note 3.24.

## 5.5.6 COMPENSATION OF PRIOR PERIOD LOSSES

None.

## 5.6 STATEMENT OF CASH FLOWS

### 5.6.1 DISCLOSURES FOR "OTHER" ITEMS AND "EFFECT OF CHANGE IN FOREIGN CURRENCY RATES CASH AND CASH EQUIVALENTS" IN STATEMENT OF CASH FLOWS

The net cash outflow arising from banking operations amount to TL 4,205,208 thousands (31 December 2016: a net cash inflow of TL 2,849,403 thousands). TL 10,739,782 thousands (31 December 2016: TL 1,920,647 thousands) of this amount is generated from the cash outflows resulted from the change in operating assets and liabilities and TL 6,534,574 thousands (31 December 2016: TL 4,770,050 thousands) from the cash inflows resulted from operating profit. The "net increase/(decrease) in other liabilities" under the changes in operating assets and liabilities is resulted from the changes in the funds obtained through repurchase agreements, miscellaneous payables, other external funding payables and taxes, duties and premiums payables and amounts to a net inflow of TL 1,005,340 thousands (31 December 2016: a net outflow of TL 170,892 thousands). The "others" item under operating income composes of fees and commissions paid, foreign exchange gains, other operating income and other operating expenses excluding employee costs, and amounts to TL 3,348,145 thousands (31 December 2016: TL 3,557,507 thousands).

The net cash inflows from financing activities is TL 4,401,577 thousands (31 December 2016: a net cash outflows of TL 305,466 thousands).

The effect of changes in foreign exchange rates on cash and cash equivalents includes the foreign exchange differences resulted from the translations of cash and cash equivalents in foreign currencies into TL at the exchange rates prevailing at the beginning and end of the year, and amounts to TL 592,678 thousands (31 December 2016: TL 762,550 thousands).

### 5.6.2 CASH OUTFLOWS FROM ACQUISITION OF ASSOCIATES, SUBSIDIARIES AND JOINT-VENTURES

Please refer to Note 5.1.8.2 of investments in subsidiaries.

### 5.6.3 CASH INFLOWS FROM DISPOSAL OF ASSOCIATES, SUBSIDIARIES AND JOINT-VENTURES

None.

### 5.6.4 CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

	CURRENT PERIOD 31 DECEMBER 2017	PRIOR PERIOD 31 DECEMBER 2016
<b>Cash on Hand</b>	<b>2,039,563</b>	<b>2,064,018</b>
Cash in TL	1,357,688	1,313,068
Cash in Foreign Currency	681,875	750,950
<b>Cash Equivalents</b>	<b>10,972,014</b>	<b>6,814,100</b>
Other	10,972,014	6,814,100
<b>TOTAL</b>	<b>13,011,577</b>	<b>8,878,118</b>

## 5.6.5 CASH AND CASH EQUIVALENTS AT END OF PERIOD

	CURRENT PERIOD 31 DECEMBER 2017	PRIOR PERIOD 31 DECEMBER 2016
<b>Cash on Hand</b>	<b>2,656,765</b>	<b>2,039,563</b>
Cash in TL	1,297,556	1,357,688
Cash in Foreign Currency	1,359,209	681,875
<b>Cash Equivalents</b>	<b>9,703,644</b>	<b>10,972,014</b>
Other	9,703,644	10,972,014
<b>TOTAL</b>	<b>12,360,409</b>	<b>13,011,577</b>

## 5.6.6 RESTRICTED CASH AND CASH EQUIVALENTS DUE TO LEGAL REQUIREMENTS OR OTHER REASONS

The placements at foreign banks include blocked accounts amounting TL 8,885,348 thousands (31 December 2016: TL 7,439,697 thousands) of which TL 2,717,355 thousands (31 December 2016: TL 116,841 thousands) and TL 134,832 thousands (31 December 2016: TL 96,147 thousands) are kept at the central banks of Malta and Turkish Republic of Northern Cyprus, respectively as reserve deposits and TL 6,033,161 thousands (31 December 2016: TL 7,226,709 thousands) as collateral against funds borrowed at various banks.

The blocked account at the Central Bank of Turkey with a principal of TL 19,280,068 thousands (31 December 2016: TL 13,027,376 thousands) is for the reserve deposits in foreign currency and gold against the Banks' liabilities in Turkish Lira, foreign currencies and gold. The Bank also keeps a collateral of EUR 668,000,000 at the Central Bank of Turkey for borrowing activities in TL money market.

## 5.6.7 ADDITIONAL INFORMATION

### 5.6.7.1 RESTRICTIONS ON THE BANK'S POTENTIAL BORROWINGS

None.

### 5.6.7.2 CASH INFLOWS PRESENTING INCREASE IN OPERATING CAPACITY OF THE BANK

None.

## 5.7 RELATED PARTY RISKS

### 5.7.1 TRANSACTIONS WITH THE BANK'S RISK GROUP; LENDINGS AND DEPOSITS AND OTHER RELATED PARTY TRANSACTIONS OUTSTANDING AT PERIOD END AND INCOME AND EXPENSES FROM SUCH TRANSACTIONS INCURRED DURING THE PERIOD

#### 5.7.1.1 LOANS AND OTHER RECEIVABLES

##### CURRENT PERIOD

BANK'S RISK GROUP	ASSOCIATES, AFFILIATES AND JOINT-VENTURES		BANK'S DIRECT AND INDIRECT SHAREHOLDERS		OTHER COMPONENTS IN RISK GROUP	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
<b>Loans and Other Receivables</b>						
Balance at beginning of period	3,774,509	2,081,628	1,660,775	383,890	2,126,252	723,935
Balance at end of period	4,311,245	1,054,546	1,369,380	1,542,733	2,406,222	896,962
<b>Interest and Commission Income</b>	<b>94,037</b>	<b>4,502</b>	<b>3,701</b>	<b>93</b>	<b>155,698</b>	<b>3,981</b>

##### PRIOR PERIOD

BANK'S RISK GROUP	ASSOCIATES, AFFILIATES AND JOINT-VENTURES		BANK'S DIRECT AND INDIRECT SHAREHOLDERS		OTHER COMPONENTS IN RISK GROUP	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
<b>Loans and Other Receivables</b>						
Balance at beginning of period	3,837,790	2,197,037	52,056	827,462	2,047,670	467,468
Balance at end of period	3,774,509	2,081,628	1,660,775	383,890	2,126,252	723,935
<b>Interest and Commission Income</b>	<b>57,087</b>	<b>597</b>	<b>484</b>	<b>8</b>	<b>110,798</b>	<b>404</b>

## 5.7.1.2 DEPOSITS

BANK'S RISK GROUP	ASSOCIATES, AFFILIATES AND JOINT-VENTURES		BANK'S DIRECT AND INDIRECT SHAREHOLDERS		OTHER COMPONENTS IN RISK GROUP		
	DEPOSITS	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD
Balance at beginning of period		900,256	687,407	536,399	336,153	533,816	543,360
Balance at end of period		1,414,155	900,256	375,167	536,399	378,773	533,816
<b>Interest Expense</b>		<b>118,174</b>	<b>79,288</b>	<b>14,846</b>	<b>774</b>	<b>19,722</b>	<b>5,517</b>

## 5.7.1.3 DERIVATIVE TRANSACTIONS

BANK'S RISK GROUP	ASSOCIATES, AFFILIATES AND JOINT-VENTURES		BANK'S DIRECT AND INDIRECT SHAREHOLDERS		OTHER COMPONENTS IN RISK GROUP	
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD
<b>Transactions at Fair Value Through Profit or (Loss):</b>						
Balance at beginning of period	557,282	421,708	13,251,152	16,146,894	843,120	-
Balance at end of period	942,776	557,282	38,750,954	13,251,152	792,918	843,120
<b>Total Profit/(Loss)</b>	<b>(34,389)</b>	<b>(22,827)</b>	<b>32,235</b>	<b>(398,761)</b>	<b>2,269</b>	<b>(4,582)</b>
<b>Transactions for Hedging:</b>						
Balance at beginning of period	-	-	-	-	-	-
Balance at end of period	-	-	-	-	-	-
<b>Total Profit/(Loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 5.7.2 THE BANK'S RISK GROUP

### 5.7.2.1 RELATIONS WITH COMPANIES IN RISK GROUP OF/OR CONTROLLED BY THE BANK REGARDLESS OF NATURE OF CURRENT TRANSACTIONS

Transactions with the risk group, are held under arm's-length conditions; terms are set according to the market conditions and in compliance with the Banking Law. The Bank's policy is to keep the balances and transaction volumes with the risk group at reasonable levels preventing any high concentration risk on balance sheet.

### 5.7.2.2 CONCENTRATION OF TRANSACTION VOLUMES AND BALANCES WITH RISK GROUP AND PRICING POLICY

The cash loans of the risk group amounting TL 3,438,463 thousands (31 December 2016: TL 2,964,089 thousands) compose 1.64% (31 December 2016: 1.59%) of the Bank's total cash loans and 1.06% (31 December 2016: 1.04%) of the Bank's total assets. The total loans and similar receivables amounting TL 8,086,847 thousands (31 December 2016: TL 7,561,536 thousands) compose 2.49% (31 December 2016: 2.66%) of the Bank's total assets. The non-cash loans of the risk group amounting TL 3,494,241 thousands (31 December 2016: TL 3,189,453 thousands) compose 6.41% (31 December 2016: 5.82%) of the Bank's total non-cash loans.

The deposits of the risk group amounting TL 2,168,095 thousands (31 December 2016: TL 1,970,471 thousands) compose 1.20% (31 December 2016: 1.22%) of the Bank's total deposits. The funds borrowed by the Bank from its risk group amounting TL 14,746,149 thousands (31 December 2016: TL 11,952,196 thousands) compose 36.14% (31 December 2016: 29.67%) of the Bank's total funds borrowed. The pricing in transactions with the risk group companies is set on an arms-length basis.

The credit card (POS) payables to the related parties, amounted to TL 238,956 thousands (31 December 2016: TL 216,508 thousands). A total rent income of TL 12,746 thousands (31 December 2016: TL 11,585 thousands) was recognized for the real estates rented to the related parties.

Operating expenses for TL 26,074 thousands (31 December 2016: TL 19,585 thousands) were incurred for the IT services rendered by the related parties. Banking services fees of TL 27,585 thousands (31 December 2016: TL 1,820 thousands) were recognized from the related parties.

Insurance brokerage fee of TL 146,351 thousands (31 December 2016: TL 122,070 thousands), shares brokerage fee of TL 34,248 thousands (31 December 2016: TL 24,121 thousands), and fixed-rate securities brokerage fee of TL 7,999 thousands (31 December 2016: TL 7,297 thousands) and no fund brokerage fee (31 December 2016: TL 109 thousands) were recognized as income from the services rendered for the affiliates.

Operating expenses of TL 408 thousands (31 December 2016: TL 4,892 thousands) for advertisement and broadcasting services, of TL 51,396 thousands (31 December 2016: TL 40,427 thousands) for financial leasing services, and of TL 15,908 thousands (31 December 2016: TL 10,599 thousands) for travelling services rendered by the related parties were recognized as expense.

The net payment provided or to be provided to the key management of the Bank amounts to TL 111,505 thousands as of 31 December 2017 (31 December 2016: TL 101,032 thousands) including compensations paid to key management personnel who left their position during the year.

## 5.7.2.3 OTHER MATTERS NOT REQUIRED TO BE DISCLOSED

None.

## 5.7.2.4 TRANSACTIONS ACCOUNTED FOR UNDER EQUITY METHOD

Please refer to Note 5.1.8 investments in affiliates.

## 5.7.2.5 ALL KIND OF AGREEMENTS SIGNED LIKE ASSET PURCHASES/SALES, SERVICE RENDERING, AGENCIES, LEASING, RESEARCH AND DEVELOPMENT, LICENCES, FUNDING, GUARANTEES, MANAGEMENT SERVICES

The Bank has agency contracts with Garanti Yatırım Menkul Kıymetler AŞ and Garanti Emeklilik ve Hayat AŞ. Accordingly, all the branches of the Bank serve as agencies to sell the insurance products to customers. Agency services for trading of securities on behalf of the Bank's customers are rendered by specialized branches (Investment Centers).

Purchase of equipments for the Bank's internal use are partly arranged through financial leasing.

## 5.8 DOMESTIC, FOREIGN AND OFF-SHORE BRANCHES OR EQUITY INVESTMENTS, AND FOREIGN REPRESENTATIVE OFFICES

### 5.8.1 DOMESTIC AND FOREIGN BRANCHES AND REPRESENTATIVE OFFICES

	NUMBER OF BRANCHES	NUMBER OF EMPLOYEES			
<b>DOMESTIC BRANCHES</b>	937	18,750			
			<b>COUNTRY</b>		
<b>FOREIGN REPRESENTATIVE OFFICES</b>	1	1	1-Germany		
	1	1	2-England		
	1	1	3-China		
				<b>TOTAL ASSETS</b>	<b>LEGAL CAPITAL</b>
<b>FOREIGN BRANCHES</b>	1	14	1- Malta	38,057,395	-
	7	73	2- NCTR	2,391,963	15,520

### 5.8.2 OPENING OR CLOSING OF DOMESTIC AND FOREIGN BRANCHES AND REPRESENTATIVE OFFICES AND SIGNIFICANT CHANGES IN ORGANISATIONAL STRUCTURE

In 2017, two domestic branches were opened and 25 branches were closed. In addition, the banking activities of the Luxembourg branch abroad were ceased.

## 5.9 MATTERS ARISING SUBSEQUENT TO BALANCE SHEET DATE

At the board of directors meeting held on 31 January 2018, the Bank decided to distribute TL 1,750,000 thousands of the net profit of the year 2017 as dividend to its shareholders at the annual general assembly for the approval of shareholders.



## 6 OTHER DISCLOSURES ON ACTIVITIES OF THE BANK

### 6.1 BANK'S LATEST INTERNATIONAL RISK RATINGS

#### MOODY'S (MARCH 2017)

Outlook	Negative
Long Term FC Deposit	Ba2
Long Term TL Deposit	Ba1
Short Term FC Deposit	Not prime
Short Term TL Deposit	Not prime
Basic Loan Assessment	ba2
Adjusted Loan Assessment	ba1
Long Term National Scale Rating (NSR)	Aa1.tr
Short Term NSR	TR-1

#### STANDARD AND POORS (SEPTEMBER 2017)

Long Term FC Obligations	BB
Long Term TL Deposit	BB
Outlook	Negative
Credit Profile (independent from the bank's shareholders and the rating of its resident country)	bb+

#### FITCH RATINGS (JUNE 2017)

Outlook	Stable
Long Term FC	BBB-
Short Term FC	F3
Long Term TL	BBB-
Short Term TL	F3
Financial Capacity	bb+
Support	2
National Scale Rating (NSR)	AAA(tur)
Long Term Outlook	Stable

#### JCR EURASIA RATINGS (APRIL 2017)

International FC Outlook	Stable
Long Term International FC	BBB
Short Term International FC	A-3
International TL Outlook	Stable
Long Term International TL	BBB+
Short Term International TL	A-2
National Outlook	Stable
Long Term Local Rating	AAA(Trk)
Short Term Local Rating	A-1+(Trk)
Independency from Shareholders	A
Support	1

## 6.2 DIVIDENDS

As per the decision made at the annual general assembly of shareholders of the Bank on 30 March 2017, the distribution of the net profit of the year 2016, was as follows:

### 2016 PROFIT DISTRIBUTION TABLE

2016 Net Profit	5,070,549
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)

## 6.3 OTHER DISCLOSURES

None.

## 7 DISCLOSURES ON INDEPENDENT AUDITORS' REPORT

### 7.1 DISCLOSURE ON INDEPENDENT AUDITORS' REPORT

The unconsolidated financial statements of the Bank as of 31 December 2017, have been audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (the Turkish member of KPMG International Cooperative) and the independent auditors' report dated 31 January 2018, is presented before the accompanying financial statements.

### 7.2 DISCLOSURES AND FOOTNOTES PREPARED BY INDEPENDENT ACCOUNTANTS

None.

# CONSOLIDATED FINANCIAL STATEMENTS

Türkiye Garanti Bankası Anonim Şirketi  
And Its Financial Affiliates  
Consolidated Financial Statements  
As of and For the Year Ended  
31 December 2017

(Convenience Translation of Financial Statements and  
Related Disclosures and Footnotes Originally Issued in Turkish)  
With Independent Auditors' Report Thereon

31 January 2018

This report contains "Independent Auditors' Report"  
comprising 3 pages and;" Consolidated Financial Statements and  
Related Disclosures and Footnotes"comprising 130 pages.



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

Convenience Translation of Independent Auditors' Report Original Prepared and Issued in Turkish to English (See Note I in Section Three)

## A) REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Qualified Opinion

We have audited the accompanying consolidated financial statements of Türkiye Garanti Bankası A.Ş. ("the Bank") and its consolidated financial affiliates (together will be referred as "the Group") which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of income, consolidated statement of income and expense items under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements present fairly, in all material respects, the financial position of Türkiye Garanti Bankası A.Ş. and its consolidated financial affiliates as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the "Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, and other regulations on accounting records of banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRSA and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations.

### Basis for Qualified Opinion

The accompanying consolidated financial statements as at 31 December 2017 include a general provision of total of TL 1,160,000 thousands, of which TL 860,000 thousands was 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.

We conducted our audit in accordance with the "Regulation on Independent Audit of the Banks" published in the Official Gazette No.29314 dated 2 April 2015 by BRSA and Independent Standards on Auditing which is a component of the Turkish Auditing Standards ("TSA"s) published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the POA's Code of Ethics for Independent Auditors ("Code of Ethics") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### Key Audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

### Impairment of loans

Refer to Section III, No: VIII to the consolidated financial statements relating to the details of accounting policies and significant judgments of for impairment of loans.

KEY AUDIT MATTER	HOW THE MATTER IS ADDRESSED IN OUR AUDIT
<p>As of 31 December 2017, loans comprise 64% of the Group's total assets.</p> <p>The Parent Bank recognizes its loans in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables (the "Regulation") published on the Official Gazette No. 26333 dated 1 November 2006.</p> <p>In accordance with the mentioned Regulation, the assessment of impairment is basically related to the proper classification of loans.</p> <p>The classification of loans is performed in accordance with the criteria in the Regulation.</p> <p>Those include both objective and subjective criteria which management judgment is applied.</p> <p>There is a potential risk of impaired loans cannot be detected and loan loss provisions are inaccurate due to subjectivity.</p> <p>Disclosures related to credit risk are presented in Section Four, No II Credit Risk.</p>	<p>Our procedures for testing the classification of loans in accordance with the Regulation and key assumptions made by management include below:</p> <ul style="list-style-type: none"><li>We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures.</li><li>We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information. In this context, the current status of the loan customer has been evaluated.</li><li>We tested the appropriateness of the provisions in accordance with the Regulation.</li><li>Additionally, we also evaluated the adequacy of consolidated financial statement disclosures related to impairment provisions.</li></ul>



## Pension plan

Refer to Section III No: XVII to the consolidated financial statements relating to the details of accounting policies and significant judgments of for pension plan.

KEY AUDIT MATTER	HOW THE MATTER IS ADDRESSED IN OUR AUDIT
<p>The Parent Bank's defined benefit pension plan (the "Plan") is managed by "Türkiye Garanti Bankası A.Ş. Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı" (the "Fund") established as per the provisional article 20 of the Social Security Law No. 506 and the Bank's employees are the members of this Fund.</p> <p>As disclosed in the Note 3.17 to the consolidated financial statements, the Plan is composed of benefits which are subject to transfer to Social Security Foundation ("SSF") as per the Social Security Law No. 5510 provisional article 20, and other social rights and pension benefits provided by the Parent Bank that are not transferable to SSF. The Council of Ministers has been authorized to determine the transfer date.</p> <p>Following the transfer, the non-transferable social rights and pension benefits provided under the Plan will be covered by the funds and the institutions that employ the funds' members.</p> <p>As of 31 December 2017, the Parent Bank's transferrable liabilities are calculated by an independent actuary using the actuarial assumptions regulated by Law, and in accordance with the Decision of the Council of Ministers announced in the Official Gazette dated 15 December 2006 and No. 26377.</p> <p>As of 31 December 2017, the Parent Bank's non-transferrable liabilities are also calculated by independent actuary in accordance with TAS 19.</p> <p>The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, inflation levels, demographic assumptions, and the impact of changes in Pension Plan.</p> <p>Management uses independent actuaries to assist in assessing the uncertainty around these assumptions.</p> <p>Considering the subjectivity of key judgments and assumptions, plus the uncertainty around the transfer date and basis of the transfer calculation given the fact that the technical interest rate is prescribed under the law, we considered this to be a key audit matter.</p>	<ul style="list-style-type: none"><li>• We have assessed whether there have been any significant changes in actuarial assumptions, methods and underlying regulations used in calculations.</li><li>• Significant changes during the period in pension plan benefits, plan assets or membership profiles which affect liabilities have been evaluated.</li><li>• We have involved our own actuarial specialist to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary.</li><li>• We have evaluated whether the plan assets are adequate to cover the Pension Plan liabilities, under the methods and assumptions used.</li><li>• Additionally, the adequacy of consolidated financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities have been evaluated.</li></ul>

## Other Matter

*The consolidated financial statements of the Group as at and for the year ended 31 December 2016 was audited by another auditor who expressed a qualified opinion due to the general reserve provisions provided by the Bank on 30 January 2017.*

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with TSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with TSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **B) REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

1) Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code ("TCC") No. 6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period 1 January - 31 December 2017 are not in compliance with TCC and provisions of the Bank's articles of association in relation to financial reporting.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

Additional paragraph for convenience translation to English:

The accounting principles summarized in Note I Section Three, differ from the accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the consolidated financial statements and IFRS.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of KPMG International Cooperative

Murat Alsan, SMMM  
Partner

31 January 2018  
İstanbul, Turkey

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Financial Report as of and for the Year Ended 31 December 2017  
(Thousands of Turkish Lira (TL))

Convenience Translation of Financial Statements  
and Related Disclosures and Footnotes Originally  
Issued in Turkish

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The consolidated financial report for the year-end prepared in accordance with the communiqué of Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

1. General Information about Parent Bank
2. Consolidated Financial Statements of Parent Bank
3. Accounting Policies
4. Consolidated Financial Position and Results of Operations, and Risk Management Applications of Group
5. Disclosures and Footnotes on Consolidated Financial Statements
6. Other Disclosures
7. Independent Auditors' Report

The consolidated affiliates and special purpose entities in the scope of this consolidated financial report are the followings:

## AFFILIATES

1. Garanti Bank International NV
2. Garanti Emeklilik ve Hayat AŞ
3. Garanti Holding BV
4. Garanti Finansal Kiralama AŞ
5. Garanti Faktoring AŞ
6. Garanti Yatırım Menkul Kıymetler AŞ
7. Garanti Portföy Yönetimi AŞ

## SPECIAL PURPOSE ENTITIES

1. Garanti Diversified Payment Rights Finance Company
2. RPV Company

The consolidated financial statements and related disclosures and footnotes that were subject to independent audit, are prepared in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and the related statements and guidances and in compliance with the financial records of our Bank and, unless stated otherwise, presented in **thousands of Turkish Lira (TL)**.

<b>SÜLEYMAN SÖZEN</b>	<b>ALİ FUAT ERBİL</b>	<b>AYDIN GÜLER</b>	<b>AYLİN AKTÜRK</b>	<b>JAVIER BERNAL DIONIS</b>	<b>JORGE SAENZ- AZCUNAGA CARRANZA</b>
Board of Directors Chairman	General Manager	Executive Vice President Responsible of Financial Reporting	Coordinator	Audit Committee Member	Audit Committee Member

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# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Financial Report as of and for the Year Ended 31 December 2017  
(Thousands of Turkish Lira (TL))

Convenience Translation of Financial Statements  
and Related Disclosures and Footnotes Originally  
Issued in Turkish

## I GENERAL INFORMATION

### I.1 HISTORY OF PARENT BANK INCLUDING ITS INCORPORATION DATE, INITIAL LEGAL STATUS, AMENDMENTS TO LEGAL STATUS

Türkiye Garanti Bankası Anonim Şirketi (the Bank) was established by the decree of Council of Ministers numbered 3/4010 dated 11 April 1946 as a "private bank" and its "Articles of Association" was issued in the Official Gazette dated 25 April 1946.

Following the acquisition on 27 July 2015, Banco Bilbao Vizcaya Argentaria SA (BBVA)'s stake in the Bank reached to 39.90% and BBVA became the main shareholder. Accordingly, the Bank was moved to the "Foreign Deposit Banks" category from the "Private Deposit Bank" category by the Banking Regulation and Supervision Agency (the BRSA).

The Bank provides banking services through 937 domestic branches, 8 foreign branches and three representative offices abroad (31 December 2016: 959 domestic branches, nine foreign branches and three representative offices abroad). The Bank's head office is located in Istanbul.

### I.2 PARENT BANK'S SHAREHOLDER STRUCTURE, MANAGEMENT AND INTERNAL AUDIT, DIRECT AND INDIRECT SHAREHOLDERS, CHANGE IN SHAREHOLDER STRUCTURE DURING PERIOD AND INFORMATION ON ITS RISK GROUP

As of 31 December 2017, group of companies under BBVA that currently owns 49.85% shares of the Bank, is defined as 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 Doğuş 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 Doğuş Holding AŞ (the Doğuş 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%.

In accordance with the terms of the agreement between BBVA and the Doğuş 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 Doğuş Group to BBVA, was completed on 27 July 2015. Following the acquisition, BBVA's stake in the Bank reached to 39.90% and BBVA became the main shareholder. The Bank was moved to "Foreign Deposit Banks" category from "Private Deposit Bank" category by the BRSA.

On 21 February 2017, BBVA agreed with Doğuş 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%.

As of balance sheet date, the Doğuş Group's interest in the share capital of the Bank is at 0.05%.

#### BBVA GROUP

BBVA is operating for more than 150 years, providing variety of wide spread financial and non-financial services to 70 million retail and commercial customers.

The Group's headquarter is in Spain, where the Group has concrete leadership in retail and commercial markets. BBVA adopting innovative, and customer and community oriented management style, besides banking, operates in insurance sector in Europe and portfolio management, private banking and investment banking in global markets.

BBVA that owns a bank being the largest financial institution in Mexico and the market leader in South America, operates in more than 35 countries with more than 130 thousand employees.

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Financial Report as of and for the Year Ended 31 December 2017  
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## I.3 INFORMATION ON PARENT BANK'S BOARD OF DIRECTORS CHAIRMAN AND MEMBERS, AUDIT COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER, EXECUTIVE VICE PRESIDENTS AND THEIR RESPONSIBILITIES AND, IF ANY, SHAREHOLDINGS IN THE BANK

### BOARD OF DIRECTORS CHAIRMAN AND MEMBERS:

NAME AND SURNAME	RESPONSIBILITY	APPOINTMENT DATE	EDUCATION	EXPERIENCE IN BANKING AND BUSINESS ADMINISTRATION
Süleyman Sözen	Chairman	29.05.1997	University	35 years
Sait Ergun Özen	Member	14.05.2003	University	30 years
Jorge Saenz Azcunaga Carranza	Vice Chairman Independent Member and Member of Audit Committee	24.03.2016	University	23 years
Dr. Muammer Cüneyt Sezgin	Member	30.06.2004	PhD	29 years
Belkis Sema Yurdum	Independent Member	30.04.2013	University	37 years
Jaime Saenz de Tejada Pulido	Member	02.10.2014	University	24 years
Javier Bernal Dionis	Independent Member and Member of Audit Committee	27.07.2015	Master	27 years
Ali Fuat Erbil	Member and CEO	02.09.2015	PhD	25 years
Rafael Salinas Martinez de Lecea	Member	08.05.2017	Master	27 years
Ricardo Gomez Barredo	Member	08.05.2017	Master	25 years

### CEO AND EXECUTIVE VICE PRESIDENTS:

NAME AND SURNAME	RESPONSIBILITY	APPOINTMENT DATE	EDUCATION	EXPERIENCE IN BANKING AND BUSINESS ADMINISTRATION
Ali Fuat Erbil	CEO	02.09.2015	PhD	25 years
Gökhan Erün	EVP - Corporate Banking and Treasury Deputy CEO	01.09.2005	Master	23 years
Halil Hüsnü Erel	EVP - Technology, Operation Center, Marketing and Business Development	16.06.1997	University	42 years
Avni Aydın Düren	EVP - Legal Services and Collection	01.02.2009	Master	23 years
Betül Ebru Edin	EVP - Project Finance	25.11.2009	University	23 years
Didem Başer	EVP - Digital Banking	20.03.2012	Master	22 years
Recep Baştuğ	EVP - Commercial Banking	01.01.2013	University	27 years
Osman Nuri Tüzün	EVP - Human Resources and Support Services	19.08.2015	Master	25 years
Aydın Güler	EVP - Finance and Accounting	03.02.2016	University	27 years
Ali Temel	Head of Credit Risk Management	03.02.2016	University	27 years
Mahmut Akten	EVP - Retail Banking	17.01.2017	Master	17 years
Cemal Onaran	EVP - SME Banking	17.01.2017	University	26 years

Gökhan Erün resigned his position as "EVP responsible from Corporate Banking and Treasury and Deputy CEO" on 15 January 2018.

As of 31 January 2018, Betül Ebru Edin's responsibility was revised as "EVP responsible from Corporate Banking, Treasury and Project Finance" and Didem Başer's responsibility was revised as "EVP responsible from Digital Banking, Customer Experience, Corporate Brand Management and Marketing Communication".

The top management listed above does not hold any material unquoted shares of the Bank.

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Financial Report as of and for the Year Ended 31 December 2017  
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## I.4 INFORMATION ON PARENT BANK'S QUALIFIED SHAREHOLDERS

COMPANY	SHARES	OWNERSHIP	PAID-IN CAPITAL	UNPAID PORTION
Banco Bilbao Vizcaya Argentaria SA	2,093,700	49.85%	2,093,700	-
Doğuş Holding AŞ	2,107	0.05%	2,107	-

According to the decision made at the "General Assembly of Founder Shares Owners" and the "Extraordinary General Shareholders" meetings held on 13 June 2008, the Bank repurchased all the 370 founder share-certificates issued in order to redeem and exterminate them, subsequent to the permissions obtained from the related legal authorities, at a value of TL 3,876 thousands each in accordance with the report prepared by the court expert and approved by the Istanbul 5th Commercial Court of First Instance. A total payment of TL 1,434,233 thousands has been made to the owners of 368 founder share-certificates from "extraordinary reserves", and the value of remaining 2 founder share-certificates has been blocked in the bank accounts.

Subsequent to these purchases, the clauses 15, 16 and 45 of the Articles of Association of the Bank have been revised accordingly.

## I.5 SUMMARY INFORMATION ON PARENT BANK'S ACTIVITIES AND SERVICES

Activities of the Bank as stated at the third clause of its Articles of Association are as follows:

- All banking operations,
- Participating in, establishing, and trading the shares of enterprises at various sectors within the limits set forth by the Banking Law; Providing attorneyship, insurance agency, brokerage and freight services in relation with banking activities,
- Purchasing/selling debt securities, treasury bills, government bonds and other share certificates issued by Turkish government and other official and private institutions,
- Developing economical and financial relations with foreign organizations,
- Dealing with all economic operations in compliance with the Banking Law.

The Bank's activities are not limited to those disclosed in that third clause, but whenever the Board of Directors deems any operations other than those stated above to be of benefit to the Bank, it is recommended in the general meeting, and the launching of the related project depends on the decision taken during the General Assembly which results in a change in the Articles of Association and on the approval of this decision by the Ministry of Industry and Commerce. Accordingly, the approved decision is added to the Articles of Association.

The Bank is not a specialized bank but deals with all kinds of banking activities. Deposits are the main sources of the lendings to the customers. The Bank grants loans to companies operating in various sectors while aiming to maintain the required level of efficiency.

The Bank also grants non-cash loans to its customers; especially letters of guarantee, letters of credit and acceptance credits.

## I.6 INFORMATION ON APPLICATION DIFFERENCES BETWEEN CONSOLIDATION PRACTICES AS PER THE REGULATION ON PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS OF BANKS AND AS PER THE TURKISH ACCOUNTING STANDARDS, AND ENTITIES SUBJECT TO FULL OR PROPORTIONAL CONSOLIDATION OR DEDUCTED FROM EQUITY OR NOT SUBJECT TO ANY OF THESE THREE METHODS

As per the Regulation on Preparation of Consolidated Financial Statements of Banks, the investments in financial affiliates are subject to consolidation whereas as per the Turkish Accounting Standards, the investments in both financial and non-financial subsidiaries are subject to consolidation. There are no investments in entities subject to proportional consolidation or to deduction from equity.

## I.7 CURRENT OR LIKELY ACTUAL OR LEGAL BARRIERS TO IMMEDIATE TRANSFER OF EQUITY OR REPAYMENT OF DEBTS BETWEEN PARENT BANK AND ITS AFFILIATES

None.

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Balance Sheet (Statement of Financial Position)

Convenience Translation of Financial Statements  
and Related Disclosures and Footnotes Originally  
Issued in Turkish

At 31 December 2017

## 2 CONSOLIDATED FINANCIAL STATEMENTS

		THOUSANDS OF TURKISH LIRA (TL)								
ASSETS		FOOTNOTES	CURRENT PERIOD 31 DECEMBER 2017			PRIOR PERIOD 31 DECEMBER 2016				
			TL	FC	TOTAL	TL	FC	TOTAL		
<b>I.</b>	<b>CASH AND BALANCES WITH CENTRAL BANK</b>	5.1.1	<b>7,635,968</b>	<b>25,967,673</b>	<b>33,603,641</b>	<b>6,723,712</b>	<b>17,227,762</b>	<b>23,951,474</b>		
<b>II.</b>	<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net)</b>	5.1.2	<b>2,290,900</b>	<b>586,913</b>	<b>2,877,813</b>	<b>2,801,058</b>	<b>1,004,483</b>	<b>3,805,541</b>		
2.1	Financial assets held for trading		2,290,900	586,913	2,877,813	2,801,058	1,004,483	3,805,541		
2.1.1	Government securities		803,974	16,604	820,578	73,157	29,492	102,649		
2.1.2	Equity securities		68,173	-	68,173	60,379	-	60,379		
2.1.3	Derivative financial assets held for trading		1,379,769	567,220	1,946,989	2,661,587	952,126	3,613,713		
2.1.4	Other securities		38,984	3,089	42,073	5,935	22,865	28,800		
2.2	Financial assets valued at fair value through profit or loss		-	-	-	-	-	-		
2.2.1	Government securities		-	-	-	-	-	-		
2.2.2	Equity securities		-	-	-	-	-	-		
2.2.3	Loans	5.1.5	-	-	-	-	-	-		
2.2.4	Other securities		-	-	-	-	-	-		
<b>III.</b>	<b>BANKS</b>	5.1.3	<b>1,010,727</b>	<b>18,459,616</b>	<b>19,470,343</b>	<b>1,214,509</b>	<b>15,666,535</b>	<b>16,881,044</b>		
<b>IV.</b>	<b>INTERBANK MONEY MARKETS</b>		<b>3,353</b>	<b>-</b>	<b>3,353</b>	<b>22,180</b>	<b>351,691</b>	<b>373,871</b>		
4.1	Interbank money market placements		-	-	-	-	-	-		
4.2	Istanbul Stock Exchange money market placements		-	-	-	-	351,691	351,691		
4.3	Receivables from reverse repurchase agreements		3,353	-	3,353	22,180	-	22,180		
<b>V.</b>	<b>FINANCIAL ASSETS AVAILABLE-FOR-SALE (Net)</b>	5.1.4	<b>22,222,532</b>	<b>4,055,456</b>	<b>26,277,988</b>	<b>18,497,281</b>	<b>5,486,167</b>	<b>23,983,448</b>		
5.1	Equity securities		41,760	233,112	274,872	40,985	177,828	218,813		
5.2	Government securities		21,912,629	666,591	22,579,220	17,669,410	722,603	18,392,013		
5.3	Other securities		268,143	3,155,753	3,423,896	786,886	4,585,736	5,372,622		
<b>VI.</b>	<b>LOANS</b>	5.1.5	<b>144,323,034</b>	<b>85,030,251</b>	<b>229,353,285</b>	<b>119,985,680</b>	<b>81,423,416</b>	<b>201,409,096</b>		
6.1	Loans		143,274,157	84,718,455	227,992,612	118,980,397	81,095,327	200,075,724		
6.1.1	Loans to bank's risk group	5.7	521,307	2,141,026	2,662,333	402,351	1,814,479	2,216,830		
6.1.2	Government securities		-	-	-	-	-	-		
6.1.3	Other		142,752,850	82,577,429	225,330,279	118,578,046	79,280,848	197,858,894		
6.2	Loans under follow-up		5,408,114	768,871	6,176,985	5,272,774	851,687	6,124,461		
6.3	Specific provisions (-)		4,359,237	457,075	4,816,312	4,267,491	523,598	4,791,089		
<b>VII.</b>	<b>FACTORING RECEIVABLES</b>	5.1.6	<b>2,261,812</b>	<b>1,117,956</b>	<b>3,379,768</b>	<b>1,912,128</b>	<b>939,095</b>	<b>2,851,223</b>		
<b>VIII.</b>	<b>INVESTMENTS HELD-TO-MATURITY (Net)</b>	5.1.7	<b>12,900,962</b>	<b>11,413,578</b>	<b>24,314,540</b>	<b>12,139,123</b>	<b>10,970,573</b>	<b>23,109,696</b>		
8.1	Government securities		12,815,088	7,417,468	20,232,556	12,122,339	6,986,465	19,108,804		
8.2	Other securities		85,874	3,996,110	4,081,984	16,784	3,984,108	4,000,892		
<b>IX.</b>	<b>INVESTMENTS IN ASSOCIATES (Net)</b>	5.1.8	<b>35,747</b>	<b>4</b>	<b>35,751</b>	<b>37,258</b>	<b>3</b>	<b>37,261</b>		
9.1	Associates consolidated under equity accounting		-	-	-	-	-	-		
9.2	Unconsolidated associates		35,747	4	35,751	37,258	3	37,261		
9.2.1	Financial investments in associates		31,789	-	31,789	33,329	-	33,329		
9.2.2	Non-financial investments in associates		3,958	4	3,962	3,929	3	3,932		
<b>X.</b>	<b>INVESTMENTS IN SUBSIDIARIES (Net)</b>	5.1.9	<b>114,372</b>	<b>2,309</b>	<b>116,681</b>	<b>114,236</b>	<b>1,622</b>	<b>115,858</b>		
10.1	Unconsolidated financial investments in affiliates		-	-	-	-	-	-		
10.2	Unconsolidated non-financial investments in affiliates		114,372	2,309	116,681	114,236	1,622	115,858		
<b>XI.</b>	<b>INVESTMENTS IN JOINT-VENTURES (Net)</b>	5.1.10	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		
11.1	Joint-ventures consolidated under equity accounting		-	-	-	-	-	-		
11.2	Unconsolidated joint-ventures		-	-	-	-	-	-		
11.2.1	Financial investments in joint-ventures		-	-	-	-	-	-		
11.2.2	Non-financial investments in joint-ventures		-	-	-	-	-	-		
<b>XII.</b>	<b>LEASE RECEIVABLES (Net)</b>	5.1.11	<b>1,471,740</b>	<b>4,316,696</b>	<b>5,788,436</b>	<b>1,399,086</b>	<b>4,395,174</b>	<b>5,794,260</b>		
12.1	Financial lease receivables		1,740,146	4,730,823	6,470,969	1,655,755	4,843,852	6,499,607		
12.2	Operational lease receivables		-	-	-	-	-	-		
12.3	Others		-	-	-	-	-	-		
12.4	Unearned income (-)		268,406	414,127	682,533	256,669	448,678	705,347		
<b>XIII.</b>	<b>DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGING PURPOSE</b>	5.1.12	<b>554,605</b>	<b>116,115</b>	<b>670,720</b>	<b>79,472</b>	<b>586,823</b>	<b>666,295</b>		
13.1	Fair value hedges		89,104	14,158	103,262	73,946	11,534	85,480		
13.2	Cash flow hedges		465,501	101,957	567,458	5,526	575,289	580,815		
13.3	Net foreign investment hedges		-	-	-	-	-	-		
<b>XIV.</b>	<b>TANGIBLE ASSETS (Net)</b>	5.1.13	<b>3,910,647</b>	<b>186,004</b>	<b>4,096,651</b>	<b>3,533,533</b>	<b>147,088</b>	<b>3,680,621</b>		
<b>XV.</b>	<b>INTANGIBLE ASSETS (Net)</b>	5.1.14	<b>346,016</b>	<b>33,292</b>	<b>379,308</b>	<b>296,078</b>	<b>31,575</b>	<b>327,653</b>		
15.1	Goodwill		6,388	-	6,388	6,388	-	6,388		
15.2	Other intangibles		339,628	33,292	372,920	289,690	31,575	321,265		
<b>XVI.</b>	<b>INVESTMENT PROPERTY (Net)</b>	5.1.15	<b>559,388</b>	<b>-</b>	<b>559,388</b>	<b>543,825</b>	<b>-</b>	<b>543,825</b>		
<b>XVII.</b>	<b>TAX ASSET</b>		<b>436,799</b>	<b>30,899</b>	<b>467,698</b>	<b>199,330</b>	<b>61,348</b>	<b>260,678</b>		
17.1	Current tax asset		6,697	19,069	25,766	679	26,657	27,336		
17.2	Deferred tax asset	5.1.16	430,102	11,830	441,932	198,651	34,691	233,342		
<b>XVIII.</b>	<b>ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net)</b>	5.1.17	<b>823,000</b>	<b>12,552</b>	<b>835,552</b>	<b>591,738</b>	<b>13,277</b>	<b>605,015</b>		
18.1	Asset held for resale		823,000	12,552	835,552	591,738	13,277	605,015		
18.2	Assets of discontinued operations		-	-	-	-	-	-		
<b>XIX.</b>	<b>OTHER ASSETS</b>	5.1.18	<b>3,656,882</b>	<b>443,869</b>	<b>4,100,751</b>	<b>3,015,207</b>	<b>709,873</b>	<b>3,725,080</b>		
<b>TOTAL ASSETS</b>			<b>204,558,484</b>	<b>151,773,183</b>	<b>356,331,667</b>	<b>173,105,434</b>	<b>139,016,505</b>	<b>312,121,939</b>		

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Balance Sheet (Statement of Financial Position)

At 31 December 2017

Convenience Translation of Financial Statements  
and Related Disclosures and Footnotes Originally  
Issued in Turkish

LIABILITIES AND SHAREHOLDERS' EQUITY		FOOTNOTES	THOUSANDS OF TURKISH LIRA (TL)			THOUSANDS OF TURKISH LIRA (TL)		
			CURRENT PERIOD 31 DECEMBER 2017			PRIOR PERIOD 31 DECEMBER 2016		
			TL	FC	TOTAL	TL	FC	TOTAL
<b>I. DEPOSITS</b>	5.2.1		<b>88,203,932</b>	<b>112,569,628</b>	<b>200,773,560</b>	<b>76,025,777</b>	<b>102,664,036</b>	<b>178,689,813</b>
1.1	Deposits from bank's risk group	5.7	359,077	522,879	881,956	675,720	470,759	1,146,479
1.2	Other		87,844,855	112,046,749	199,891,604	75,350,057	102,193,277	177,543,334
<b>II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING</b>	5.2.2		<b>2,381,287</b>	<b>517,535</b>	<b>2,898,822</b>	<b>2,639,416</b>	<b>1,074,569</b>	<b>3,713,985</b>
<b>III. FUNDS BORROWED</b>	5.2.3		<b>1,134,258</b>	<b>45,970,461</b>	<b>47,104,719</b>	<b>3,127,679</b>	<b>43,454,174</b>	<b>46,581,853</b>
<b>IV. INTERBANK MONEY MARKETS</b>			<b>13,886,785</b>	<b>4,751,071</b>	<b>18,637,856</b>	<b>10,704,025</b>	<b>526,168</b>	<b>11,230,193</b>
4.1	Interbank money market takings		11,712,429	3,892,365	15,604,794	2,501,180	87	2,501,267
4.2	Istanbul Stock Exchange money market takings		1,286,649	-	1,286,649	915,105	-	915,105
4.3	Obligations under repurchase agreements	5.2.4	887,707	858,706	1,746,413	7,287,740	526,081	7,813,821
<b>V. SECURITIES ISSUED (Net)</b>	5.2.4		<b>8,162,999</b>	<b>12,631,453</b>	<b>20,794,452</b>	<b>5,871,646</b>	<b>11,874,002</b>	<b>17,745,648</b>
5.1	Bills		4,003,253	-	4,003,253	2,240,063	-	2,240,063
5.2	Asset backed securities		-	-	-	-	-	-
5.3	Bonds		4,159,746	12,631,453	16,791,199	3,631,583	11,874,002	15,505,585
<b>VI. FUNDS</b>			-	-	-	-	-	-
6.1	Borrower funds		-	-	-	-	-	-
6.2	Other		-	-	-	-	-	-
<b>VII. MISCELLANEOUS PAYABLES</b>	5.2.4		<b>9,585,571</b>	<b>790,775</b>	<b>10,376,346</b>	<b>8,260,088</b>	<b>1,079,660</b>	<b>9,339,748</b>
<b>VIII. OTHER EXTERNAL FUNDINGS PAYABLE</b>			<b>2,191,547</b>	<b>888,803</b>	<b>3,080,350</b>	<b>2,204,123</b>	<b>966,216</b>	<b>3,170,339</b>
<b>IX. FACTORING PAYABLES</b>	5.2.5		-	-	-	-	-	-
<b>X. LEASE PAYABLES (Net)</b>	5.2.6		-	-	-	-	-	-
10.1	Financial lease payables		-	-	-	-	-	-
10.2	Operational lease payables		-	-	-	-	-	-
10.3	Others		-	-	-	-	-	-
10.4	Deferred expenses (-)		-	-	-	-	-	-
<b>XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR HEDGING PURPOSE</b>	5.2.7		<b>7,252</b>	<b>191,574</b>	<b>198,826</b>	<b>26,671</b>	<b>316,643</b>	<b>343,314</b>
11.1	Fair value hedges		6,227	188,528	194,755	26,671	250,273	276,944
11.2	Cash flow hedges		1,025	3,046	4,071	-	66,370	66,370
11.3	Net foreign investment hedges		-	-	-	-	-	-
<b>XII. PROVISIONS</b>	5.2.8		<b>6,453,922</b>	<b>394,180</b>	<b>6,848,102</b>	<b>4,851,864</b>	<b>181,009</b>	<b>5,032,873</b>
12.1	General provisions		3,597,720	75,949	3,673,669	3,118,954	96,579	3,215,533
12.2	Restructuring reserves		-	-	-	-	-	-
12.3	Reserve for employee benefits		822,958	86,830	909,788	710,204	20,321	730,525
12.4	Insurance technical provisions (Net)		355,827	34,059	389,886	274,375	32,400	306,775
12.5	Other provisions		1,677,417	197,342	1,874,759	748,331	31,709	780,040
<b>XIII. TAX LIABILITY</b>			<b>1,103,072</b>	<b>60,090</b>	<b>1,163,162</b>	<b>466,400</b>	<b>11,866</b>	<b>478,266</b>
13.1	Current tax liability	5.2.9	1,103,072	45,725	1,148,797	466,400	11,866	478,266
13.2	Deferred tax liability		-	14,365	14,365	-	-	-
<b>XIV. LIABILITIES FOR ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net)</b>	5.2.10		-	-	-	-	-	-
14.1	Asset held for sale		-	-	-	-	-	-
14.2	Assets of discontinued operations		-	-	-	-	-	-
<b>XV. SUBORDINATED DEBTS</b>	5.2.11		-	<b>2,849,471</b>	<b>2,849,471</b>	-	-	-
<b>XVI. SHAREHOLDERS' EQUITY</b>	5.2.12		<b>41,142,135</b>	<b>463,866</b>	<b>41,606,001</b>	<b>35,540,653</b>	<b>255,254</b>	<b>35,795,907</b>
16.1	Paid-in capital		4,200,000	-	4,200,000	4,200,000	-	4,200,000
16.2	Capital reserves		1,320,292	206,555	1,526,847	1,461,875	12,494	1,474,369
16.2.1	Share premium		11,880	-	11,880	11,880	-	11,880
16.2.2	Share cancellation profits		-	-	-	-	-	-
16.2.3	Securities value increase fund		(425,824)	108,010	(317,814)	(484,900)	(58,725)	(543,625)
16.2.4	Revaluation surplus on tangible assets		1,722,980	24,889	1,747,869	1,685,290	5,772	1,691,062
16.2.5	Revaluation surplus on intangible assets		-	-	-	-	-	-
16.2.6	Revaluation surplus on investment property		-	-	-	-	-	-
16.2.7	Bonus shares of associates, affiliates and joint-ventures		912	-	912	947	-	947
16.2.8	Hedging reserves (effective portion)		(617,941)	73,656	(544,285)	(419,123)	65,447	(353,676)
16.2.9	Revaluation surplus on assets held for sale and assets of discontinued operations		-	-	-	-	-	-
16.2.10	Other capital reserves		628,285	-	628,285	667,781	-	667,781
16.3	Profit reserves		28,967,638	257,311	29,224,949	24,505,679	242,760	24,748,439
16.3.1	Legal reserves		1,368,395	23,864	1,392,259	1,241,962	29,560	1,271,522
16.3.2	Status reserves		-	-	-	-	-	-
16.3.3	Extraordinary reserves		25,901,360	-	25,901,360	22,185,729	6,576	22,192,305
16.3.4	Other profit reserves		1,697,883	233,447	1,931,330	1,077,988	206,624	1,284,612
16.4	Profit or loss		6,332,056	-	6,332,056	5,105,291	-	5,105,291
16.4.1	Prior periods profit/loss		-	-	-	-	-	-
16.4.2	Current period net profit/loss		6,332,056	-	6,332,056	5,105,291	-	5,105,291
16.5	Minority interest		322,149	-	322,149	267,808	-	267,808
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			<b>174,252,760</b>	<b>182,078,907</b>	<b>356,331,667</b>	<b>149,718,342</b>	<b>162,403,597</b>	<b>312,121,939</b>

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Off-Balance Sheet Items

At 31 December 2017

Convenience Translation of Financial Statements  
and Related Disclosures and Footnotes Originally  
Issued in Turkish

OFF-BALANCE SHEET ITEMS		THOUSANDS OF TURKISH LIRA (TL)					
		CURRENT PERIOD 31 DECEMBER 2017			PRIOR PERIOD 31 DECEMBER 2016		
	FOOTNOTES	TL	FC	TOTAL	TL	FC	TOTAL
<b>A. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)</b>		<b>189,643,830</b>	<b>301,352,970</b>	<b>490,996,800</b>	<b>162,878,081</b>	<b>280,614,485</b>	<b>443,492,566</b>
<b>I. GUARANTEES AND SURETIES</b>	5.3.1	<b>19,424,930</b>	<b>36,770,464</b>	<b>56,195,394</b>	<b>17,138,984</b>	<b>38,946,496</b>	<b>56,085,480</b>
1.1 Letters of guarantee		19,405,859	20,283,642	39,689,501	17,111,138	20,901,575	38,012,713
1.1.1 Guarantees subject to State Tender Law		-	981,914	981,914	-	1,029,481	1,029,481
1.1.2 Guarantees given for foreign trade operations		1,842,819	395,767	2,238,586	2,134,070	332,444	2,466,514
1.1.3 Other letters of guarantee		17,563,040	18,905,961	36,469,001	14,977,068	19,539,650	34,516,718
1.2 Bank acceptances		14,273	1,536,377	1,550,650	27,846	2,099,488	2,127,334
1.2.1 Import letter of acceptance		14,273	1,536,377	1,550,650	27,846	2,099,488	2,127,334
1.2.2 Other bank acceptances		-	-	-	-	-	-
1.3 Letters of credit		4,798	14,764,718	14,769,516	-	15,754,367	15,754,367
1.3.1 Documentary letters of credit		-	-	-	-	-	-
1.3.2 Other letters of credit		4,798	14,764,718	14,769,516	-	15,754,367	15,754,367
1.4 Guaranteed prefinancings		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2 Other endorsements		-	-	-	-	-	-
1.6 Underwriting commitments		-	-	-	-	-	-
1.7 Factoring related guarantees		-	-	-	-	-	-
1.8 Other guarantees		-	185,727	185,727	-	191,066	191,066
1.9 Other sureties		-	-	-	-	-	-
<b>II. COMMITMENTS</b>		<b>44,879,991</b>	<b>12,711,898</b>	<b>57,591,889</b>	<b>39,448,303</b>	<b>10,404,168</b>	<b>49,852,471</b>
2.1 Irrevocable commitments		44,532,503	7,539,747	52,072,250	39,310,120	5,369,433	44,679,553
2.1.1 Asset purchase and sale commitments		2,205,254	5,742,735	7,947,989	204,021	3,752,040	3,956,061
2.1.2 Deposit purchase and sale commitments		-	-	-	-	74,040	74,040
2.1.3 Share capital commitments to associates and affiliates		-	6,443	6,443	-	5,266	5,266
2.1.4 Loan granting commitments		9,468,364	1,231,571	10,699,935	6,967,401	1,037,722	8,005,123
2.1.5 Securities issuance brokerage commitments		-	-	-	-	-	-
2.1.6 Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7 Commitments for cheque payments		3,797,901	-	3,797,901	3,555,087	-	3,555,087
2.1.8 Tax and fund obligations on export commitments		31,365	-	31,365	24,000	-	24,000
2.1.9 Commitments for credit card limits		29,020,761	521,288	29,542,049	27,849,250	377,443	28,226,693
2.1.10 Commitments for credit cards and banking services related promotions		8,273	-	8,273	8,708	-	8,708
2.1.11 Receivables from "short" sale commitments on securities		-	-	-	-	-	-
2.1.12 Payables from "short" sale commitments on securities		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		585	37,710	38,295	701,653	122,922	824,575
2.2 Revocable commitments		347,488	5,172,151	5,519,639	138,183	5,034,735	5,172,918
2.2.1 Revocable loan granting commitments		156,116	4,796,577	4,952,693	23,040	4,653,740	4,676,780
2.2.2 Other revocable commitments		191,372	375,574	566,946	115,143	380,995	496,138
<b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>	5.3.2	<b>125,338,909</b>	<b>251,870,608</b>	<b>377,209,517</b>	<b>106,290,794</b>	<b>231,263,821</b>	<b>337,554,615</b>
3.1 Derivative financial instruments held for risk management		7,255,392	38,177,132	45,432,524	10,145,282	34,208,867	44,354,149
3.1.1 Fair value hedges		5,452,476	12,916,842	18,369,318	7,307,595	14,701,424	22,009,019
3.1.2 Cash flow hedges		1,802,916	25,260,290	27,063,206	2,837,687	19,507,443	22,345,130
3.1.3 Net foreign investment hedges		-	-	-	-	-	-
3.2 Trading derivatives		118,083,517	213,693,476	331,776,993	96,145,512	197,054,954	293,200,466
3.2.1 Forward foreign currency purchases/sales		15,358,246	19,209,970	34,568,216	11,723,664	16,145,274	27,868,938
3.2.1.1 Forward foreign currency purchases		5,427,014	11,771,096	17,198,110	3,833,951	10,111,495	13,945,446
3.2.1.2 Forward foreign currency sales		9,931,232	7,438,874	17,370,106	7,889,713	6,033,779	13,923,492
3.2.2 Currency and interest rate swaps		88,816,561	153,895,967	242,712,528	62,027,010	133,439,424	195,466,434
3.2.2.1 Currency swaps-purchases		32,307,469	73,063,850	105,371,319	23,993,140	55,350,676	79,343,816
3.2.2.2 Currency swaps-sales		55,840,060	45,238,049	101,078,109	37,539,222	41,571,364	79,110,586
3.2.2.3 Interest rate swaps-purchases		334,516	17,797,034	18,131,550	247,324	18,258,692	18,506,016
3.2.2.4 Interest rate swaps-sales		334,516	17,797,034	18,131,550	247,324	18,258,692	18,506,016
3.2.3 Currency, interest rate and security options		13,831,781	25,562,957	39,394,738	22,338,459	38,228,684	60,567,143
3.2.3.1 Currency call options		7,234,150	7,153,660	14,387,810	9,793,681	16,465,095	26,258,776
3.2.3.2 Currency put options		6,565,822	8,172,614	14,738,436	12,487,141	14,903,735	27,390,876
3.2.3.3 Interest rate call options		-	9,247,686	9,247,686	-	5,927,914	5,927,914
3.2.3.4 Interest rate put options		-	988,997	988,997	-	843,120	843,120
3.2.3.5 Security call options		9,414	-	9,414	10,871	44,410	55,281
3.2.3.6 Security put options		22,395	-	22,395	46,766	44,410	91,176
3.2.4 Currency futures		62,874	92,187	155,061	37,173	144,751	181,924
3.2.4.1 Currency futures-purchases		20,293	44,824	65,117	14,586	80,808	95,394
3.2.4.2 Currency futures-sales		42,581	47,363	89,944	22,587	63,943	86,530
3.2.5 Interest rate futures		-	18,879	18,879	-	100,121	100,121
3.2.5.1 Interest rate futures-purchases		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sales		-	18,879	18,879	-	100,121	100,121
3.2.6 Others		14,055	14,913,516	14,927,571	19,206	8,996,700	9,015,906
<b>B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)</b>		<b>715,477,686</b>	<b>614,013,443</b>	<b>1,329,491,129</b>	<b>631,736,919</b>	<b>528,278,312</b>	<b>1,160,015,231</b>
<b>IV. ITEMS HELD IN CUSTODY</b>		<b>52,856,646</b>	<b>38,573,970</b>	<b>91,430,616</b>	<b>48,564,102</b>	<b>41,691,499</b>	<b>90,255,601</b>
4.1 Customers' securities held		18,138,585	-	18,138,585	15,065,124	-	15,065,124
4.2 Investment securities held in custody		15,042,103	16,314,890	31,356,993	16,489,131	17,080,586	33,569,717
4.3 Checks received for collection		16,558,278	3,885,992	20,444,270	14,117,779	3,153,993	17,271,772
4.4 Commercial notes received for collection		2,824,586	900,585	3,725,171	2,551,368	1,165,068	3,716,436
4.5 Other assets received for collection		98,797	13,830,800	13,929,597	78,792	16,103,427	16,182,219
4.6 Assets received through public offering		-	92,625	92,625	-	85,344	85,344
4.7 Other items under custody		194,297	3,549,078	3,743,375	261,908	4,103,081	4,364,989
4.8 Custodians		-	-	-	-	-	-
<b>V. PLEDGED ITEMS</b>		<b>662,621,040</b>	<b>575,439,473</b>	<b>1,238,060,513</b>	<b>583,172,817</b>	<b>486,586,813</b>	<b>1,069,759,630</b>
5.1 Securities		4,123,200	260,868	4,384,068	4,588,155	315,976	4,904,131
5.2 Guarantee notes		36,609,095	16,584,613	53,193,708	37,868,541	14,996,659	52,865,200
5.3 Commodities		14,095	-	14,095	19,841	-	19,841
5.4 Warranties		-	242,502	242,502	-	206,513	206,513
5.5 Real estates		159,488,241	116,578,695	276,066,936	140,621,890	92,300,194	232,922,084
5.6 Other pledged items		462,386,409	441,772,729	904,159,138	400,074,220	378,767,417	778,841,637
5.7 Pledged items-depository		-	66	66	170	54	224
<b>VI. CONFIRMED BILLS OF EXCHANGE AND SURETIES</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL OFF-BALANCE SHEET ITEMS (A+B)</b>		<b>905,121,516</b>	<b>915,366,413</b>	<b>1,820,487,929</b>	<b>794,615,000</b>	<b>808,892,797</b>	<b>1,603,507,797</b>

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Income Statement  
At 31 December 2017

Convenience Translation of Financial Statements  
and Related Disclosures and Footnotes Originally  
Issued in Turkish

THOUSANDS OF TURKISH LIRA (TL)			
INCOME AND EXPENSE ITEMS	FOOTNOTES	CURRENT PERIOD 1 JANUARY 2017- 31 DECEMBER 2017	PRIOR PERIOD 1 JANUARY 2016- 31 DECEMBER 2016
<b>I. INTEREST INCOME</b>	5.4.1	<b>28,360,370</b>	<b>22,617,659</b>
1.1 Interest income on loans		21,912,595	17,577,562
1.2 Interest income on reserve deposits		222,596	238,038
1.3 Interest income on banks		451,750	205,126
1.4 Interest income on money market transactions		14,022	7,294
1.5 Interest income on securities portfolio		4,791,622	3,694,801
1.5.1 Trading financial assets		41,220	22,280
1.5.2 Financial assets valued at fair value through profit or loss		-	-
1.5.3 Financial assets available-for-sale		2,550,023	2,039,448
1.5.4 Investments held-to-maturity		2,200,379	1,633,073
1.6 Financial lease income		442,460	433,225
1.7 Other interest income		525,325	461,613
<b>II. INTEREST EXPENSE</b>	5.4.2	<b>12,673,800</b>	<b>10,361,926</b>
2.1 Interest on deposits		8,439,849	7,000,456
2.2 Interest on funds borrowed		1,323,169	1,143,112
2.3 Interest on money market transactions		1,309,125	1,098,821
2.4 Interest on securities issued		1,579,644	1,094,527
2.5 Other interest expenses		22,013	25,010
<b>III. NET INTEREST INCOME (I - II)</b>		<b>15,686,570</b>	<b>12,255,733</b>
<b>IV. NET FEES AND COMMISSIONS INCOME</b>		<b>3,860,413</b>	<b>3,275,690</b>
4.1 Fees and commissions received		5,118,766	4,324,798
4.1.1 Non-cash loans		433,188	345,061
4.1.2 Others		4,685,578	3,979,737
4.2 Fees and commissions paid		1,258,353	1,049,108
4.2.1 Non-cash loans		3,868	3,481
4.2.2 Others		1,254,485	1,045,627
<b>V. DIVIDEND INCOME</b>	5.4.3	<b>7,816</b>	<b>9,088</b>
<b>VI. NET TRADING INCOME/LOSSES (Net)</b>	5.4.4	<b>(1,842,027)</b>	<b>(743,653)</b>
6.1 Trading account income/losses (Net)		(324,697)	386,624
6.2 Income/losses from derivative financial instruments (Net)		(3,266,721)	(925,789)
6.3 Foreign exchange gains/losses (Net)		1,749,391	(204,488)
<b>VII. OTHER OPERATING INCOME</b>	5.4.5	<b>1,942,284</b>	<b>2,113,576</b>
<b>VIII. TOTAL OPERATING PROFIT (III+IV+V+VI+VII)</b>		<b>19,655,056</b>	<b>16,910,434</b>
<b>IX. PROVISION FOR LOSSES ON LOANS AND OTHER RECEIVABLES (-)</b>	5.4.6	<b>3,681,863</b>	<b>3,387,096</b>
<b>X. OTHER OPERATING EXPENSES (-)</b>	5.4.7	<b>7,623,756</b>	<b>7,032,388</b>
<b>XI. NET OPERATING PROFIT/LOSS (VIII-IX-X)</b>		<b>8,349,437</b>	<b>6,490,950</b>
<b>XII. INCOME RESULTED FROM MERGERS</b>		-	-
<b>XIII. INCOME/LOSS FROM INVESTMENTS UNDER EQUITY ACCOUNTING</b>		-	-
<b>XIV. GAIN/LOSS ON NET MONETARY POSITION</b>		-	-
<b>XV. PROFIT/LOSS BEFORE TAXES (XI+XII+XIII+XIV)</b>	5.4.8	<b>8,349,437</b>	<b>6,490,950</b>
<b>XVI. PROVISION FOR TAXES (±)</b>	5.4.9	<b>1,961,463</b>	<b>1,343,191</b>
16.1 Current tax charge		2,284,299	1,035,607
16.2 Deferred tax charge/(credit)		(322,836)	307,584
<b>XVII. NET OPERATING PROFIT/LOSS AFTER TAXES (XV±XVI)</b>	5.4.10	<b>6,387,974</b>	<b>5,147,759</b>
<b>XVIII. INCOME FROM DISCONTINUED OPERATIONS</b>		-	-
18.1 Income from assets held for sale		-	-
18.2 Income from sale of associates, affiliates and joint-ventures		-	-
18.3 Others		-	-
<b>XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)</b>		-	-
19.1 Expenses on assets held for sale		-	-
19.2 Expenses on sale of associates, affiliates and joint-ventures		-	-
19.3 Others		-	-
<b>XX. PROFIT/LOSS BEFORE TAXES ON DISCONTINUED OPERATIONS (XVIII-XIX)</b>	5.4.8	-	-
<b>XXI. PROVISION FOR TAXES OF DISCONTINUED OPERATIONS (±)</b>	5.4.9	-	-
21.1 Current tax charge		-	-
21.2 Deferred tax charge/(credit)		-	-
<b>XXII. NET PROFIT/LOSS AFTER TAXES ON DISCONTINUED OPERATIONS (XX±XXI)</b>	5.4.10	-	-
<b>XXIII. NET PROFIT/LOSS (XVII+XXII)</b>	5.4.11	<b>6,387,974</b>	<b>5,147,759</b>
23.1 Equity holders of the bank		6,332,056	5,105,291
23.2 Minority interest		55,918	42,468
<b>Earnings per Share</b>		<b>0.01508</b>	<b>0.01216</b>

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Statement of Income/Expense Items Accounted for  
under Shareholders' Equity  
At 31 December 2017

Convenience Translation of Financial Statements  
and Related Disclosures and Footnotes Originally  
Issued in Turkish

THOUSANDS OF TURKISH LIRA (TL)		
INCOME AND EXPENSE ITEMS UNDER SHAREHOLDERS' EQUITY	CURRENT PERIOD 1 JANUARY 2017 - 31 DECEMBER 2017	PRIOR PERIOD 1 JANUARY 2016 - 31 DECEMBER 2016
<b>I. MARKET VALUE GAINS ON AVAILABLE FOR SALE ASSETS ACCOUNTED UNDER "SECURITIES VALUE INCREASE FUND"</b>	<b>256,760</b>	<b>(293,599)</b>
<b>II. REVALUATION SURPLUS ON TANGIBLE ASSETS</b>	<b>160,314</b>	<b>12,220</b>
<b>III. REVALUATION SURPLUS ON INTANGIBLE ASSETS</b>	-	-
<b>IV. TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES</b>	<b>674,151</b>	<b>459,301</b>
<b>V. GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (effective portion)</b>	<b>56,034</b>	<b>11,475</b>
<b>VI. GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (effective portion)</b>	<b>(291,004)</b>	<b>(180,458)</b>
<b>VII. EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS</b>	-	-
<b>VIII. OTHER INCOME/EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY AS PER TAS</b>	<b>(49,496)</b>	<b>(58,826)</b>
<b>IX. DEFERRED TAXES ON VALUE INCREASES/DECREASES</b>	<b>(133,139)</b>	<b>62,489</b>
<b>X. NET INCOME/EXPENSE ITEMS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+III+IV+V+VI+VII+VIII+IX)</b>	<b>673,620</b>	<b>12,602</b>
<b>XI. CURRENT PERIOD PROFIT/LOSSES</b>	<b>6,387,974</b>	<b>5,147,759</b>
1.1 Net changes in fair value of securities (transferred to income statement)	(30,723)	214,415
1.2 Gains/losses on derivative financial assets held for cash flow hedges, reclassified and recorded in income statement	(85,449)	(125,301)
1.3 Gains/losses on hedges of net investment in foreign operations, reclassified and recorded in income statement	-	-
1.4 Others	6,504,146	5,058,645
<b>XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X+XI)</b>	<b>7,061,594</b>	<b>5,160,361</b>

The accompanying notes are an integral part of these consolidated financial statements.



# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Statement of Changes in Shareholders' Equity

Convenience Translation of Financial Statements  
and Related Disclosures and Footnotes Originally  
Issued in Turkish

At 31 December 2017

## THOUSANDS OF TURKISH LIRA (TL)

### STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Footnotes	PAID-IN CAPITAL	INFLATION ADJUSTMENT TO PAID-IN CAPITAL	SHARE PREMIUM	SHARE CANCELLATION PROFITS	LEGAL RESERVES	STATUS RESERVES	EXTRAORDINARY RESERVES	OTHER RESERVES	CURRENT PERIOD NET PROFIT/(LOSS)	BONUS SHARES OF EQUITY PARTICIPATIONS	REVALUATION SURPLUS ON TANGIBLE ASSETS	SECURITIES VALUE INCREASE FUND	REVALUATION SURPLUS ON INTANGIBLE ASSETS	REVALUATION SURPLUS ON SALE AND ASSETS OF DISCONTINUED OPERATIONS	SHAREHOLDERS' EQUITY BEFORE MINORITY INTEREST	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
I.	4,200,000	772,554	11,880	-1,226,628	19,168,165	751,943	3,580,901	(283,642)	1,765,883	947	(218,120)	30,977,139	226,617	31,203,756			
II.																	
2.1																	
2.2																	
III.	4,200,000	772,554	11,880	-1,226,628	19,168,165	751,943	3,580,901	(283,642)	1,765,883	947	(218,120)	30,977,139	226,617	31,203,756			
Changes during the period																	
IV.																	
V.																	
VI.																	
6.1																	
6.2																	
VII.																	
VIII.																	
IX.																	
X.																	
XI.																	
XII.																	
XIII.																	
XIV.																	
14.1																	
14.2																	
XV.																	
XVI.																	
XVII.																	
XVIII.																	
XIX.																	
XX.																	
20.1																	
20.2																	
20.3																	
Others																	
	4,200,000	772,554	11,880	-1,271,522	22,192,305	1,179,839	5,105,291	(543,625)	1,691,062	947	(353,676)	35,528,099	267,808	35,795,907			
Balances at end of the period (III+IV+V+.....+XVII+XIX+XX)																	
CURRENT PERIOD - 1 JANUARY-31 DECEMBER 2017																	
I.	4,200,000	772,554	11,880	-1,271,522	22,192,305	1,179,839	5,105,291	(543,625)	1,691,062	947	(353,676)	35,528,099	267,808	35,795,907			
Changes during the period																	
II.																	
III.																	
IV.																	
4.1																	
4.2																	
V.																	
VI.																	
VII.																	
VIII.																	
IX.																	
X.																	
XI.																	
XII.																	
12.1																	
12.2																	
XIII.																	
XIV.																	
XV.																	
XVI.																	
XVII.																	
XVIII.																	
18.1																	
18.2																	
18.3																	
Others																	
	4,200,000	772,554	11,880	-1,392,259	25,901,360	1,787,061	6,332,056	(317,814)	1,747,869	912	(544,285)	41,283,852	322,149	41,606,001			
Balances at end of the period (I+II+III+.....+XVI+XVII+XVIII)																	

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Statement of Cash Flows  
At 31 December 2017

Convenience Translation of Financial Statements  
and Related Disclosures and Footnotes Originally  
Issued in Turkish

STATEMENT OF CASH FLOWS	FOOTNOTES	THOUSANDS OF TURKISH LIRA (TL)	
		CURRENT PERIOD 1 JANUARY 2017 31 DECEMBER 2017	PRIOR PERIOD 1 JANUARY 2016 31 DECEMBER 2016
<b>A. CASH FLOWS FROM BANKING OPERATIONS</b>			
<b>1.1 Operating profit before changes in operating assets and liabilities</b>	5.6	<b>8,279,543</b>	<b>5,612,628</b>
1.1.1 Interests received		24,903,497	20,848,418
1.1.2 Interests paid		(12,001,215)	(10,535,351)
1.1.3 Dividend received		7,816	9,084
1.1.4 Fees and commissions received		5,118,766	4,324,798
1.1.5 Other income		1,577,846	2,166,392
1.1.6 Collections from previously written-off loans and other receivables		187,804	211,058
1.1.7 Payments to personnel and service suppliers		(6,539,838)	(6,016,150)
1.1.8 Taxes paid		(1,884,033)	(1,549,381)
1.1.9 Others		(3,091,100)	(3,846,240)
<b>1.2 Changes in operating assets and liabilities</b>	5.6	<b>(13,152,134)</b>	<b>(3,358,704)</b>
1.2.1 Net (increase) decrease in financial assets held for trading		(755,332)	32,967
1.2.2 Net (increase) decrease in financial assets valued at fair value through profit or loss		-	200,000
1.2.3 Net (increase) decrease in due from banks and other financial institutions		(12,584,956)	4,433,003
1.2.4 Net (increase) decrease in loans		(29,522,295)	(32,331,594)
1.2.5 Net (increase) decrease in other assets		(885,530)	(46,229)
1.2.6 Net increase (decrease) in bank deposits		(2,857,766)	(2,473,473)
1.2.7 Net increase (decrease) in other deposits		24,718,233	24,964,270
1.2.8 Net increase (decrease) in funds borrowed		7,545,144	1,977,302
1.2.9 Net increase (decrease) in matured payables		-	-
1.2.10 Net increase (decrease) in other liabilities		1,190,368	(114,950)
<b>I. Net cash flow from banking operations</b>	5.6	<b>(4,872,591)</b>	<b>2,253,924</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>II. Net cash flow from investing activities</b>	5.6	<b>(1,047,230)</b>	<b>1,149,148</b>
2.1 Cash paid for purchase of associates, affiliates and joint-ventures		(179)	-
2.2 Cash obtained from sale of associates, affiliates and joint-ventures		1,540	135,173
2.3 Purchases of tangible assets		(819,185)	(1,020,765)
2.4 Sales of tangible assets		293,292	196,105
2.5 Cash paid for purchase of financial assets available-for-sale, net		(10,859,357)	(9,706,665)
2.6 Cash obtained from sale of financial assets available-for-sale, net		9,652,673	10,857,020
2.7 Cash paid for purchase of investments held-to-maturity		(302,008)	(498,479)
2.8 Cash obtained from sale of investments held-to-maturity		985,994	1,186,759
2.9 Others		-	-
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>III. Net cash flow from financing activities</b>		<b>4,582,854</b>	<b>(379,641)</b>
3.1 Cash obtained from funds borrowed and securities issued		22,335,206	8,182,570
3.2 Cash used for repayment of funds borrowed and securities issued		(16,500,852)	(7,994,001)
3.3 Equity instruments issued		-	-
3.4 Dividends paid		(1,251,500)	(568,210)
3.5 Payments for financial leases		-	-
3.6 Others		-	-
<b>IV. Effect of change in foreign exchange rate on cash and cash equivalents</b>		<b>597,337</b>	<b>928,129</b>
<b>V. Net increase/(decrease) in cash and cash equivalents (I+II+III+IV)</b>	5.6	<b>(739,630)</b>	<b>3,951,560</b>
<b>VI. Cash and cash equivalents at beginning of period</b>	5.6	<b>15,692,142</b>	<b>11,740,582</b>
<b>VII. Cash and cash equivalents at end of period (V+VI)</b>	5.6	<b>14,952,512</b>	<b>15,692,142</b>

The accompanying notes are an integral part of these consolidated financial statements.

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Financial Report as of and for the Year Ended 31 December 2017  
(Thousands of Turkish Lira (TL))

*Convenience Translation of Financial Statements  
and Related Disclosures and Footnotes Originally  
Issued in Turkish*

## 3 ACCOUNTING POLICIES

### 3.1 BASIS OF PRESENTATION

The Bank prepares its consolidated financial statements in accordance with "the BRSA Accounting and Reporting Regulation" which includes the regulation on "The Procedures and Principles Regarding Banks' Accounting Practices and Maintaining Documents" published in the Official Gazette dated 1 November 2006 with No. 26333, and other regulations on accounting records of banks published by the Banking Regulation and Supervision Board and circulars and pronouncements published by the BRSA and Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority for the matters not regulated by the aforementioned legislations.

The accompanying consolidated financial statements are prepared in accordance with the historical cost basis except for financial instruments at fair value through profit or loss, financial assets available for sale, real estates and investments in associates and affiliates valued at equity basis of accounting or that are quoted on the stock exchanges which are presented on a fair value basis.

New and revised Turkish Accounting Standards effective for annual periods beginning on or after 1 January 2017 have no material effect on the consolidated financial statements, consolidated financial performance and on the Bank's accounting policies and accounting estimates. New and revised Turkish Accounting Standards issued but not yet effective have no material effect on the consolidated financial statements, consolidated financial performance and on the Bank's accounting policies and accounting estimates, except for IFRS9 which will be effective from periods beginning on or after 1 January 2018. The Bank continues to work in order to comply with TFRS9 standard, and the related studies are summarized in Note 3.30.

The accounting policies and the valuation principles applied in the preparation of the accompanying consolidated financial statements are explained in Notes 3.2 to 3.30.

### 3.2 STRATEGY FOR USE OF FINANCIAL INSTRUMENTS AND FOREIGN CURRENCY TRANSACTIONS

#### 3.2.1 STRATEGY FOR USE OF FINANCIAL INSTRUMENTS

The liability side of the balance sheet is intensively composed of short-term deposits in line with the general trend in the banking sector. In addition to deposits, the Bank and its financial affiliates have access to longer-term borrowings via the borrowings from abroad.

In order to manage the interest rate risk arising from short-term deposits, the Bank and its financial affiliates are keen on maintaining floating rate instruments such as government bonds with quarterly coupon payments and instruments like credit cards and consumer loans providing regular cash inflows.

A portion of the fixed-rate securities and loans, and the bonds of the Bank are hedged under fair value hedges. The fair value risks of such fixed-rate assets and financial liabilities are hedged with interest rate swaps and cross currency swaps. The fair value changes of the hedged fixed-rate financial assets and financial liabilities together with the changes in the fair value of the hedging instruments, namely interest rate swaps and cross currency swaps, are accounted under net trading income/losses in the income statement. At the inception of the hedge and during the subsequent periods, the hedge is expected to achieve the offsetting of changes in fair value attributable to the hedged risk for which the hedge is designated, and accordingly, the hedge effectiveness tests are performed.

The Bank may classify its financial assets and liabilities as at fair value through profit or loss at the initial recognition in order to eliminate any accounting inconsistency.

The fundamental strategy to manage the liquidity risk that may incur due to short-term structure of funding, is to expand the deposit base through customer-oriented banking philosophy, and to increase customer transactions and retention rates. The widespread and effective branch network, advantage of primary dealership and strong market share in the treasury and capital markets, are the most effective tools in the realisation of this strategy. For this purpose, serving customers by introducing new products and services continuously and reaching the customers satisfaction are very important.

Another influential factor in the management of the interest and liquidity risk on balance sheet is product diversification both on asset and liability sides.

Exchange rate risk, interest rate risk and liquidity risk are controlled and measured by various risk management systems, and the balance sheet is managed under the limits set by these systems and the limits legally required. Asset-liability management and value at risk models, stress tests and scenario analysis are used for this purpose.

Purchase and sale of short and long-term financial instruments are allowed within the pre-determined limits to generate risk-free return on capital.

The foreign currency position is controlled by the equilibrium of a currency basket to eliminate the foreign exchange risk.

# TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS FINANCIAL AFFILIATES

Consolidated Financial Report as of and for the Year Ended 31 December 2017  
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## 3.2.2 FOREIGN CURRENCY TRANSACTIONS

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates for the parent Bank and with the Central Bank of Turkey's spot purchase rates for domestic financial affiliates, and the differences are recorded as foreign exchange gain or loss in the income statement.

During the consolidation of foreign affiliates, the assets and liabilities are translated into TL at exchange rates ruling at the balance sheet date, the income and expenses in income statement are translated into TL using monthly average exchange rates. Foreign exchange differences arising from the translation of income and expenses and other equity items, are recognized under other profit reserves of the shareholders' equity.

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

## 3.3 INFORMATION ON CONSOLIDATED AFFILIATES

As of 31 December 2017, Türkiye Garanti Bankası Anonim Şirketi and the following financial affiliates are consolidated in the accompanying consolidated financial statements; Garanti Bank International (GBI), Garanti Finansal Kiralama AŞ (Garanti Finansal Kiralama), Garanti Yatırım Menkul Kıymetler AŞ (Garanti Yatırım), Garanti Portföy Yönetimi AŞ (Garanti Portföy), Garanti Emeklilik ve Hayat AŞ (Garanti Emeklilik), Garanti Faktoring AŞ (Garanti Faktoring) and Garanti Holding BV (Garanti Holding).

Garanti Finansal Kiralama was established in 1990 to perform financial lease activities and all related transactions and contracts. The company's head office is in Istanbul. The Bank increased its shareholding to 100% through a further acquisition of 0.04% of the company's shares on 21 October 2014.

Garanti Faktoring was established in 1990 to perform import, export and domestic factoring activities. The company's head office is in Istanbul. The Bank owns 81.84% of Garanti Faktoring shares including the shares acquired in the market, T. İhracat Kredi Bankası AŞ owns 9.78% of the company's shares and the remaining 8.38% shares are held by public.

GBI was established in October 1990 to perform banking activities abroad. The head office of this bank is in Amsterdam. It is wholly owned by the Bank.

Garanti Yatırım was established in 1991 to perform brokerage activities for marketable securities, valuable papers and documents representing financial values or financial commitments of issuing parties other than securities. The company's head office is in Istanbul. It is wholly owned by the Bank. Garanti Yatırım Ortaklığı AŞ that Garanti Yatırım participated by 3.30%, has been consolidated in the accompanying consolidated financial statements due to the company's right to elect all the members of the board of directors as resulted from its privilege in election of board members.

In 1992, it was decided to operate life and health branches under a different company and accordingly Garanti Hayat Sigorta AŞ was established. Garanti Hayat Sigorta AŞ was converted into a private pension company in compliance with the legislation early in 2003 and its name was changed as Garanti Emeklilik ve Hayat AŞ. Following the sale transactions that took place on 21 June 2007, the Bank's ownership in Garanti Emeklilik decreased to 84.91%. The head office of this company is in Istanbul.

Garanti Portföy was established in June 1997 to manage the customer portfolios by using the capital market products in compliance with the principles and rules of the regulations regarding the company's purpose of establishment and the portfolio management agreements signed with the customers. The company's head office is in Istanbul. It is wholly owned by the Bank.

Garanti Holding was established in December 2007 in Amsterdam and all its shares was purchased by the Bank from Doğu Holding AŞ in May 2010. As of 27 January 2011 the consolidated affiliate's legal named changed to Garanti Holding BV from D Netherlands BV.

Garanti Diversified Payment Rights Finance Company and RPV Company are structured entities established for the parent Bank's securitization transactions, and consolidated in the accompanying consolidated financial statements. The Bank or any of its affiliates does not have any shareholding interests in these companies.

The Bank and its financial affiliates do not consider the bonus shares received through capital increases of their affiliates from their own equities as income in accordance with TAS 18, as such capital increases do not create any differences in the financial position or economic interest of the Bank or its financial affiliates and it is not certain that there is an economic benefit associated with such transactions that will flow to the Bank or its financial affiliates.

## 3.4 FORWARDS, OPTIONS AND OTHER DERIVATIVE TRANSACTIONS

As per the Turkish Accounting Standard 39 (TAS 39) "Financial Instruments: Recognition and Measurement"; forward foreign currency purchases/sales, swaps, options and futures are classified as either "hedging purposes" or "trading purposes".

### 3.4.1 DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR TRADING

The derivative transactions mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency purchase/sale contracts.

Derivatives are initially recorded at their fair values. The related transaction costs are recognized in income statement at the date they incur. The changes in their fair values are recorded on balance sheet under "derivative financial assets held for trading" or "derivative financial liabilities held for trading", respectively depending on the fair values being positive or negative. Fair value changes for trading derivatives are recorded under income statement.

The spot legs of currency swap transactions are recorded on the balance sheet and the forward legs in the off-balance sheet accounts as commitment.

In the initial phase of currency swaps, the, currency exchange transactions to realise at value dates are recorded and followed as irrevocable commitments in the off-balance sheet accounts up to their value dates.

Liabilities and receivables arising from the derivative instruments are followed in the off-balance sheet accounts at their contractual values.

Embedded derivatives are separated from the host contract and accounted as derivative instruments according to TAS 39 "Financial Instruments: Recognition and Measurement" in case the related embedded derivative's economic features and risks are not closely related to the host contract, meets the derivative product definition of a different instrument having the same contract conditions with the embedded derivative and the hybrid instrument is not carried at fair value through profit or loss. There are no embedded derivatives separated from the host contracts.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another. The Bank's credit derivatives portfolio included in the off-balance sheet accounts composes of total return swaps and credit default swaps resulted from protection buying or selling.

Credit default swap is a contract, in which the protection seller commits to pay the protection value to the protection buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily at their fair values.

Total return swap is a contract, in which the protection seller commits to make a certain payment and compensate the decreases in market values of the reference assets to the buyer under the condition that the protection buyer will transfer all the cash flows to be created by and the increases in market values of the reference asset. The Bank enters into total return swap contract for the purpose of generating long-term funding.

### 3.4.2 DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSE

The Bank and its consolidated financial affiliates enter into interest rate and cross currency swap transactions in order to hedge the changes in fair values of fixed-rate financial instruments. The changes in fair values of derivative financial assets held for fair value hedges are recognised in "income/losses from derivative financial instruments". If the hedging is effective, the changes in fair value of the hedged item is presented in statement of financial position together with the fixed-rate loan, and in case of the fixed-rate financial assets available for sale, such changes are reclassified from shareholders' equity to income statement.

The Bank and its consolidated financial affiliates enter into interest rate and cross currency swap transactions in order to hedge the changes in cash flows of the floating-rate financial instruments. While applying cash flow hedge accounting, the effective portion of the changes in the fair value of the hedging instrument is accounted for under hedging reserves in shareholders' equity, and the ineffective portion is recognised in income statement. The changes recognized in shareholders' equity is removed and included in income statement in the same period when the hedged cash flows effect the income or loss.

Effectiveness tests are performed at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the "Dollar off-set model" and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness.

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortised to income statement under trading account income/loss caption over the maturity of the hedged item from that date of the hedge accounting is discontinued. While expiring, sale, discontinuing cash flow hedge accounting or when no longer effective the cumulative gains/losses recognised in shareholders' equity and presented under hedging reserves are continued to be kept in this account.

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When the cash flows of hedged item incur, the gain/losses accounted for under shareholders' equity are recognised in income statement considering the original maturity.

## 3.5 INTEREST INCOME AND EXPENSES

### General

Interest is recorded according to the effective interest rate method (rate equal to the rate in calculation of present value of future cash flows of financial assets or liabilities) defined in the Turkish Accounting Standard 39 (TAS 39) "Financial Instruments: Recognition and Measurement".

In case an interest was accrued on a security before its acquisition, the collected interest is divided into two parts as interest before and after the acquisition and only the interest income of the period after the acquisition is recorded as interest income in the financial statements.

The accrued interest income on non-performing loans are reversed and subsequently recognised as interest income only when collected.

### Financial lease operations

Total of minimum rental payments including interests and principals are recorded under "financial lease receivables" as gross. The difference, i.e. the interest, between the total of rental payments and the cost of the related tangible asset is recorded under "unearned income". When the rent payment incurs, the rent amount is deducted from "financial lease receivables"; and the interest portion is recorded as interest income in the income statement.

## 3.6 FEES AND COMMISSIONS

Except for certain fees related with certain banking transactions and recognized when received, fees and commissions received or paid, and other fees and commissions paid to financial institutions are accounted under accrual basis of accounting. The income derived from agreements or asset purchases from real-person or corporate third parties are recognized as income when realized.

## 3.7 FINANCIAL ASSETS

### 3.7.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets valued at fair value through profit or loss are valued at their fair values and gain/loss arising on those assets is recorded in the income statement. Interest income earned on trading securities and the difference between their acquisition costs and amortized costs are recorded as interest income in the income statement. The differences between the amortized costs and the fair values of such securities are recorded under trading account income/losses in the income statement. In cases where such securities are sold before their maturities, the gains/losses on such sales are recorded under trading account income/losses.

The Bank classifies certain loans and securities issued at their origination dates, as financial assets/liabilities at fair value through profit or loss in compliance with TAS 39. The interest income/expense earned and the difference between the acquisition costs and the amortized costs of financial instruments are recorded under interest income/expense in income statement, the difference between the amortized costs and the fair values of financial instruments are recorded under trading account income/losses in income statement.

### 3.7.2 INVESTMENTS HELD-TO-MATURITY, FINANCIAL ASSETS AVAILABLE-FOR-SALE AND LOANS AND RECEIVABLES

Financial assets are initially recorded at their purchase costs including the transaction costs.

*Investments held-to-maturity* are financial assets with fixed maturities and pre-determined payment schedules and held by the intent and ability to hold until maturity, excluding originated loans and receivables.

There are no financial assets that were previously classified as held-to-maturity but cannot be subject to this classification for two years due to breach of classification principles. In accordance with TAS 39 "Financial Instruments: Recognition and Measurement", sale or reclassification to available for sale portfolio of insignificant amount of financial assets, sale or reclassification to available for sale portfolio of financial assets which are close to maturity less than three months, or sale or reclassification to available for sale portfolio of assets as a result of significant increase in the risk weights of held-to-maturity investments used for regulatory risk-based capital purposes will not result in tainting.

Following their recognition, investments held-to-maturity are measured at amortized costs using internal rate of return after deducting impairments, if any.

*Financial assets available-for-sale*, are financial assets other than assets held for trading purposes, investments held-to-maturity and originated loans and receivables.

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Financial assets available-for-sale are measured at their fair values subsequently. However, assets for which fair values could not be determined reliably are valued at amortized costs by using the discounting method with internal rate of return for floating-rate securities; and by using valuation models or discounted cash flow techniques for fixed-rate securities. Unrecognised gain/losses derived from the difference between their fair value and the discounted values are recorded in "securities value increase fund" under the shareholders' equity. In case of sales, the gain/losses arising from fair value measurement accumulated under shareholders' equity are recognized in income statement.

Interests calculated and/or earned by using the effective interest method during holding of financial assets available-for-sale are recorded primarily in interest income. In case of sale of such financial assets available-for-sale before maturity date, the difference between the sales income calculated as difference between the cost in accordance with the Uniform Chart of Accounts and the sale price and the recognized interest income is transferred to "trading income/losses".

The Bank owns consumer price indexed government bonds (CPI) portfolio. CPI's are valued and accounted according to the effective interest rate method which is calculated according to the real coupon rate and the reference inflation index on the issue date. As it is mentioned in the Undersecretariat of Treasury's Investor Guide of CPI, the reference index used during the calculation of the actual coupon payment amount is the previous two months CPI's. The bank determines its expected inflation rates in compliance with this guide. The estimated inflation rate according to the Central Bank of Turkey and the Bank's expectations, is updated during the year when it is considered necessary.

Purchase and sale transactions of securities are accounted at delivery dates.

*Loans and receivables* are financial assets other than those held for trading in short term or generated through providing money, commodity and services to debtors.

Loans are financial assets with fixed or determinable payments and not quoted in an active market.

Loans and receivables are recognized at cost and measured at amortized cost using the effective interest method. Duties paid, transaction costs and other similar expenses on assets received against such risks are considered as a part of transaction cost and charged to customers.

## 3.8 IMPAIRMENT OF FINANCIAL ASSETS

Financial asset or group of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the Bank estimates the amount of impairment.

Impairment loss incurs if, and only if, there is an objective evidence that the expected future cash flows of financial asset or group of financial assets are adversely effected by an event(s) ("loss event(s)") incurred subsequent to recognition. The losses expected to incur due to future events are not recognized even if the probability of loss is high.

If there is an objective evidence that certain loans will not be collected, for such loans; the Bank makes reclassification and provides specific and general allowances in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables (the Provisioning Regulation) published on the Official Gazette no.26333 dated 1 November 2006 and TAS. The allowances are recorded in the income statement of the related period.

Provisions made during the period are recorded under "provision for losses on loans and other receivables". Provisions booked in the prior periods and relased in the current year are recorded under "other operating income."

## 3.9 NETTING AND DERECOGNITION OF FINANCIAL INSTRUMENTS

### 3.9.1 NETTING OF FINANCIAL INSTRUMENTS

In cases where the fair values of trading securities, securities available-for-sale, securities quoted at the stock exchanges, associates and affiliates are less than their carrying values, a provision for impairment is allocated, and the net value is shown on the balance sheet.

Specific allowances for non-performing loan and other receivables are provided in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables. Such allowances are deducted from loans under follow-up on the asset side.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank and its financial affiliates have legally enforceable rights to offset the recognized amounts and to collect/pay related financial assets and liabilities on a net basis, or there is an intention to realize the asset and settle the liability simultaneously.

## 3.9.2 DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognized only when the contractual rights to the cash flows from this asset expire, or when the financial asset and substantially all its risks and rewards of ownership are transferred to another party. If all the risks and rewards of ownership are neither transferred nor retained substantially and the control of the transferred asset is maintained, the retained interest in asset and associated liability for amounts that may have to be paid, is recognized. If all the risks and rewards of ownership of a transferred financial asset is retained substantially the financial asset is continued to be recognized and a collateralized borrowing for the proceeds received is also recognized.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the income statement.

In case an existing financial asset is replaced with another financial asset from the same counterparty where the terms on the initial financial asset are substantially modified, the existing financial asset is derecognized and a new financial asset is recognized. The difference between the carrying values of the respective financial assets is recognized in the income statement.

## 3.10 REPURCHASE AND RESALE AGREEMENTS AND SECURITIES LENDING

Securities sold under repurchase agreements are recorded on the balance sheet in compliance with the Uniform Chart of Accounts. Accordingly, government bonds and treasury bills sold to customers under repurchase agreements are classified as "Investments Subject to Repurchase Agreements" and valued based on the management's future intentions, either at market prices or using discounting method with internal rate of return. Funds received through repurchase agreements are classified separately under liability accounts and the related interest expenses are accounted for on an accrual basis.

Securities purchased under resale agreements are classified under "interbank money markets" separately. An income accrual is accounted for the positive difference between the purchase and resale prices earned during the period on such securities.

Securities lending transactions are classified under "interbank money markets" and the related expense accruals are accounted.

## 3.11 ASSETS HELD FOR SALE, ASSETS OF DISCONTINUED OPERATIONS AND RELATED LIABILITIES

According to the Turkish Financial Reporting Standard 5 (TFRS 5) "Assets Held for Sale and Discontinued Operations", a tangible asset (or a group of assets to be disposed) classified as "asset held for sale" is measured at lower of carrying value and fair value less costs to sell. An asset (or a group of assets to be disposed) is regarded as "asset held for resale" only when the sale is highly probable and the asset (or a group of assets to be disposed) 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 in the market at a price consistent with its fair value. Assets held for sale consist of tangible assets that were acquired against non-performing receivables.

A discontinued operation is a part of the business classified as sold or held-for-sale. The operating results of the discontinued operations are disclosed separately in income statement. The Bank or its financial affiliates have no discontinued operations.

## 3.12 GOODWILL AND OTHER INTANGIBLE ASSETS

The intangible assets consist of goodwill, softwares, intangible rights and other intangible assets.

Goodwill and other intangible assets are recorded at cost in accordance with the Turkish Accounting Standard 38 (TAS 38) "Intangible Assets".

The costs of other intangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 2004, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their initial purchase costs.

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

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

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



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The intangible assets are amortised over their estimated useful lives based on their inflation adjusted costs on a straight-line basis.

Goodwill represents the excess of the total acquisition costs over the shares owned in the net assets of the acquired company at the date of acquisition. The "net goodwill" resulted from the acquisition of the investment and to be included in the consolidated balance sheet, is calculated based on the financial statements of the investee company as adjusted according to the required accounting principles.

If any goodwill is computed at consolidation, it is recorded under intangible assets on the asset side of the consolidated balance sheet as an asset. It is assessed to identify whether there is any indication of impairment. If any such indication exists, the necessary provision is recorded as an expense in the income statement. The goodwill is not amortized.

Estimated useful lives of the intangible assets except for goodwill, are 3-15 years, and amortisation rates are 6.67-33.3%.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the Turkish Accounting Standard 36 (TAS 36) "Impairment of Assets" and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is provided.

### 3.13 TANGIBLE ASSETS

The cost of the tangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 2004, the date the hyperinflationary period is considered to be ended. The tangible assets purchased after this date are recorded at their historical costs.

As of 1 November 2015, changing the existing accounting policy, it has been decided to apply revaluation model for properties recorded under tangible assets instead of cost model in accordance with the Turkish Accounting Standard 16 (TAS 16) "Property, Plant and Equipment". Accordingly, for all real estates registered in the ledger, a valuation study was performed by independent expertise firms.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the Turkish Accounting Standard 36 (TAS 36) "Impairment of Assets" and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is provided.

Gains/losses arising from the disposal of the tangible assets are calculated as the difference between the net book value and the net sale price.

Maintenance and repair costs incurred for tangible assets, are recorded as expense.

There are no restrictions such as pledges, mortgages or any other restriction on tangible assets.

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

TANGIBLE ASSETS	ESTIMATED USEFUL LIVES (YEARS)	DEPRECIATION RATES %
Buildings	50	2
Vaults	50	2
Motor Vehicles	5-7	15-20
Other Tangible Assets	4-20	5-25

The depreciation of an asset held for a period less than a full financial year is calculated as a proportion of the full year depreciation charge from the date of acquisition to the financial year end.

Useful lives of buildings are reviewed at least once a year and if current estimates are different than previous estimates, then the revised estimates are considered as accounting policy change in accordance with the Turkish Accounting Standard 8 (TAS 8) "Accounting Policies, Changes in Accounting Estimates and Errors".

#### Investment properties

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 Turkish Accounting Standard 40 (TAS 40) "Investment Property". 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 in the income statement for the period they occurred.

Investment properties accounted at fair value are not depreciated.

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## 3.14 LEASING ACTIVITIES

Tangible assets acquired through financial leasing are recognized as assets and the related liabilities as lease payables in assets and liabilities, respectively. In the determination of the related asset and liability amounts, the lower of the fair value of the leased assets and the present value of leasing payments is considered. Financial costs on leasing agreements are distributed throughout the lease periods at fixed interest rates. Interest expenses and foreign exchange losses related with financial leasing are accounted in income statement.

In cases where leased assets are impaired or the expected future benefits of the assets are less than their book values, the book values of such leased assets are reduced to their net realizable values. Depreciation for assets acquired through financial leases is calculated consistently with the same principle as for the tangible assets.

Leases, in which the majority of risks and returns of the related asset belong to the lessor, are classified as operational lease. In operating leases, the rent payments are recognized as expense in income statement in equal amounts over the lease term.

## 3.15 PROVISIONS AND CONTINGENT LIABILITIES

Provisions and contingent liabilities resulted from past events, if it is probable that the commitment will be settled and a reliable estimate can be made for the amount of the obligation, are accounted for in accordance with the Turkish Accounting Standard 37 (TAS 37) "Provisions, Contingent Liabilities and Contingent Assets".

## 3.16 CONTINGENT ASSETS

The contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank or its financial affiliates. If an inflow of economic benefits has become probable, then the contingent asset is disclosed in the footnotes to the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the related period.

## 3.17 LIABILITIES FOR EMPLOYEE BENEFITS

### Severance indemnities and short-term employee benefits

As per the existing labour law in Turkey, the entities are required to pay certain amounts to the employees retired or fired except for resignations or misbehaviours specified in the Turkish Labour Law.

Accordingly, the Bank and its financial affiliates subject to the labour law, reserved for employee severance indemnities in the accompanying financial statements using actuarial method in compliance with the Turkish Accounting Standard 19 (TAS 19) "Employee Benefits" for all its employees who retired or whose employment is terminated, called up for military service or died. The major actuarial assumptions used in the calculation of the total liability are as follows:

	31 DECEMBER 2017	31 DECEMBER 2016
Net Effective Discount Rate	3.04%	3.43%
Discount Rate	11.70%	11.20%
Expected Rate of Salary Increase	9.90%	9.30%
Inflation Rate	8.40%	7.80%

In the above table, the ranges of effective rates are presented for the Bank and its financial affiliates subject to the labour law, whereas the rates applied for the calculations differ according to the employee's years-in-service.

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

The actuarial gains/losses are recognised under shareholders' equity as per the revised TAS19.

### Retirement benefit obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependents will receive on retirement.

The Bank's defined benefit plan (the "Plan") is managed by "Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı" (the Fund) established as per the provisional article 20 of the Social Security Law no.506 and the Bank's employees are the members of this Fund.

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The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law no. 506. These contributions are as follows:

	31 DECEMBER 2017	
	EMPLOYER	EMPLOYEE
Pension contributions	15.5%	10.0%
Medical benefit contributions	6.0%	5.0%

The Plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation ("SSF") as per the Social Security Law no.5754 ("the Law"), and b) other social rights and medical benefits provided by the Bank but not transferable to SSF.

## a) Benefits transferable to SSF

The first paragraph of the provisional article 23 of Banking Law no. 5411, published in the Official Gazette on 1 November 2005, no. 25983, which requires the transfer of the members of the funds subject to the provisional article 20 of the Social Security Law no.506, and the persons who are paid under insurance coverage for disablement, old-age and mortality and their right-holders to the SSF within three years following the effective date of the related article was cancelled with the decision of the Constitutional Court dated 22 March 2007, no. 2007/33. The reasoned ruling regarding the cancellation of the Constitutional Court was published in the Official Gazette no. 26731, dated 15 December 2007. The Constitutional Court stated that the reason behind this cancellation was the possible loss of antecedent rights of the fund members.

Following the publication of the verdict, the Turkish Grand National Assembly ("Turkish Parliament") started to work on the new legal arrangements by taking the cancellation reasoning into account and the articles of the Law no.5754 regulating the principles related with such transfers were accepted and approved by Turkish Parliament on 17 April 2008, and enacted on 8 May 2008 after being published in the Official Gazette no.26870.

As per the Law, the present value of post-employment benefits as at the transfer date for the fund members to be transferred, are to be calculated by a commission composing from the representatives of the SSF, the Ministry of Finance, the Undersecretariat of Treasury, the Undersecretariat of State Planning Organisation, the BRSA, the Savings Deposit Insurance Fund ("SDIF"), the banks and the funds, by using a technical discount rate of 9.80% taking into account the funds' income and expenses as per insurance classes and the transferable contributions and payments of the funds including any salary and income differences paid by the funds above the limits of SSF for such payments. The transfers are to take place within the three-year period starting from 1 January 2008. Subsequently, the transfer of the contributors and the persons receiving monthly or regular income and their right-holders from such funds established for employees of the banks, insurance and reinsurance companies, trade chambers, stock markets and unions that are part of these organizations subject to the provisional article 20 of the Social Security Law no.506 to the SSF, has been postponed for two years. The decision was made by the Council of Ministers on 14 March 2011 and published in the Official Gazette no. 27900 dated 9 April 2011 as per the decision of the Council of Ministers no. 2011/1559, and as per the letter no. 150 of the Ministry of Labor and Social Security dated 24 February 2011 and according to the provisional article 20 of the Social Security and Public Health Insurance Law no.5510.

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

## b) Other benefits not transferable to SSF

Other social rights and payments provided in the existing trust indenture but not covered through the transfer of the funds' members and their right-holders to the SSF, are to be covered by the funds and the institutions that employ the funds' members.

The actuarial gains/losses are recognised under shareholders' equity as per the revised TAS19.

The consolidated affiliates do not have retirement benefit plans for their employees. The retirement related benefits of the employees of the consolidated affiliates are subject to the Social Security Institution in case of domestic investees and to the legislations of the related countries in case of foreign investee companies. There are no obligations not reflected in the accompanying consolidated financial statements.

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## 3.18 INSURANCE TECHNICAL RESERVES AND TECHNICAL INCOME AND EXPENSE

### 3.18.1 INSURANCE TECHNICAL RESERVES

The Group's insurance subsidiaries adopted TFRS 4, Insurance Contracts ("TFRS 4"). TFRS 4 requires that all contracts issued by insurance companies be classified as either insurance contracts or investment contracts. Contracts with significant insurance risk are considered insurance contracts. Insurance risk is defined as risk, other than financial risk, transferred from the holder of a contract to the issuer. TFRS 4 permits a company to continue with its previously adopted accounting policies with regard to recognition and measurement of insurance contracts. Only in case of presentation of more reliable figures a change in accounting policy shall be carried out. Contracts issued by insurance companies without significant insurance risk are considered investment contracts. Investment contracts are accounted for in accordance with TAS 39 "Turkish Accounting Standard for Financial Instruments: Recognition and Measurement".

Insurance technical provisions on the consolidated financial statements consist of, reserve for unearned premiums, reserve for unexpired risk, and provision for outstanding claims and mathematical provisions.

### 3.18.2 INSURANCE TECHNICAL INCOME AND EXPENSE

In insurance companies, premium income is obtained subsequent to the share of reinsurers in policy income is diminished.

Claims are recorded in expense on accrual basis. Outstanding loss provisions are recognized for the claims reported but not paid yet and for the claims that incurred but not reported. Reinsurers' share of claims paid and outstanding loss are offset in these provisions.

## 3.19 TAXATION

### 3.19.1 CORPORATE TAX

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%.

This rate is applied to tax base which is calculated by adding certain non deductible expenses for tax purposes and deducting certain exemptions (like dividend income) and other deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

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.

The prepaid taxes are calculated and paid at the rates valid for the earnings of the related years. The prepayments can be deducted from the annual corporate tax calculated for the whole year earnings.

In accordance with the Turkish tax legislation, the 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 previous periods.

Effective between 1 January 2017 and 4 December 2017, earnings generated through transfer of real estates, equity shares, founders' shares, redeemed shares and pre-emption rights owned by the companies being under legal proceedings due to their debts to the banks or liable to the Savings Deposit Insurance Fund or by their guarantors and mortgage providers and earnings generated by the banks through sale of such assets are exempt from corporate tax at the rate of 75%.

Effective between 1 January 2017 and 4 December 2017, 75% of earnings generated through sale of real estates, equity shares, founders' shares, redeemed shares and pre-emption rights held as asset at least for two years by the institutions are exempt from the corporate tax with the conditions that such earnings shall be held in a special reserve account under equity until the end of five years following the year of sale and shall be collected as cash until the end of the following two fiscal years.

On the other hand, based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061, effective from 5 December 2017, the aforementioned exemption rate is set as 50% for the earnings generated through sale of real estates and 75% for the earnings generated through sale of other items.

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## *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 balance sheets, income statements 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 twelve 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 presented in the tax declaration form that is due till the following year's month of November.

### **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 in addition to corporate tax. The municipalities have the right to increase this rate up to 200%-350%. The municipality commerce tax, which the Bank's Luxembourg branch subject to currently is applied as 7.50% of the taxable income. The tax returns do not include any tax amounts to be paid. The tax calculation is done by the tax office and the amount to be paid is declared to corporate through an official letter 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 financial 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. In general, 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 to offset against future taxable income for nine years. Tax losses can be carried back to the 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 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.

## **3.19.2 DEFERRED TAXES**

According to the Turkish Accounting Standard 12 (TAS 12) "Income Taxes"; deferred tax assets and liabilities are recognized, using the balance sheet method, on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

If transactions and events are recorded in the income statement, then the related tax effects are also recognized in the income statement. However, if transactions and events are recorded directly in the shareholders' equity, the related tax effects are also recognized directly in the shareholders' equity.

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The deferred tax assets and liabilities of the Bank and its consolidated affiliates are reported as net in their individual financial statements.

In compliance with TAS 12, the deferred tax assets and liabilities of the consolidated affiliates are presented on the asset and liability sides of financial statements separately, without any offsetting.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Furthermore, the deferred tax assets are not subject to profit distribution or capital increase as per the BRSA's related circular in cases where there are net asset balances after netting deferred tax assets with deferred tax liabilities.

### 3.19.3 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.

### 3.20 FUNDS BORROWED

The Bank, whenever required, generates funds from domestic and foreign sources in the form of borrowings, syndications, securitizations, and bill and bond issuances in the local and international markets. The funds borrowed are recorded at their purchase costs and valued at amortised costs using the effective interest method.

In cases where such funds are valued at their amortised costs but this application results in measurement or accounting mismatch due to having the related financial instruments valued using different methods or the related gains or losses are recognized differently, such fundings are reclassified as financial liabilities at their fair values through profit or loss at initial recognition in order to prevent such mismatch. The interest expenses paid during holding the related financial liabilities and the difference between the amortized cost and the acquisition cost are recorded as interest expense in income statement and the difference between the fair values and the amortized costs of the financial liabilities are recorded under trading account income/losses.

### 3.21 SHARES AND SHARE ISSUANCES

If the Bank issues a share at a price above its nominal value, the difference between the issue price and the nominal value is accounted for "share premium" under shareholders' equity.

### 3.22 CONFIRMED BILLS OF EXCHANGE AND ACCEPTANCES

Payments of the confirmed bills of exchange and acceptances are made simultaneously with the payments of the customers. Confirmed bills of exchange and acceptances are recorded in "off-balance sheet accounts" as possible debts and commitments, if any.

### 3.23 GOVERNMENT INCENTIVES

As of 31 December 2017, the Bank or its financial affiliates do not have any government incentives or grants (2016: none).

### 3.24 SEGMENT REPORTING

The Bank operates in corporate, commercial, retail and investment banking. Accordingly, the banking products served to customers are; custody services, time and demand deposits, accumulating deposit accounts, repos, overdraft facilities, spot loans, foreign currency indexed loans, consumer loans, automobile and housing loans, working capital loans, discounted bills, gold loans, foreign currency loans, Eximbank loans, pre-export loans, ECA covered financing, letters of guarantee, letters of credit, export factoring, acceptance credits, draft facilities, forfaiting, leasing, insurance, forward, futures, salary payments, investment account (ELMA), cheques, safety boxes, bill payments, tax collections, payment orders. GarantiCard, BonusCard, Miles&Smiles Card, FlexiCard, MoneyCard, BusinessCard under the brand name of Visa and Mastercard, virtual cards and also American Express credit cards and "Paracard" debit cards with Maestro, Electron, Visa and Mastercard brand names, are available.

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The Bank provides service packages to its corporate, commercial and retail customers including deposit, loans, foreign trade transactions, investment products, cash management, leasing, factoring, insurance, credit cards, and other banking products. A customer-oriented branch network has been built in order to serve customers' needs effectively and efficiently. The Bank also utilizes alternative delivery channels intensively.

The Bank provides corporate banking products to international and national holdings in Turkey by coordinating regional offices, suppliers and intermediaries, utilizing cross-selling techniques. Mainly, it provides services through its commercial and mixed type of branches to export-revenue earning sectors like tourism and textile and exporters of Turkey's traditional agricultural products.

Additionally, the Bank provides banking services to enterprises and their employees working in retail and service sectors through product packages including overdraft accounts, POS machines, credit cards, cheque books, Turkish Lira and foreign currency deposits, investment accounts, internet banking and call-center, debit cards and bill payment modules.

Retail banking customers form a wide-spread and sustainable deposit base for the Bank. Individual customers' needs are met by diversified consumer banking products through branches and alternative delivery channels.

Information on the business segments on a consolidated basis is as follows:

CURRENT PERIOD	RETAIL BANKING	CORPORATE / COMMERCIAL BANKING	INVESTMENT BANKING	OTHER	TOTAL OPERATIONS
Total Operating Profit	7,809,622	7,031,362	338,384	4,467,872	19,647,240
Other	-	-	-	-	-
<b>Total Operating Profit</b>	<b>7,809,622</b>	<b>7,031,362</b>	<b>338,384</b>	<b>4,467,872</b>	<b>19,647,240</b>
Net Operating Profit	3,450,976	3,796,523	131,704	962,418	8,341,621
Income from Associates and Affiliates	-	-	-	7,816	7,816
<b>Net Operating Profit</b>	<b>3,450,976</b>	<b>3,796,523</b>	<b>131,704</b>	<b>970,234</b>	<b>8,349,437</b>
Provision for Taxes	-	-	-	1,961,463	1,961,463
<b>Net Profit</b>	<b>3,450,976</b>	<b>3,796,523</b>	<b>131,704</b>	<b>(991,229)</b>	<b>6,387,974</b>
Segment Assets	69,610,939	159,744,598	95,004,662	31,819,036	356,179,235
Investments in Associates and Affiliates	-	-	-	152,432	152,432
<b>Total Assets</b>	<b>69,610,939</b>	<b>159,744,598</b>	<b>95,004,662</b>	<b>31,971,468</b>	<b>356,331,667</b>
Segment Liabilities	128,802,347	81,145,621	83,621,821	21,155,877	314,725,666
Shareholders' Equity	-	-	-	41,606,001	41,606,001
<b>Total Liabilities and Shareholders' Equity</b>	<b>128,802,347</b>	<b>81,145,621</b>	<b>83,621,821</b>	<b>62,761,878</b>	<b>356,331,667</b>
<b>PRIOR PERIOD</b>	<b>RETAIL BANKING</b>	<b>CORPORATE / COMMERCIAL BANKING</b>	<b>INVESTMENT BANKING</b>	<b>OTHER</b>	<b>TOTAL OPERATIONS</b>
Total Operating Profit	6,448,700	5,414,154	1,054,411	3,984,081	16,901,346
Other	-	-	-	-	-
<b>Total Operating Profit</b>	<b>6,448,700</b>	<b>5,414,154</b>	<b>1,054,411</b>	<b>3,984,081</b>	<b>16,901,346</b>
Net Operating Profit	2,692,970	1,925,929	708,983	1,153,980	6,481,862
Income from Associates and Affiliates	-	-	-	9,088	9,088
<b>Net Operating Profit</b>	<b>2,692,970</b>	<b>1,925,929</b>	<b>708,983</b>	<b>1,163,068</b>	<b>6,490,950</b>
Provision for Taxes	-	-	-	1,343,191	1,343,191
<b>Net Profit</b>	<b>2,692,970</b>	<b>1,925,929</b>	<b>708,983</b>	<b>(180,123)</b>	<b>5,147,759</b>
Segment Assets	61,499,413	140,924,123	80,712,705	28,832,579	311,968,820
Investments in Associates and Affiliates	-	-	-	153,119	153,119
<b>Total Assets</b>	<b>61,499,413</b>	<b>140,924,123</b>	<b>80,712,705</b>	<b>28,985,698</b>	<b>312,121,939</b>
Segment Liabilities	116,243,213	67,671,139	74,092,285	18,319,395	276,326,032
Shareholders' Equity	-	-	-	35,795,907	35,795,907
<b>Total Liabilities and Shareholders' Equity</b>	<b>116,243,213</b>	<b>67,671,139</b>	<b>74,092,285</b>	<b>54,115,302</b>	<b>312,121,939</b>

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## 3.25 PROFIT RESERVES AND PROFIT APPROPRIATION

Retained earnings as per the statutory financial statements other than legal reserves, are available for distribution, subject to the legal reserve requirement explained to below.

Under the Turkish Commercial Code, legal reserves consist of first legal reserve and second legal reserve. First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid-in share capital. Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued and fully paid-in share capital, but holding companies are not subject to such transaction. According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

In the ordinary general assembly dated 30 March 2017, it was decided to distribute cash dividend from the net profit of the Bank amounting to TL 5,070,549 thousands from its 2016 operations to the shareholders as disclosed in Note 6.2.

## 3.26 EARNINGS PER SHARE

Earnings per share disclosed in the income statement are calculated by dividing net profit for the period by the weighted average number of shares outstanding during the period concerned.

	CURRENT PERIOD	PRIOR PERIOD
Distributable net profit for the year	6,332,056	5,105,291
Average number of issued common shares (thousand)	420,000,000	420,000,000
Earnings per share (amounts presented full TL)	0.01508	0.01216

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period. In case bonus shares are distributed after the balance sheet date but before the preparation of the financial statements, earnings per share is calculated considering the new number of shares.

There are no bonus shares issued in 2017 (2016: none).

## 3.27 RELATED PARTIES

For the purpose of these financial statements, shareholders having control shares of the Bank, key management personnel and board members together with their families and companies controlled by/affiliated with them, associated companies and joint ventures and the Fund providing post employment benefits are considered and referred to as related parties in accordance with TAS 24 "Related Parties". The transactions with related parties are disclosed in detail in Note 5.7.

## 3.28 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash includes cash effectives, cash in transit, purchased cheques and demand deposits including balances with the Central Bank of Turkey; and cash equivalents include interbank money market placements, time deposits at banks with original maturity periods of less than three months and investments on marketable securities other than common stocks.

## 3.29 RECLASSIFICATIONS

None.

## 3.30 OTHER DISCLOSURES

In January 2017, Public Oversight Accounting and Auditing Standards Authority ("POA") published the final version of TFRS 9 which replaces TAS 39. TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. In this context, it became compulsory for banks to adopt TFRS 9 effective from 1 January 2018 based on the regulation published in the Official Gazette no. 29750 dated 22 June 2016 in connection with procedures and principals regarding classification of loans and allowances allocated for such loans.

The Bank has been analysing the potential impact of the new standard on both in the classification of portfolios and in the valuation models of financial instruments ever since publication of the initial drafts of the standard.



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During 2016 and 2017, the Bank conducted an extensive project to implement TFRS 9 with the participation of finance, risk, technology, economic research departments and business areas. In this project, it is established the definition of the processes regarding implementation of the corresponding accounting policies and standards and made necessary preparations in connection with the presentation of the financial statements.

The impact assessment regarding three phases of TFRS 9 is explained below:

## Measurement and Classification of Financial Instruments:

### Financial Assets:

TFRS 9 contains a new approach regarding the classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. TFRS 9 contains three main categories of classification for financial assets: valued at amortized cost, valued at fair value with changes in other comprehensive income, and valued at fair value through profit or loss.

It is anticipated that the financial assets valued at fair value through profit or loss will continue to be measured at fair value. On the other hand, there might be classifications among the financial assets classified as financial assets valued at amortized cost or valued at fair value with changes in other comprehensive income depending on the characteristics of their business models.

Loans and receivables are held to collect contractual cash flows and such cash flows consist of principal and interest collections. The Bank analysed contractual cash flow characteristics of these financial instruments and decided to classify such instruments as financial assets valued at amortised cost. Accordingly, it shall not be possible to classify these financial instruments into a different category.

Based on the analysis carried out up until today, the Bank considers that the new classification requirements under TFRS 9 will not have a significant impact on the balance sheet of the Bank.

### Financial Liabilities:

TFRS 9 maintains the requirements in TAS 39 for the classification of financial liabilities except for allowing accounting of the fair value changes occurred as a result of changes in a financial liability's own credit risk under other comprehensive income for the liabilities designated for fair value option (applicable for instances not affecting the accounting mismatch at large extent). Based on the evaluation of the Bank, it is not anticipated a significant impact regarding accounting of financial liabilities based on the scope of TFRS 9.

## Impairment:

TFRS 9 replaces the "incurred losses" model in TAS 39 with a model of "expected credit loss". The new standard establishes three stages impairment model (general model) based on the change in credit quality subsequent to initial recognition.

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

The matters which have the most significant impact on TFRS 9 implementation and may change impairment calculations considerably are presented below:

- Assessment of under which conditions there may be significant increase in credit risk
- Macroeconomic factors, forward looking information and multiple scenarios
- Maximum contractual period over which it is exposed to credit risk to be considered during measurement of expected credit losses
- Definition of default

It is not anticipated a significant impact on the total equity as a result of the impairment calculation based expected credit loss model in accordance with TFRS 9. The impact of implementation for this standard is based on the assessments made so far. As of the transition date, it is still ongoing the revisions on the accounting policies, relevant processes and internal controls. Accordingly, there might be changes in the anticipated impact of TFRS 9 on the financials until announcement of the first time adoption financial statement including the opening balance sheet as of 1 January 2018. Besides, the Bank will calculate deferred tax on the expected credit losses calculated on stage 1 and 2 loans and the impact regarding calculated deferred tax asset will be accounted under equity during transition.

## Hedge Accounting:

TFRS 9 also includes new hedge accounting rules regarding alignment of the risk management strategies with hedge accounting. During selection of the accounting policies, TFRS 9 gives option of continuing with TAS 39 hedge accounting principles and deferring hedge accounting rules in accordance with TFRS 9.

Accordingly, the Bank will continue to apply TAS 39 rules regarding hedge accounting applications.

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## 4 CONSOLIDATED FINANCIAL POSITION AND RESULTS OF OPERATIONS AND RISK MANAGEMENT

### 4.1 CONSOLIDATED TOTAL CAPITAL

The consolidated capital items calculated as per the "Regulation on Equities of Banks" published on 5 September 2013, are presented below:

#### 4.1.1 COMPONENTS OF CONSOLIDATED TOTAL CAPITAL

CURRENT PERIOD	AMOUNT	AMOUNT AS PER THE REGULATION BEFORE 1/1/2014 (*)
<b>COMMON EQUITY TIER I CAPITAL</b>		
Paid-in Capital to be Entitled for Compensation after All Creditors	4,972,554	
Share Premium	11,880	
Reserves	27,527,097	
Other Comprehensive Income according to TAS	4,045,373	
Profit	6,332,056	
Current Period Profit	6,332,056	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	912	
Minority Interest	122,991	
<b>Common Equity Tier I Capital Before Deductions</b>	<b>43,012,863</b>	
<b>DEDUCTIONS FROM COMMON EQUITY TIER I CAPITAL</b>		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	-
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	1,717,191	-
Leasehold Improvements on Operational Leases (-)	130,913	-
Goodwill Netted with Deferred Tax Liabilities	5,110	6,388
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	274,695	343,368
Net Deferred Tax Asset/Liability (-)	5,905	7,381
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	-
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Securitization gains	-	-
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	-
Net amount of defined benefit plans	-	-
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	1,394	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	-	-
<b>Total Deductions from Common Equity Tier I Capital</b>	<b>2,135,208</b>	
<b>Total Common Equity Tier I Capital</b>	<b>40,877,655</b>	
<b>ADDITIONAL TIER I CAPITAL</b>		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	

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	AMOUNT	AMOUNT AS PER THE REGULATION BEFORE 1/1/2014 (*)
Shares of Third Parties in Additional Tier I Capital		
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-	
<b>Additional Tier I Capital before Deductions</b>	-	
<b>DEDUCTIONS FROM ADDITIONAL TIER I CAPITAL</b>		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
<b>ITEMS TO BE DEDUCTED FROM TIER I CAPITAL DURING THE TRANSITION PERIOD</b>		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	69,951	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	1,476	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	-
<b>Total Deductions from Additional Tier I Capital</b>	-	-
<b>Total Additional Tier I Capital</b>	-	-
<b>Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)</b>	<b>40,806,228</b>	
<b>TIER II CAPITAL</b>		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	2,831,850	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	3,078,025	
<b>Total Deductions from Tier II Capital</b>	<b>5,909,875</b>	
<b>DEDUCTIONS FROM TIER II CAPITAL</b>		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments in equity instruments issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and having conditions stated in the Article 8 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
<b>Total Deductions from Tier II Capital</b>	-	-
<b>Total Tier II Capital</b>	<b>5,909,875</b>	
<b>Total Equity (Total Tier I and Tier II Capital)</b>	<b>46,716,103</b>	
<b>TOTAL TIER I CAPITAL AND TIER II CAPITAL (TOTAL EQUITY)</b>		
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	5	
Other items to be Defined by the BRSA (-)	30,874	
<b>ITEMS TO BE DEDUCTED FROM THE SUM OF TIER I AND TIER II CAPITAL (CAPITAL) DURING THE TRANSITION PERIOD</b>		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	-

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	AMOUNT	AMOUNT AS PER THE REGULATION BEFORE 1/1/2014 (*)
<b>CAPITAL</b>		
Total Capital (Total of Tier I Capital and Tier II Capital)	46,685,224	-
Total Risk Weighted Assets	278,024,586	-
<b>CAPITAL ADEQUACY RATIOS</b>		
Consolidated CET1 Capital Ratio (%)	14.70	-
Consolidated Tier I Capital Ratio (%)	14.68	-
Consolidated Capital Adequacy Ratio (%)	16.79	-
<b>BUFFERS</b>		
Total Additional CET1 Capital Requirement Ratio (a+b+c)	2.312	-
a) Capital Conservation Buffer Ratio (%)	1.250	-
b) Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0.062	-
c) Systemically Important Banks Buffer Ratio (%)	1.000	-
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation (%)	8.792	-
<b>AMOUNTS LOWER THAN EXCESSES AS PER DEDUCTION RULES</b>		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	459,775	-
<b>LIMITS FOR PROVISIONS USED IN TIER II CAPITAL CALCULATION</b>		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	3,673,669	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	3,078,025	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	-
<b>DEBT INSTRUMENTS COVERED BY TEMPORARY ARTICLE 4 (EFFECTIVE BETWEEN 1.1.2018-1.1.2022)</b>		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-

(\*) Under this item fully loaded amounts were reported for items that are subject to phasing in according to "Bank Capital Regulation" dated 1 January 2014.

(\*\*) According to "Bank Capital Regulation" article 10 paragraph 4, which published on Official Gazette dated 5th September 2013 and numbered 28756, banks also calculate their consolidated capital with their consolidated insurance company investments as unconsolidated financial institutions if 9th article's 4th paragraph's (c) and (ç) items apply. Lesser of consolidated capital calculated according to 1st and 4th paragraphs is considered the consolidated capital according to this regulation. As the consolidated capital calculated including the insurance affiliate is lesser, the consolidated capital is calculated according to consolidated financial statements including the insurance affiliate.

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PRIOR PERIOD	AMOUNT	AMOUNT AS PER THE REGULATION BEFORE 1/1/2014 (*)
<b>COMMON EQUITY TIER I CAPITAL</b>		
Paid-in Capital to be Entitled for Compensation after All Creditors	4,972,554	
Share Premium	11,880	
Reserves	23,704,951	
Other Comprehensive Income according to TAS	3,090,208	
Profit	5,114,182	
Current Period Profit	5,114,182	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	947	
Minority Interest	52,513	
<b>Common Equity Tier I Capital Before Deductions</b>	<b>36,947,235</b>	
<b>DEDUCTIONS FROM COMMON EQUITY TIER I CAPITAL</b>		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	-
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	1,429,152	-
Leasehold Improvements on Operational Leases (-)	116,307	-
Goodwill Netted with Deferred Tax Liabilities	3,833	6,388
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	156,911	261,520
Net Deferred Tax Asset/Liability (-)	7,129	11,881
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	-
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Securitization gains	-	-
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	-
Net amount of defined benefit plans	-	-
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	1,730	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	-	-
<b>Total Deductions from Common Equity Tier I Capital</b>	<b>1,715,062</b>	
<b>Total Common Equity Tier I Capital</b>	<b>35,232,173</b>	
<b>ADDITIONAL TIER I CAPITAL</b>		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	

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	AMOUNT	AMOUNT AS PER THE REGULATION BEFORE 1/1/2014 (*)
Shares of Third Parties in Additional Tier I Capital		
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-	
<b>Additional Tier I Capital before Deductions</b>	-	
<b>DEDUCTIONS FROM ADDITIONAL TIER I CAPITAL</b>		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	-
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
<b>ITEMS TO BE DEDUCTED FROM TIER I CAPITAL DURING THE TRANSITION PERIOD</b>		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	107,163	-
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	4,752	-
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	-
<b>Total Deductions from Additional Tier I Capital</b>	-	-
<b>Total Additional Tier I Capital</b>	-	-
<b>Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)</b>	<b>35,120,258</b>	
<b>TIER II CAPITAL</b>		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	2,889,903	
<b>Total Deductions from Tier II Capital</b>	<b>2,889,903</b>	
<b>DEDUCTIONS FROM TIER II CAPITAL</b>		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Investments in equity instruments issued by Banks and Financial Institutions Invested in Bank's Tier II Capital and having conditions stated in the Article 8 of the Regulation	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Other items to be defined by the BRSA (-)	-	-
<b>Total Deductions from Tier II Capital</b>	-	-
<b>Total Tier II Capital</b>	<b>2,889,903</b>	
<b>Total Equity (Total Tier I and Tier II Capital)</b>	<b>38,010,161</b>	
<b>TOTAL TIER I CAPITAL AND TIER II CAPITAL (TOTAL EQUITY)</b>		
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	31	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	56,325	
Other items to be Defined by the BRSA (-)	36,994	
<b>ITEMS TO BE DEDUCTED FROM THE SUM OF TIER I AND TIER II CAPITAL (CAPITAL) DURING THE TRANSITION PERIOD</b>		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	-

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	AMOUNT	AMOUNT AS PER THE REGULATION BEFORE 1/1/2014 (*)
<b>CAPITAL</b>		
Total Capital (Total of Tier I Capital and Tier II Capital)	37,916,811	-
Total Risk Weighted Assets	258,425,540	-
<b>CAPITAL ADEQUACY RATIOS</b>		
Consolidated CET1 Capital Ratio (%)	13.63	-
Consolidated Tier I Capital Ratio (%)	13.59	-
Consolidated Capital Adequacy Ratio (%)	14.67	-
<b>BUFFERS</b>		
Bank-Specific total CET1 Capital Ratio (%)	5.658	-
Capital Conservation Buffer Ratio (%)	0.625	-
Bank-Specific Counter-Cyclical Capital Buffer Ratio (%)	0.533	-
Additional CET1 Capital Over Total Risk Weighted Assets Ratio Calculated According to the Article 4 of Capital Conservation and Counter-Cyclical Capital Buffers Regulation (%)	6.672	-
<b>AMOUNTS LOWER THAN EXCESSES AS PER DEDUCTION RULES</b>		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	1,125,107	-
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	245,522	-
<b>LIMITS FOR PROVISIONS USED IN TIER II CAPITAL CALCULATION</b>		
General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	3,215,533	-
General Loan Provisions for Exposures in Standard Approach Limited by 1.25% of Risk Weighted Assets	2,889,903	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	-
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0.6% Risk Weighted Assets	-	-
<b>DEBT INSTRUMENTS COVERED BY TEMPORARY ARTICLE 4 (EFFECTIVE BETWEEN I.I.2018-I.I.2022)</b>		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	-
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	-

(\*) Under this item fully loaded amounts were reported for items that are subject to phasing in according to "Bank Capital Regulation" dated 1 January 2014.

(\*\*) 250% risk weight is applied to TL 1,125,107 thousands according to Regulation on "Capital Adequacy Ratio" Annex-1 Paragraph 73, which is not deducted from Common Equity Tier 1 Capital.

The Bank plans its Common Equity Tier 1 (CET1) Capital by considering 10% as the minimum target while considering its additional CET 1 requirements during the phase-in period due to aforementioned regulations.

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## 4.1.2 ITEMS INCLUDED IN CAPITAL CALCULATION

INFORMATION ABOUT INSTRUMENTS INCLUDED IN TOTAL CAPITAL CALCULATION	
Issuer	T. Garanti Bankası A.Ş.
Identifier (CUSIP, ISIN vb.)	Reg S: ISIN: XS1617531063 Common Code: 161753106 144A: CUSIP: 900148 AE7 ISIN: US900148AE73 Common Code: 161752479
Governing law (s) of the instrument	Subject to English Law and in terms of certain articles to Turkish Regulations. It is issued within the scope of the Communiqué VII-128.8 on Debt Instruments of the Capital Markets Board and the Regulation on Bank Capital of the BRSA.
REGULATORY TREATMENT	
Subject to 10% deduction as of 1/1/2015	No
Eligible on unconsolidated and /or consolidated basis	Eligible on unconsolidated and consolidated
Instrument type	Subordinated debt instruments (Notes)
Amount recognized in regulatory capital (Currency in TL million, as of most recent reporting date)	2,832
Nominal value of instrument (TL million)	2,832
Accounting classification of the instrument	34701 – Secondary Subordinated Loans
Issuance date of instrument	23.05.2017
Maturity structure of the instrument (demand/time)	Time
Original maturity of the instrument	24.05.2027
Issuer call subject to prior supervisory (BRSA) approval	Yes
Optional call date, contingent call dates and redemption amount	24.05.2022 - USD750,000,000.00
Subsequent call dates, if applicable	-
INTEREST/DIVIDEND PAYMENT*	
Fixed or floating coupon/dividend payments	Fixed
Coupon rate and any related index	6.1250%
Existence of any dividend payment restriction	None
Fully discretionary, partially discretionary or mandatory	-
Existence of step up or other incentive to redeem	None
Noncumulative or cumulative	None
Convertible into equity shares	None
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, type of instrument convertible into	-
If convertible, issuer of instrument to be converted into	-
Write-down feature	Yes
If bonds can be written-down, write-down trigger(s)	Due to the losses incurred, where the Bank is at the point at which the BRSA may determine pursuant to Article 71 of the Banking Law that: (i) its operating license is to be revoked and the Bank is liquidated or (ii) the rights of all of its shareholders (except to dividends), and the management and supervision of the Bank, are to be transferred to the SDIF on the condition that losses are deducted from the capital of existing shareholders (occurrence of either condition means the issuer has become non-viable), or (iii) it is probable that the Issuer will become non-viable; then the bonds can be written-down.
If bond can be written-down, full or partial	Partially or fully
If bond can be written-down, permanent or temporary	Continuously
If temporary write-down, description of write-up mechanism	There are no any temporary write-up mechanisms.
Position in subordination hierarchy in case of liquidation (instrument type immediately senior to the instrument)	In priority of receivables, it comes after the senior obligations of the Issuer.
In compliance with article number 7 and 8 of Regulation on Bank Capital	Instrument is in compliant with Article 8 of the Regulation on Bank Capital.
Details of incompliance with article number 7 and 8 of Regulation on Bank Capital	Instrument is not in compliant with Article 7 of the Regulation on Bank Capital.



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## 4.1.3 RECONCILIATION OF CAPITAL ITEMS TO BALANCE SHEET

CURRENT PERIOD	CARRYING VALUE	AMOUNT OF CORRECTION	VALUE OF THE CAPITAL REPORT (*)	EXPLANATION OF THE DIFFERENCES
Paid-in Capital	4,200,000	772,554	4,972,554	Inflation adjustments included in Paid-in Capital according to Regulation's Temporary Article 1
Capital Reserves	1,526,847	(883,725)	643,122	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Other Comprehensive Income According to TAS	1,514,055	(883,725)	630,330	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Securities Value Increase Fund	(317,814)	10,504	(307,310)	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Revaluation Surplus on Tangible Assets	1,747,869	-	1,747,869	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Revaluation Surplus on Intangible Assets	-	-	-	
Revaluation Surplus on Investment Property	-	-	-	
Hedging Reserves (Effective Portion)	(544,285)	(121,675)	(665,960)	Items not included in the calculation as per Regulation's Article 9-1-f
Revaluation Surplus on Assets Held for Sale and Assets of Discontinued Operations	-	-	-	
Other Capital Reserves	628,285	(772,554)	(144,269)	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*); and Inflation adjustments included in Paid-in Capital according to Regulation's Temporary Article 1
Bonus Shares of Associates, Affiliates and Joint-Ventures	912	-	912	
Share Premium	11,880	-	11,880	
Profit Reserves	29,224,949	-	29,224,949	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Profit or Loss	6,332,056	-	6,332,056	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Prior Periods Profit/Loss	-	-	-	
Current Period Net Profit/Loss	6,332,056	-	6,332,056	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Minority Interest	322,149	(199,158)	122,991	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Deductions from Common Equity Tier I Capital (-)	-		418,017	Deductions from Common Equity Tier 1 Capital as per the Regulation
<b>Common Equity Tier I Capital</b>	<b>41,606,001</b>		<b>40,877,655</b>	
Subordinated Debts			-	
Deductions from Tier I Capital (-)			71,427	Deductions from Tier I Capital as per the Regulation
<b>Tier I Capital</b>			<b>40,806,228</b>	
Subordinated Debts			2,831,850	
General Provisions			3,078,025	General Loan Provision added to Tier II Capital as per the Regulation's Article 8
Deductions from Tier II Capital (-)			-	Deductions from Tier II Capital as per the Regulation
<b>Tier II Capital</b>			<b>5,909,875</b>	
Deductions from Total Capital (-)			30,879	Deductions from Capital as per the Regulation
<b>Total</b>			<b>46,685,224</b>	

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Paid-in Capital	4,200,000	772,554	4,972,554	Inflation adjustments included in Paid-in Capital according to Regulation's Temporary Article 1
Capital Reserves	1,474,369	(878,442)	595,927	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Other Comprehensive Income According to TAS	1,461,542	(878,442)	583,100	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Securities Value Increase Fund	(543,625)	9,161	(534,464)	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Revaluation Surplus on Tangible Assets	1,691,062	(36,807)	1,654,255	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Revaluation Surplus on Intangible Assets	-	-	-	
Revaluation Surplus on Investment Property	-	-	-	
Hedging Reserves (Effective Portion)	(353,676)	(78,370)	(432,046)	Items not included in the calculation as per Regulation's Article 9-1-f
Revaluation Surplus on Assets Held for Sale and Assets of Discontinued Operations	-	-	-	
Other Capital Reserves	667,781	(772,426)	(104,645)	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*); and inflation adjustments included in Paid-in Capital according to Regulation's Temporary Article 1
Bonus Shares of Associates, Affiliates and Joint-Ventures	947	-	947	
Share Premium	11,880	-	11,880	
Profit Reserves	24,748,439	34,468	24,782,907	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Profit or Loss	5,105,291	8,891	5,114,182	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Prior Periods Profit/Loss	-	-	-	
Current Period Net Profit/Loss	5,105,291	8,891	5,114,182	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Minority Interest	267,808	(215,295)	52,513	Adjustment effect required by the Regulation on "Bank Capital" Article 10 Paragraph 4 (*)
Deductions from Common Equity Tier I Capital (-)	-		285,910	Deductions from Common Equity Tier 1 Capital as per the Regulation
<b>Common Equity Tier I Capital</b>	<b>35,795,907</b>		<b>35,232,173</b>	
Subordinated Debts			-	
Deductions from Tier I Capital (-)			111,915	Deductions from Tier I Capital as per the Regulation
<b>Tier I Capital</b>			<b>35,120,258</b>	
Subordinated Debts			-	
General Provisions			2,889,903	General Loan Provision added to Tier II Capital as per the Regulation's Article 8
Deductions from Tier II Capital (-)			-	Deductions from Tier II Capital as per the Regulation
<b>Tier II Capital</b>			<b>2,889,903</b>	
Deductions from Total Capital (-)			93,350	Deductions from Capital as per the Regulation
<b>Total</b>			<b>37,916,811</b>	

(\*) According to "Bank Capital Regulation" article 10 paragraph 4, which published on Official Gazette dated 5th September 2013 and numbered 28756, banks calculated their consolidated capital with their consolidated insurance company investments as unconsolidated financial institutions if 9th article's 4th paragraph's (c) and (ç) items apply. Lesser of consolidated capital calculated according to 1st and 4th paragraphs is considered the consolidated capital according to this regulation. As the consolidated capital calculated without including the insurance affiliate is lesser than the consolidated capital calculated including the insurance affiliate, when proceeding from the consolidated financial statements to the consolidated capital there is an adjustment for excluding the insurance company from consolidation.

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## 4.2 CONSOLIDATED CREDIT RISK

Credit risk is defined as risks and losses that may occur if the counterparty that the Bank or its consolidated financial affiliates work with, fails to comply with the agreement's requirements and cannot perform its obligations partially or completely on the terms set. In compliance with the legislation, the credit limits are set for the financial position and credit requirements of customers within the authorization limits assigned for Branches, Lending Departments, Executive Vice President responsible of Lending, General Manager, Credit Committee and Board of Directors. The limits are subject to revision if necessary.

The debtors or group of debtors are subject to credit risk limits. Sectoral risk concentrations are reviewed on a monthly basis. Credit worthiness of debtors is reviewed periodically in compliance with the legislation by the internal risk rating models. The credit limits are revised and further collateral is required if the risk level of debtor deteriorates. For unsecured loans, the necessary documentation is gathered in compliance with the legislation.

Geographical concentration of credit customers is reviewed monthly. This is in line with the concentration of industrial and commercial activities in Turkey.

In accordance with the lending policies, the debtor's creditworthiness is analysed and the adequate collateral is obtained based on the financial position of the company and the type of loan; like cash collateral, bank guarantees, mortgages, pledges, bills and personal or corporate guarantees.

There are control limits on the position held through forwards, options and other similar agreements. Credit risk of such instruments is managed together with the risk from market fluctuations. The risk arising from such instruments are followed up and when necessary, the actions to decrease it are taken.

The liquidated non-cash loans are subject to the same risk weight with the overdue loans.

Foreign trade finance and other interbank credit transactions are performed through widespread correspondents network. Accordingly, limits are assigned to domestic and foreign banks and other financial institutions based on review of their credit worthiness, periodically.

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. Risk rating has become a requirement for loan applications, and ratings are used both to determine branch managers' credit authorization limits and in credit assessment process.

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

	CURRENT PERIOD	PRIOR PERIOD
	%	%
Above Average	39.01	40.20
Average	47.68	47.99
Below Average	13.31	11.81
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

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Total amount of exposures after offsetting transactions but before applying credit risk mitigations and the average exposure amounts that are classified in different risk groups and types, are disclosed below for the relevant period:

EXPOSURE CATEGORIES	CURRENT PERIOD (*)	AVERAGE (**)	PRIOR PERIOD (*)	AVERAGE (**)
Conditional and unconditional exposures to central governments or central banks	93,544,327	85,195,158	67,305,286	73,988,899
Conditional and unconditional exposures to regional governments or local authorities	124,592	123,847	132,655	92,560
Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	323,865	211,339	64,343	65,561
Conditional and unconditional exposures to multilateral development banks	1,816,462	1,666,895	1,443,371	1,139,231
Conditional and unconditional exposures to international organisations	-	-	-	-
Conditional and unconditional exposures to banks and brokerage houses	38,173,204	38,722,083	45,659,651	41,464,066
Conditional and unconditional exposures to corporates	149,299,065	141,452,494	136,683,596	131,475,572
Conditional and unconditional retail exposures	81,863,528	75,775,025	66,769,991	59,081,330
Conditional and unconditional exposures secured by real estate property	38,559,431	40,245,558	36,698,091	30,988,810
Past due items	1,161,094	1,093,809	1,065,374	973,536
Items in regulatory high-risk categories	1,091,083	1,824,289	2,308,629	4,654,614
Exposures in the form of bonds secured by mortgages	-	-	-	-
Securitisation positions	-	-	-	-
Short term exposures to banks, brokerage houses and corporates	-	-	-	-
Exposures in the form of collective investment undertakings	44,516	28,695	-	-
Shares	164,293	888,243	218,992	637,245
Other items (***)	10,283,383	8,472,383	9,494,987	8,377,418

(\*) Includes total risk amounts before the effect of credit risk mitigation but after credit conversions.

(\*\*) Average risk amounts are the arithmetical averages of the amounts in monthly reports prepared as per the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks.

(\*\*\*) Shares are reported under "other items" in the prior period.

The parent Bank and its financial affiliates' largest 100 and 200 cash loan customers compose 23.07% (31 December 2016: 24.42%) and 29.25% (31 December 2016: 31.27%) of the total cash loan portfolio, respectively.

The parent Bank and its financial affiliates' largest 100 and 200 non-cash loan customers compose 45.45% (31 December 2016: 51.42%) and 55.08% (31 December 2016: 61.15%) of the total non-cash loan portfolio, respectively.

The parent Bank and its financial affiliates' largest 100 ve 200 cash and non-cash loan customers represent 7.95% (31 December 2016: 8.69%) and 10.14% (31 December 2016: 11.24%) of the total "on and off balance sheet" assets, respectively.

The general provision for consolidated credit risk amounts to TL 3,673,669 thousands (31 December 2016: TL 3,215,533 thousands).

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## 4.2.1 PROFILE OF SIGNIFICANT EXPOSURES IN MAJOR REGIONS

CURRENT PERIOD (****)	EXPOSURE CATEGORIES(*)							OTHER	TOTAL
	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO BANKS AND BROKERAGE HOUSES	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO CORPORATES	CONDITIONAL AND UNCONDITIONAL RETAIL EXPOSURES	CONDITIONAL AND UNCONDITIONAL EXPOSURES SECURED BY REAL ESTATE PROPERTY	ITEMS IN REGULATORY HIGH-RISK CATEGORIES			
Domestic	84,901,396	9,989,483	128,612,153	78,346,834	37,065,756	906,172	11,310,579	351,132,373	
European Union (EU) Countries	7,713,667	24,028,466	11,892,093	3,093,618	1,455,230	149,918	2,561,361	50,894,353	
OECD Countries(**)	139	1,030,796	4,107,924	5,152	7,072	32,792	92	5,183,967	
Off-Shore Banking Regions	-	75,843	298,631	1,074	480	-	-	376,028	
USA, Canada	1,079	2,571,777	2,255,887	6,676	4,259	3	16,776	4,856,457	
Other Countries	928,046	390,607	2,123,488	410,174	26,634	2,198	16,495	3,897,642	
Associates, Subsidiaries and Joint -Ventures	-	86,232	8,889	-	-	-	12,902	108,023	
Unallocated Assets/ Liabilities (***)	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>93,544,327</b>	<b>38,173,204</b>	<b>149,299,065</b>	<b>81,863,528</b>	<b>38,559,431</b>	<b>1,091,083</b>	<b>13,918,205</b>	<b>416,448,843</b>	

PRIOR PERIOD (****)	EXPOSURE CATEGORIES(*)							OTHER	TOTAL
	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO BANKS AND BROKERAGE HOUSES	CONDITIONAL AND UNCONDITIONAL EXPOSURES TO CORPORATES	CONDITIONAL AND UNCONDITIONAL RETAIL EXPOSURES	CONDITIONAL AND UNCONDITIONAL EXPOSURES SECURED BY REAL ESTATE PROPERTY	ITEMS IN REGULATORY HIGH-RISK CATEGORIES			
Domestic	62,213,592	13,280,397	117,348,484	63,961,399	35,871,303	791,687	10,339,411	303,806,273	
European Union (EU) Countries	4,605,824	30,261,053	10,436,611	2,418,906	796,302	334,866	2,007,318	50,860,880	
OECD Countries(**)	95	593,111	3,963,959	3,070	5,675	17	30,898	4,596,825	
Off-Shore Banking Regions	-	3,063	773,608	1,290	580	13,700	1	792,242	
USA, Canada	1,131	1,076,577	2,452,419	8,313	3,283	9,325	3,003	3,554,051	
Other Countries	484,644	369,005	1,705,225	377,013	20,948	33,927	27,169	3,017,931	
Associates, Subsidiaries and Joint -Ventures	-	76,445	3,290	-	-	1,125,107	11,922	1,216,764	
Unallocated Assets/ Liabilities (***)	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>67,305,286</b>	<b>45,659,651</b>	<b>136,683,596</b>	<b>66,769,991</b>	<b>36,698,091</b>	<b>2,308,629</b>	<b>12,419,722</b>	<b>367,844,966</b>	

(\*) Exposure categories are as per the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks.

(\*\*) Includes OECD countries other than EU countries, USA and Canada.

(\*\*\*) Includes asset and liability items that can not be allocated on a consistent basis.

(\*\*\*\*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

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#### 4.2.2 RISK PROFILE BY SECTORS OR COUNTERPARTIES

CURRENT PERIOD (**)	EXPOSURE CATEGORIES (*)																	Total		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17		TP	YP
<b>Agriculture</b>	-	795	-	-	-	-	2,028,549	712,025	419,057	18,489	40,091	-	-	-	-	-	-	1,398,689	1,820,317	3,219,006
Farming and Stockbreeding	-	-	-	-	-	-	1,694,397	639,094	384,469	17,469	39,883	-	-	-	-	-	-	1,312,626	1,462,686	2,775,312
Forestry	-	795	-	-	-	-	105,785	42,656	24,608	656	134	-	-	-	-	-	-	35,135	139,499	174,634
Fishery	-	-	-	-	-	-	228,367	30,275	9,980	364	74	-	-	-	-	-	-	50,928	218,132	269,060
<b>Manufacturing</b>	-	-	107,372	-	-	-	64,677,060	8,086,547	7,794,459	219,647	227,103	-	-	-	-	10,105	-	28,280,427	52,841,866	81,122,293
Mining and Quarrying	-	-	-	-	-	-	2,600,597	362,098	86,091	8,550	15,501	-	-	-	-	-	-	900,962	2,171,875	3,072,837
Production	-	-	7	-	-	-	36,931,403	7,541,250	4,298,712	171,705	167,593	-	-	-	10,105	-	22,222,714	26,898,061	49,120,775	
Electricity, Gas and Water	-	-	107,365	-	-	-	25,145,060	183,199	3,409,656	39,392	44,009	-	-	-	-	-	-	5,156,751	23,771,930	28,928,681
<b>Construction</b>	-	-	128	-	-	-	8,884,000	4,288,576	2,634,550	63,680	71,743	-	-	-	-	-	-	10,345,461	5,597,216	15,942,677
<b>Services</b>	455	1,816,462	996	1,816,462	38,173,204	67,040,339	18,222,876	9,317,959	620,015	609,744	-	-	-	-	44,516	30,489	-	52,247,265	83,629,790	135,877,055
Wholesale and Retail Trade	-	-	203	-	-	-	28,594,333	13,863,462	4,595,497	242,829	89,876	-	-	-	-	-	-	29,936,376	17,449,824	47,386,200
Accommodation and Dining	-	-	89	-	-	-	3,999,348	983,246	2,633,646	106,797	18,193	-	-	-	-	-	-	2,334,835	5,406,484	7,741,319
Transportation and Telecommunication	-	-	177	-	-	-	16,642,547	2,254,927	498,514	240,097	37,144	-	-	-	-	-	-	4,946,398	14,727,008	19,673,406
Financial Institutions	-	-	-	1,816,462	38,173,204	8,684,179	168,374	72,644	4,684	4,684	438,707	-	-	-	44,516	30,489	-	11,687,796	37,745,463	49,433,259
Real Estate and Rental Services	-	-	-	-	-	-	5,177,038	274,766	949,568	14,722	8,847	-	-	-	-	-	-	1,405,687	5,019,254	6,424,941
Professional Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Educational Services	9	-	355	-	-	-	353,969	192,867	381,404	668	9,849	-	-	-	-	-	-	765,421	173,700	939,121
Health and Social Services	446	-	172	-	-	-	3,588,925	485,234	186,686	10,218	7,128	-	-	-	-	-	-	1,170,752	3,108,057	4,278,809
<b>Others</b>	93,543,872	123,797	215,369	-	-	-	6,669,117	50,553,504	18,393,406	239,263	142,402	-	-	-	-	123,699	10,283,383	127,261,277	53,026,535	180,287,812
<b>Total</b>	93,544,327	124,592	323,865	1,816,462	38,173,204	149,299,065	81,863,528	38,559,431	1,161,094	1,091,083	-	-	-	-	44,516	164,293	10,283,383	219,533,119	196,915,724	416,448,843

(\*) Exposure categories are as per the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks.

(\*\*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

- 1- Conditional and unconditional exposures to central governments or central banks
- 2- Conditional and unconditional exposures to regional governments or local authorities
- 3- Conditional and unconditional exposures to administrative bodies and non-commercial undertakings
- 4- Conditional and unconditional exposures to multilateral development banks
- 5- Conditional and unconditional exposures to international organisations
- 6- Conditional and unconditional exposures to banks and brokerage houses
- 7- Conditional and unconditional exposures to corporates
- 8- Conditional and unconditional retail exposures
- 9- Conditional and unconditional exposures secured by real estate property
- 10- Past due receivables
- 11- Receivables in regulatory high-risk categories
- 12- Exposures in the form of bonds secured by mortgages
- 13- Securitisation positions
- 14- Short term exposures to banks, brokerage houses and corporates
- 15- Exposures in the form of collective investment undertakings
- 16- Shares
- 17- Other receivables

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## EXPOSURE CATEGORIES (\*)

PRIOR PERIOD (**)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	TL	FC	Total
<b>Agriculture</b>	-	508	-	-	-	-	1,086,624	568,984	434,471	56,205	10,025	-	-	-	-	-	1,199,007	957,810	2,156,817
Farming and Stockbreeding	-	-	-	-	-	-	895,354	510,611	396,966	55,612	8,681	-	-	-	-	-	1,124,319	742,905	1,867,224
Forestry	-	508	-	-	-	-	100,633	36,041	28,790	485	280	-	-	-	-	-	33,380	133,357	166,737
Fishery	-	-	-	-	-	-	90,637	22,332	8,715	108	1,064	-	-	-	-	-	41,308	81,548	122,856
<b>Manufacturing</b>	5	-	-	-	-	128,678	56,420,611	6,446,944	7,157,929	268,142	253,201	-	-	-	19,801	-	20,828,288	49,867,023	70,695,311
Mining and Quarrying	-	-	-	-	-	-	2,630,693	279,321	117,122	16,431	8,520	-	-	-	-	-	800,030	2,252,057	3,052,087
Production	-	-	-	-	-	-	31,166,478	6,043,707	4,299,810	212,869	203,126	-	-	-	19,801	-	16,711,133	25,234,658	41,945,791
Electricity, Gas and Water	5	-	-	-	-	128,678	22,623,440	123,916	2,740,997	38,842	41,555	-	-	-	-	-	3,371,125	22,380,308	25,697,433
<b>Construction</b>	-	4	173	-	-	-	7,584,160	3,131,638	2,395,650	118,651	79,043	-	-	-	-	-	7,488,021	5,821,298	13,309,319
<b>Services</b>	489	523	17,668	1,443,371	-	44,605,066	60,326,969	14,211,299	9,551,382	498,490	448,194	-	-	-	55,693	-	83,034,202	48,124,942	131,159,144
Wholesale and Retail Trade	-	-	268	-	-	-	25,684,402	10,716,937	4,983,071	210,956	134,354	-	-	-	-	-	24,339,788	17,390,200	41,729,988
Accommodation and Dining	-	-	13	-	-	-	3,517,892	819,381	2,697,010	91,466	17,250	-	-	-	-	-	1,874,952	5,268,060	7,143,012
Transportation and Telecommunication	-	120	10	-	-	-	14,572,019	1,823,151	607,756	146,933	26,777	-	-	-	-	-	3,231,372	13,945,394	17,176,766
Financial Institutions	-	-	-	1,443,371	-	44,605,066	7,997,755	105,864	65,700	2,358	244,473	-	-	-	55,693	-	50,503,300	4,016,980	54,520,280
Real Estate and Rental Services	-	-	-	-	-	-	5,535,000	211,973	623,968	12,629	5,078	-	-	-	-	-	1,404,116	4,984,532	6,388,648
Professional Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Educational Services	1	403	17,377	-	-	-	274,015	146,151	353,374	24,986	12,209	-	-	-	-	-	674,972	153,544	828,516
Health and Social Services	488	-	-	-	-	-	2,745,886	387,842	220,503	9,162	8,053	-	-	-	-	-	1,005,702	2,366,232	3,371,934
<b>Others</b>	67,304,792	131,620	46,502	-	-	925,907	11,265,232	42,411,126	17,158,659	123,886	1,518,166	-	-	-	143,498	9,494,987	73,371,764	77,152,611	150,524,375
<b>Total</b>	67,305,286	132,655	64,343	1,443,371	-	45,659,651	136,683,596	66,769,991	36,698,091	1,065,374	2,308,629	-	-	-	218,992	9,494,987	185,921,282	181,923,684	367,844,966

(\*) Exposure categories are as per the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks.

(\*\*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

- 1- Conditional and unconditional exposures to central governments or central banks
- 2- Conditional and unconditional exposures to regional governments or local authorities
- 3- Conditional and unconditional exposures to administrative bodies and non-commercial undertakings
- 4- Conditional and unconditional exposures to multilateral development banks
- 5- Conditional and unconditional exposures to international organisations
- 6- Conditional and unconditional exposures to banks and brokerage houses
- 7- Conditional and unconditional exposures to corporates
- 8- Conditional and unconditional retail exposures
- 9- Conditional and unconditional exposures secured by real estate property
- 10- Post due receivables
- 11- Receivables in regulatory high-risk categories
- 12- Exposures in the form of bonds secured by mortgages
- 13- Securitisation positions
- 14- Short term exposures to banks, brokerage houses and corporates
- 15- Shares
- 16- Other receivables

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## 4.2.3 ANALYSIS OF MATURITY-BEARING EXPOSURES ACCORDING TO REMAINING MATURITIES

CURRENT PERIOD		TERM TO MATURITY					DEMAND	TOTAL
		UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	OVER 1 YEAR		
1	Conditional and unconditional exposures to central governments or central banks	14,820,747	23,751,196	1,650,024	115,625	42,524,823	10,681,912	93,544,327
2	Conditional and unconditional exposures to regional governments or local authorities	3,599	30	-	1,939	118,784	240	124,592
3	Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	437	355	44,651	15,451	251,763	11,208	323,865
4	Conditional and unconditional exposures to multilateral development banks	1,613,682	13,369	51,562	71,012	66,837	-	1,816,462
5	Conditional and unconditional exposures to international organisations	-	-	-	-	-	-	-
6	Conditional and unconditional exposures to banks and brokerage houses	9,393,739	1,988,724	1,807,593	2,152,437	19,163,615	3,667,096	38,173,204
7	Conditional and unconditional exposures to corporates	8,220,016	9,614,277	9,407,690	17,788,422	86,282,518	17,986,142	149,299,065
8	Conditional and unconditional retail exposures	8,439,791	4,925,061	2,413,635	5,023,648	43,488,580	17,572,813	81,863,528
9	Conditional and unconditional exposures secured by real estate property	144,639	291,776	641,857	1,614,223	32,905,831	2,961,105	38,559,431
10	Past due items	-	-	-	-	-	1,161,094	1,161,094
11	Items in regulatory high-risk categories	235,979	387,484	1,967	12,252	124,060	329,341	1,091,083
12	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-
13	Securitisation positions	-	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-
15	Exposures in the form of collective investment undertakings	-	-	-	-	-	44,516	44,516
16	Shares	-	-	-	-	-	164,293	164,293
17	Other items	36,363	775,428	-	-	-	9,471,592	10,283,383
<b>Total</b>		<b>42,908,992</b>	<b>41,747,700</b>	<b>16,018,979</b>	<b>26,795,009</b>	<b>224,926,811</b>	<b>64,051,352</b>	<b>416,448,843</b>

(\*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.

PRIOR PERIOD		TERM TO MATURITY					DEMAND	TOTAL
		UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	OVER 1 YEAR		
1	Conditional and unconditional exposures to central governments or central banks	6,877,124	14,069,704	87,825	5,445	38,718,233	7,546,955	67,305,286
2	Conditional and unconditional exposures to regional governments or local authorities	2,575	253	1,217	2,081	126,040	489	132,655
3	Conditional and unconditional exposures to administrative bodies and non-commercial undertakings	394	106	1,572	234	59,343	2,694	64,343
4	Conditional and unconditional exposures to multilateral development banks	-	-	-	6,379	1,436,992	-	1,443,371
5	Conditional and unconditional exposures to international organisations	-	-	-	-	-	-	-
6	Conditional and unconditional exposures to banks and brokerage houses	13,919,811	2,744,333	2,312,751	3,003,511	22,680,507	998,738	45,659,651
7	Conditional and unconditional exposures to corporates	9,374,574	11,462,845	12,423,601	18,147,263	80,021,580	5,253,733	136,683,596
8	Conditional and unconditional retail exposures	13,654,414	7,649,530	2,535,461	4,972,916	31,815,225	6,142,445	66,769,991
9	Conditional and unconditional exposures secured by real estate property	227,305	476,200	785,913	1,842,293	31,356,990	2,009,390	36,698,091
10	Past due items	-	-	-	-	-	1,065,374	1,065,374
11	Items in regulatory high-risk categories	304,970	233,797	13,009	28,980	213,055	1,514,818	2,308,629
12	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-
13	Securitisation positions	-	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-
15	Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-
16	Shares	-	-	-	-	-	218,992	218,992
17	Other items	646,707	-	-	-	-	8,848,280	9,494,987
<b>Total</b>		<b>45,007,874</b>	<b>36,636,768</b>	<b>18,161,349</b>	<b>28,009,102</b>	<b>206,427,965</b>	<b>33,601,908</b>	<b>367,844,966</b>

(\*) Includes risk amounts before the effect of credit risk mitigation but after the credit conversions.



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## 4.2.4 EXPOSURE CATEGORIES

An international rating firm, Fitch Ratings' external risk ratings are used to determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks".

The international risk ratings are used for the exposures to central governments and central banks, whereas for central governments and central banks that are not rated by Fitch Ratings, the published country ratings as announced by the Organisation for Economic Cooperation and Development (OECD) are used.

According to the regulation on capital adequacy, external risk ratings are used only for the exposures to banks and brokerage houses and to corporates where the counterparties are resident in abroad, to determine their risk weights. Where the counterparties are domestic, the related exposures are included in the calculation of capital adequacy as unrated.

In the determination of risk weights for items that are not included in trading book; if a relevant rating is available then such rating, but if it is an unrated exposure then the rating available for the issuer is used.

Fitch Ratings' risk ratings as per the credit quality grades and the risk weights according to exposure categories are presented below:

CREDIT QUALITY GRADE	FITCH RATINGS LONG TERM CREDIT RATING	EXPOSURE CATEGORIES			
		EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS	EXPOSURES TO BANKS AND BROKERAGE HOUSES		EXPOSURES TO CORPORATES
			EXPOSURES WITH ORIGINAL MATURITIES LESS THAN 3 MONTHS	EXPOSURES WITH ORIGINAL MATURITIES MORE THAN 3 MONTHS	
1	AAA to AA-	0%	20%	20%	20%
2	A+ to A-	20%	20%	50%	50%
3	BBB+ to BBB-	50%	20%	50%	100%
4	BB+ to BB-	100%	50%	100%	100%
5	B+ to B-	100%	50%	100%	150%
6	CCC+ and below	150%	150%	150%	150%

## 4.2.5 EXPOSURES BY RISK WEIGHTS

The total amount of exposures corresponding to each class of risk weight before and after credit risk mitigation and the deductions from equity as defined in the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks Appendix-1 are presented below:

CURRENT PERIOD	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	DEDUCTIONS FROM EQUITY
<b>Risk Weights</b>											
Exposures before Credit Risk Mitigation	85,725,369	-	10,263,392	20,590,422	26,490,693	86,264,007	186,179,073	481,064	-	454,823	525,852
Exposures after Credit Risk Mitigation	86,476,219	-	9,355,827	20,574,657	25,457,059	75,615,798	164,437,293	481,063	-	454,823	525,852
<b>PRIOR PERIOD</b>											
<b>Risk Weights</b>											
Exposures before Credit Risk Mitigation	47,225,556	-	11,824,122	19,397,663	65,531,157	71,641,730	150,011,841	844,891	-	1,368,006	528,632
Exposures after Credit Risk Mitigation	42,562,410	-	8,339,872	19,391,219	62,853,998	66,169,176	135,104,549	824,973	-	1,368,006	528,632

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## 4.2.6 INFORMATION BY MAJOR SECTORS AND TYPE OF COUNTERPARTIES

As per the TAS and TFRS;

*Impaired Credits*; are the credits that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such credits, "specific provisions" are allocated as per the Provisioning Regulation.

*Past Due Credits*; are the credits that overdue upto 90 days but not impaired. For such credits, "general provisions" are allocated as per the Provisioning Regulation.

CURRENT PERIOD		CREDIT RISKS		
MAJOR SECTORS/COUNTERPARTIES	IMPAIRED CREDITS	PAST DUE CREDITS	VALUE ADJUSTMENTS	SPECIFIC PROVISIONS
<b>Agriculture</b>	<b>155,115</b>	<b>30,974</b>	<b>1,012</b>	<b>95,810</b>
Farming and Stockbreeding	150,783	18,359	464	92,983
Forestry	2,498	5,521	9	1,605
Fishery	1,834	7,094	539	1,222
<b>Manufacturing</b>	<b>910,347</b>	<b>613,851</b>	<b>21,165</b>	<b>551,867</b>
Mining and Quarrying	88,678	22,246	84	64,729
Production	653,396	587,351	19,692	402,404
Electricity, Gas and Water	168,273	4,254	1,389	84,734
<b>Construction</b>	<b>560,674</b>	<b>369,417</b>	<b>7,634</b>	<b>403,482</b>
<b>Services</b>	<b>2,192,559</b>	<b>4,761,184</b>	<b>338,674</b>	<b>1,269,844</b>
Wholesale and Retail Trade	1,092,034	387,570	9,914	636,365
Accommodation and Dining	216,893	403,666	5,623	80,230
Transportation and Telecommunication	738,037	3,790,012	321,824	462,907
Financial Institutions	27,810	47,446	384	20,619
Real Estate and Rental Services	45,432	83,331	229	21,140
Professional Services	861	91	-	330
Educational Services	41,762	15,943	151	30,226
Health and Social Services	29,730	33,125	549	18,027
<b>Others</b>	<b>3,416,939</b>	<b>4,003,257</b>	<b>85,834</b>	<b>2,957,384</b>
<b>Total</b>	<b>7,235,634</b>	<b>9,778,683</b>	<b>454,319</b>	<b>5,278,387</b>

PRIOR PERIOD		CREDIT RISK		
MAJOR SECTORS/COUNTERPARTIES	IMPAIRED CREDITS	PAST DUE CREDITS	VALUE ADJUSTMENTS	SPECIFIC PROVISIONS
<b>Agriculture</b>	<b>180,128</b>	<b>18,513</b>	<b>509</b>	<b>114,186</b>
Farming and Stockbreeding	174,721	15,170	475	110,949
Forestry	2,930	1,645	14	1,996
Fishery	2,477	1,698	20	1,241
<b>Manufacturing</b>	<b>1,085,513</b>	<b>707,172</b>	<b>16,311</b>	<b>689,413</b>
Mining and Quarrying	77,108	16,291	114	56,503
Production	857,375	602,410	9,254	562,448
Electricity, Gas and Water	151,030	88,471	6,943	70,462
<b>Construction</b>	<b>577,223</b>	<b>272,042</b>	<b>4,593</b>	<b>358,482</b>
<b>Services</b>	<b>2,042,009</b>	<b>4,139,420</b>	<b>60,341</b>	<b>1,158,689</b>
Wholesale and Retail Trade	1,142,765	407,516	15,039	624,623
Accommodation and Dining	197,617	133,809	3,417	77,717
Transportation and Telecommunication	540,862	3,464,249	39,641	361,261
Financial Institutions	22,488	1,343	43	19,801
Real Estate and Rental Services	39,633	58,346	1,081	18,832
Professional Services	197	122	-	197
Educational Services	60,745	11,957	172	32,036
Health and Social Services	37,702	62,078	948	24,222
<b>Others</b>	<b>3,381,821</b>	<b>4,103,598</b>	<b>93,102</b>	<b>2,948,899</b>
<b>Total</b>	<b>7,266,694</b>	<b>9,240,745</b>	<b>174,856</b>	<b>5,269,669</b>

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## 4.2.7 MOVEMENTS IN VALUE ADJUSTMENTS AND PROVISIONS

CURRENT PERIOD	OPENING BALANCE	PROVISION FOR PERIOD	PROVISION REVERSALS	OTHER ADJUSTMENTS(*)	CLOSING BALANCE
1 Specific Provisions	5,269,669	2,512,542	2,582,570	78,746	5,278,387
2 General Provisions	3,215,533	497,877	55,973	16,232	3,673,669

PRIOR PERIOD	OPENING BALANCE	PROVISION FOR PERIOD	PROVISION REVERSALS	OTHER ADJUSTMENTS(*)	CLOSING BALANCE
1 Specific Provisions	4,645,986	3,318,987	2,826,234	130,930	5,269,669
2 General Provisions	3,027,976	213,321	47,251	21,487	3,215,533

(\*) Includes foreign exchange differences, mergers, acquisitions and disposals of subsidiaries.

## 4.2.8 EXPOSURES SUBJECT TO COUNTERCYCLICAL CAPITAL BUFFER

### CURRENT PERIOD

COUNTRY	BANKING BOOK	TRADING BOOK	TOTAL
Turkey	191,461,728	641,600	192,103,328
Romania	6,289,347	-	6,289,347
the Netherlands	2,952,594	-	2,952,594
Switzerland	1,966,739	-	1,966,739
Germany	1,364,358	-	1,364,358
Malta	1,034,696	-	1,034,696
United Kingdom	918,835	14,192	933,027
United States of America	841,583	-	841,583
United Arab Emirates	667,167	-	667,167
Other	3,719,762	-	3,719,762
<b>Total</b>	<b>211,216,809</b>	<b>655,792</b>	<b>211,872,601</b>

### PRIOR PERIOD

COUNTRY	BANKING BOOK	TRADING BOOK	TOTAL
Turkey	181,046,373	391,744	181,438,117
Romania	4,800,305	-	4,800,305
the Netherlands	2,857,402	-	2,857,402
Malta	1,547,367	-	1,547,367
Switzerland	1,500,666	73	1,500,739
United Kingdom	1,298,948	-	1,298,948
United States of America	782,401	-	782,401
Germany	738,573	-	738,573
NCTR	568,039	-	568,039
Belgium	358,115	-	358,115
Other	2,376,743	4	2,376,747
<b>Total</b>	<b>197,874,932</b>	<b>391,821</b>	<b>198,266,753</b>

## 4.3 CONSOLIDATED CURRENCY RISK

Foreign currency open position limit is set in compliance with the legal standard ratio of net foreign currency position. As of 31 December 2017, the Bank and its financial affiliates' net 'on balance sheet' foreign currency short position amounts to TL 23,229,929 thousands (31 December 2016: TL 16,885,902 thousands), net 'off-balance sheet' foreign currency long position amounts to TL 25,574,862 thousands (31 December 2016: TL 18,057,131 thousands), while net foreign currency long open position amounts to TL 2,344,933 thousands (31 December 2016: TL 1,171,229 thousands).

The foreign currency position risk is measured by "standard method" and "value-at-risk (VaR) model". Measurements by standard method are carried out monthly, whereas measurements by "VaR" are done daily for the Bank. The foreign currency exchange risk is managed through transaction, dealer, desk and stop-loss limits approved by the board of directors for the trading portfolio beside the foreign currency net position standard ratio and the VaR limit.

The Bank's effective exchange rates at the date of balance sheet and for the last five working days of the period announced by the Bank in

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TL are as follows:

	USD	EUR
<b>The Bank's foreign currency purchase rate at balance sheet date</b>	<b>3.7758</b>	<b>4.5290</b>
<i>Foreign currency rates for the days before balance sheet date:</i>		
Day 1	3.7758	4.5290
Day 2	3.7649	4.4987
Day 3	3.8137	4.5400
Day 4	3.7999	4.5116
Day 5	3.7983	4.5070
<b>Last 30-days arithmetical average rate</b>	<b>3.8327</b>	<b>4.5376</b>

*The Bank's consolidated currency risk*

	EUR	USD	OTHER FCS	TOTAL
<b>CURRENT PERIOD</b>				
<b>Assets</b>				
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	8,403,527	10,548,794	7,015,352	25,967,673
Banks	10,840,068	6,183,992	1,435,556	18,459,616
Financial Assets at Fair Value through Profit/Loss	106,396	327,437	10,651	444,484
Interbank Money Market Placements	-	-	-	-
Financial Assets Available-for-Sale	3,059,949	995,507	-	4,055,456
Loans <sup>(1)</sup>	40,596,335	45,724,612	4,854,448	91,175,395
Investments in Associates, Affiliates and Joint-Ventures	1,629	-	684	2,313
Investments Held-to-Maturity	-	11,413,578	-	11,413,578
Derivative Financial Assets Held for Risk Management	4,165	109,659	2,238	116,062
Tangible Assets	122,246	260	58,200	180,706
Intangible Assets	-	-	-	-
Other Assets <sup>(2)</sup>	4,170,032	1,806,750	163,771	6,140,553
<b>Total Assets</b>	<b>67,304,347</b>	<b>77,110,589</b>	<b>13,540,900</b>	<b>157,955,836</b>
<b>Liabilities</b>				
Bank Deposits	443,204	530,143	214,524	1,187,871
Foreign Currency Deposits	35,610,479	66,271,231	7,305,333	109,187,043
Interbank Money Market Takings	588,771	4,162,197	103	4,751,071
Other Fundings	14,548,040	31,248,803	173,618	45,970,461
Securities Issued <sup>(3)</sup>	2,500,436	12,023,549	956,939	15,480,924
Miscellaneous Payables	157,640	540,348	92,787	790,775
Derivative Financial Liabilities Held for Risk Management	37,792	21,939	592	60,323
Other Liabilities <sup>(4)</sup>	731,629	728,124	2,297,544	3,757,297
<b>Total Liabilities</b>	<b>54,617,991</b>	<b>115,526,334</b>	<b>11,041,440</b>	<b>181,185,765</b>
<b>Net 'On Balance Sheet' Position</b>	<b>12,686,356</b>	<b>(38,415,745)</b>	<b>2,499,460</b>	<b>(23,229,929)</b>
<b>Net 'Off-Balance Sheet' Position</b>	<b>(9,949,701)</b>	<b>37,114,158</b>	<b>(1,589,595)</b>	<b>25,574,862</b>
Derivative Assets	11,968,644	79,250,502	5,366,884	96,586,030
Derivative Liabilities	(21,918,345)	(42,136,344)	(6,956,479)	(71,011,168)
Non-Cash Loans	-	-	-	-

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<b>Total Assets</b>	<b>54,860,658</b>	<b>83,730,189</b>	<b>6,039,332</b>	<b>144,630,179</b>
<b>Total Liabilities</b>	<b>50,388,448</b>	<b>102,038,005</b>	<b>9,089,628</b>	<b>161,516,081</b>
<b>Net 'On Balance Sheet' Position</b>	<b>4,472,210</b>	<b>(18,307,816)</b>	<b>(3,050,296)</b>	<b>(16,885,902)</b>
<b>Net 'Off-Balance Sheet' Position</b>	<b>(3,601,299)</b>	<b>18,158,120</b>	<b>3,500,310</b>	<b>18,057,131</b>
Derivative Assets	18,444,171	61,491,621	6,826,814	86,762,606
Derivative Liabilities	(22,045,470)	(43,333,501)	(3,326,504)	(68,705,475)
Non-Cash Loans	-	-	-	-

(\*) The foreign currency-indexed loans amounting TL 6,145,144 thousands included under TL loans in the accompanying consolidated financial statements are presented above under the related foreign currency code.

(\*\*) The foreign currency indexed factoring receivables amounting TL 282,716 thousands included under TL assets in the accompanying consolidated financial statements are presented above under the related foreign currency code.

(\*\*\*) Includes subordinated securities issued and presented under subordinated debts in balance sheet.

(\*\*\*\*) The gold deposits of TL 2,194,714 thousands included under deposits in the accompanying consolidated financial statements are presented above under other liabilities.

## 4.4 CONSOLIDATED INTEREST RATE RISK

The interest rate risk resulting from balance sheet maturity mismatch presents the possible losses that may arise due to the changes in interest rates of interest sensitive assets and liabilities in the on- and off-balance sheet. Interest sensitivity of assets, liabilities and off-balance sheet items is evaluated during the Weekly Assessment Committee and Assets-Liabilities Committee meetings taking into consideration the developments in market conditions.

The Bank's interest rate risk is measured by using, economic value, economic capital, net interest income, income at risk, market price sensitivity of marketable securities portfolio, duration-gap and sensitivity analysis.

The results are supported by the sensitivity and scenario analysis performed periodically due to the possible instabilities in the markets. Furthermore, the interest rate risk is monitored according to the limits approved by the board of directors.

### 4.4.1 INTEREST RATE SENSITIVITY OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS (BASED ON REPRICING DATES)

CURRENT PERIOD	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS NON-INTEREST AND OVER	BEARING (*)	TOTAL
<b>Assets</b>							
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	15,356,607	-	-	-	-	18,247,034	<b>33,603,641</b>
Banks	6,674,295	1,086,847	2,853,022	141,516	19,206	8,695,457	<b>19,470,343</b>
Financial Assets at Fair Value through Profit/Loss	43,819	327,933	155,989	373,685	18,939	1,957,448	<b>2,877,813</b>
Interbank Money Market Placements	3,350	-	-	-	-	3	<b>3,353</b>
Financial Assets Available-for-Sale	3,369,418	5,915,862	6,882,925	3,610,964	3,818,557	2,680,262	<b>26,277,988</b>
Loans	56,204,934	26,102,731	68,187,866	61,641,322	12,394,601	4,821,831	<b>229,353,285</b>
Investments Held-to-Maturity	417,769	2,557,519	6,615,860	3,706,564	7,446,829	3,569,999	<b>24,314,540</b>
Other Assets	1,468,583	1,466,149	2,586,527	2,849,491	272,430	11,787,524	<b>20,430,704</b>
<b>Total Assets</b>	<b>83,538,775</b>	<b>37,457,041</b>	<b>87,282,189</b>	<b>72,323,542</b>	<b>23,970,562</b>	<b>51,759,558</b>	<b>356,331,667</b>
<b>Liabilities</b>							
Bank Deposits	412,502	139,085	259,559	-	-	814,676	<b>1,625,822</b>
Other Deposits	111,791,881	21,066,467	18,103,418	1,527,939	15,910	46,642,123	<b>199,147,738</b>
Interbank Money Market Takings	17,589,151	227,161	151,400	588,770	51,133	30,241	<b>18,637,856</b>
Miscellaneous Payables	-	-	-	-	-	10,376,346	<b>10,376,346</b>
Securities Issued (**)	1,882,236	3,084,627	2,058,452	10,437,488	5,762,814	418,306	<b>23,643,923</b>
Other Fundings	19,202,561	9,712,955	11,732,040	5,769,689	485,789	201,685	<b>47,104,719</b>
Other Liabilities	5,719	7,353	11,699	862	-	55,769,630	<b>55,795,263</b>
<b>Total Liabilities</b>	<b>150,884,050</b>	<b>34,237,648</b>	<b>32,316,568</b>	<b>18,324,748</b>	<b>6,315,646</b>	<b>114,253,007</b>	<b>356,331,667</b>
<b>On Balance Sheet Long Position</b>	<b>-</b>	<b>3,219,393</b>	<b>54,965,621</b>	<b>53,998,794</b>	<b>17,654,916</b>	<b>-</b>	<b>129,838,724</b>
<b>On Balance Sheet Short Position</b>	<b>(67,345,275)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(62,493,449)</b>	<b>(129,838,724)</b>
<b>Off-Balance Sheet Long Position</b>	<b>11,872,825</b>	<b>9,119,489</b>	<b>15,792,731</b>	<b>3,922,311</b>	<b>5,154,466</b>	<b>-</b>	<b>45,861,822</b>
<b>Off-Balance Sheet Short Position</b>	<b>(2,115,278)</b>	<b>(4,562,046)</b>	<b>(12,408,103)</b>	<b>(15,905,631)</b>	<b>(10,911,130)</b>	<b>-</b>	<b>(45,902,188)</b>
<b>Total Position</b>	<b>(57,587,728)</b>	<b>7,776,836</b>	<b>58,350,249</b>	<b>42,015,474</b>	<b>11,898,252</b>	<b>(62,493,449)</b>	<b>(40,366)</b>

(\*) Interest accruals are included in non-interest bearing column.

(\*\*) Includes subordinated securities issued and presented under subordinated debts in balance sheet.

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PRIOR PERIOD	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS NON-INTEREST AND OVER	BEARING (*)	TOTAL
<b>Assets</b>							
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	17,892,432	-	-	-	-	6,059,042	<b>23,951,474</b>
Banks	6,642,107	2,287,260	3,103,033	21,108	-	4,827,536	<b>16,881,044</b>
Financial Assets at Fair Value through Profit/Loss	63,776	34,448	17,241	43,336	44,247	3,602,493	<b>3,805,541</b>
Interbank Money Market Placements	373,860	-	-	-	-	11	<b>373,871</b>
Financial Assets Available-for-Sale	2,613,361	5,753,708	5,630,419	3,956,191	4,512,684	1,517,085	<b>23,983,448</b>
Loans	49,351,478	25,521,684	59,026,227	50,347,703	12,807,805	4,354,199	<b>201,409,096</b>
Investments Held-to-Maturity	499,275	2,002,859	5,554,835	5,329,013	7,297,741	2,425,973	<b>23,109,696</b>
Other Assets	1,296,742	1,263,427	2,189,367	2,932,780	300,882	10,624,571	<b>18,607,769</b>
<b>Total Assets</b>	<b>78,733,031</b>	<b>36,863,386</b>	<b>75,521,122</b>	<b>62,630,131</b>	<b>24,963,359</b>	<b>33,410,910</b>	<b>312,121,939</b>
<b>Liabilities</b>							
Bank Deposits	1,253,814	94,014	322,916	-	-	2,817,202	<b>4,487,946</b>
Other Deposits	98,198,502	22,668,701	13,539,995	1,640,164	13,467	38,141,038	<b>174,201,867</b>
Interbank Money Market Takings	10,487,135	207,001	218,766	259,140	47,531	10,620	<b>11,230,193</b>
Miscellaneous Payables	-	-	-	-	-	9,339,748	<b>9,339,748</b>
Securities Issued	676,307	1,760,759	5,012,872	7,843,021	2,098,303	354,386	<b>17,745,648</b>
Other Fundings	14,334,313	17,633,891	8,921,661	5,207,247	179,075	305,666	<b>46,581,853</b>
Other Liabilities	4,296	5,577	11,463	-	-	48,513,348	<b>48,534,684</b>
<b>Total Liabilities</b>	<b>124,954,367</b>	<b>42,369,943</b>	<b>28,027,673</b>	<b>14,949,572</b>	<b>2,338,376</b>	<b>99,482,008</b>	<b>312,121,939</b>
<b>On Balance Sheet Long Position</b>	-	-	<b>47,493,449</b>	<b>47,680,559</b>	<b>22,624,983</b>	-	<b>117,798,991</b>
<b>On Balance Sheet Short Position</b>	<b>(46,221,336)</b>	<b>(5,506,557)</b>	-	-	-	<b>(66,071,098)</b>	<b>(117,798,991)</b>
<b>Off-Balance Sheet Long Position</b>	<b>8,702,855</b>	<b>11,799,365</b>	<b>12,492,698</b>	<b>5,452,678</b>	<b>4,244,593</b>	-	<b>42,692,189</b>
<b>Off-Balance Sheet Short Position</b>	<b>(2,015,891)</b>	<b>(6,163,621)</b>	<b>(9,696,072)</b>	<b>(13,715,662)</b>	<b>(11,205,806)</b>	-	<b>(42,797,052)</b>
<b>Total Position</b>	<b>(39,534,372)</b>	<b>129,187</b>	<b>50,290,075</b>	<b>39,417,575</b>	<b>15,663,770</b>	<b>(66,071,098)</b>	<b>(104,863)</b>

(\*) Interest accruals are included in non-interest bearing column.

## 4.4.2 AVERAGE INTEREST RATES ON MONETARY FINANCIAL INSTRUMENTS (%)

CURRENT PERIOD	EUR	USD	JPY	TL
<b>Assets</b>				
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	-	1.32	-	2.54
Banks	(0.36)-1.90	1.42-3.98	-	8.56-14.80
Financial Assets at Fair Value through Profit/Loss	1.99	5.77	-	4.16-16.11
Interbank Money Market Placements	-	-	-	9.75-12.30
Financial Assets Available-for-Sale	0.65-4.63	2.20-11.88	-	12.31
Loans	0.12-10.93	1.25-10.69	-	11.00-17.35
Investments Held-to-Maturity	-	5.57	-	12.81
<b>Liabilities</b>				
Bank Deposits	0.05-0.12	1.00-2.20	-	11.39
Other Deposits	0.01-7.00	0.01-3.75	1.45	7.00-15.87
Interbank Money Market Takings	-	1.50-2.65	-	10.00-15.20
Miscellaneous Payables	-	-	-	-
Securities Issued	3.65	5.67	-	13.08-15.00
Other Fundings	0.16-4.55	0.25-5.84	-	8.43-17.50

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PRIOR PERIOD	EUR	USD	JPY	TL
<b>Assets</b>				
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances with the Central Bank of Turkey	-	0.52	-	4.22
Banks	(0.35)-2.00	0.66-3.65	-	9.09-12.00
Financial Assets at Fair Value through Profit/Loss	2.18	5.77	-	7.16-14.56
Interbank Money Market Placements	0.05	-	-	8.33-8.43
Financial Assets Available-for-Sale	0.65-4.88	3.24-11.88	-	9.89-14.47
Loans	0.21-13.00	1.16-10.35	3.41	10.25-15.26
Investments Held-to-Maturity	0.19	5.53	-	10.22
<b>Liabilities</b>				
Bank Deposits	0.20-0.42	0.80-1.60	-	9.39-9.58
Other Deposits	0.01-6.70	0.01-2.31	1.22	7.00-15.00
Interbank Money Market Takings	-	2.05-2.62	-	5.00-11.20
Miscellaneous Payables	-	-	-	-
Securities Issued	3.48	5.13	0.64	10.09-11.24
Other Fundings	0.25-4.55	1.15-4.86	-	10.19-25.00

## 4.5 CONSOLIDATED POSITION RISK OF EQUITY SECURITIES

### 4.5.1 EQUITY SHARES IN ASSOCIATES AND AFFILIATES

Accounting policies for equity shares in associates and affiliates are disclosed in Note 3.3.

### 4.5.2 COMPARISON OF CARRYING, FAIR AND MARKET VALUES OF EQUITY SHARES

CURRENT PERIOD	CARRYING VALUE	FAIR VALUE	MARKET VALUE
<b>EQUITY SECURITIES (SHARES)</b>			
<b>1 Investment in Shares- Grade A</b>	<b>124,993</b>	-	-
Quoted Securities	-	-	-
<b>2 Investment in Shares- Grade B</b>	<b>25,555</b>	-	-
Quoted Securities	-	-	-
<b>3 Investment in Shares- Grade C</b>	<b>822</b>	-	-
Quoted Securities	-	-	-
<b>4 Investment in Shares- Grade D</b>	-	-	-
Quoted Securities	-	-	-
<b>5 Investment in Shares- Grade E</b>	<b>1,014</b>	-	-
Quoted Securities	-	-	-
<b>6 Investment in Shares- Grade F</b>	<b>48</b>	-	-
Quoted Securities	-	-	-

PRIOR PERIOD	CARRYING VALUE	FAIR VALUE	MARKET VALUE
<b>EQUITY SECURITIES (SHARES)</b>			
<b>1 Investment in Shares- Grade A</b>	<b>124,138</b>	-	-
Quoted Securities	-	-	-
<b>2 Investment in Shares- Grade B</b>	<b>27,097</b>	-	-
Quoted Securities	-	-	-
<b>3 Investment in Shares- Grade C</b>	<b>822</b>	-	-
Quoted Securities	-	-	-
<b>4 Investment in Shares- Grade D</b>	-	-	-
Quoted Securities	-	-	-
<b>5 Investment in Shares- Grade E</b>	<b>1,014</b>	-	-
Quoted Securities	-	-	-
<b>6 Investment in Shares- Grade F</b>	<b>48</b>	-	-
Quoted Securities	-	-	-

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## 4.5.3 REALISED GAINS/LOSSES, REVALUATION SURPLUSES AND UNREALISED GAINS/LOSSES ON EQUITY SECURITIES AND RESULTS INCLUDED IN CORE AND SUPPLEMENTARY CAPITALS

CURRENT PERIOD		REVALUATION SURPLUSES		UNREALIZED GAINS AND LOSSES		
PORTFOLIO	GAINS/LOSSES IN CURRENT PERIOD	TOTAL	AMOUNT IN TIER I CAPITAL	TOTAL	AMOUNT IN CORE CAPITAL	AMOUNT IN TIER I CAPITAL
1 Private Equity Investments	-	-	-	-	-	-
2 Quoted Shares	-	-	-	14,905	-	14,905
3 Other Shares	-	48,372	48,372	-	-	-
<b>Total</b>	<b>-</b>	<b>48,372</b>	<b>48,372</b>	<b>14,905</b>	<b>-</b>	<b>14,905</b>

PRIOR PERIOD		REVALUATION SURPLUSES		UNREALIZED GAINS AND LOSSES		
PORTFOLIO	GAINS/LOSSES IN CURRENT PERIOD	TOTAL	AMOUNT IN TIER I CAPITAL	TOTAL	AMOUNT IN CORE CAPITAL	AMOUNT IN TIER I CAPITAL
1 Private Equity Investments	-	-	-	-	-	-
2 Quoted Shares	-	-	-	13,997	-	13,997
3 Other Shares	-	7,080	7,080	-	-	-
<b>Total</b>	<b>-</b>	<b>7,080</b>	<b>7,080</b>	<b>13,997</b>	<b>-</b>	<b>13,997</b>

## 4.5.4 CAPITAL REQUIREMENT AS PER EQUITY SHARES

CURRENT PERIOD		CARRYING VALUE	RWA TOTAL	MINIMUM CAPITAL REQUIREMENT
PORTFOLIO				
1 Private Equity Investments		-	-	-
2 Quoted Shares		-	-	-
3 Other Shares		152,432	152,432	12,195
<b>Total</b>		<b>152,432</b>	<b>152,432</b>	<b>12,195</b>

PRIOR PERIOD		CARRYING VALUE	RWA TOTAL (*)	MINIMUM CAPITAL REQUIREMENT
PORTFOLIO				
1 Private Equity Investments		-	-	-
2 Quoted Shares		-	-	-
3 Other Shares		153,119	152,857	12,229
<b>Total</b>		<b>153,119</b>	<b>152,857</b>	<b>12,229</b>

(\*) Additional to total RWA as of 31 December 2016, 250% risk weight is applied to TL 1,125,107 thousands according to Regulation on "Capital Adequacy Ratio" Annex-1 Paragraph 73 and Regulation on "Bank Capital" Article 9 Paragraph 4 (ç), which is not deducted from Common Equity Tier 1 Capital.

## 4.6 CONSOLIDATED LIQUIDITY RISK

Liquidity risk is managed by asset and liability management department (ALMD) and asset and liability Committee (ALCO) in line with liquidity and funding 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.

The board of directors reviews the liquidity risk management policy and approves the liquidity and funding policies, ensures the effective of practice of policies and integrations with the Bank's risk management system. The Board of Directors determines the basic metrics in liquidity risk measurement and monitoring. The Board of Directors 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.



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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 head 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 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 liquidity indicators 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 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.

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

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.

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 policy regarding liquidity risk and contingency funding plan is prepared within this framework.

There exists "Liquidity Emergency Plan" in the Bank including mechanisms to prevent increase in liquidity risk 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, and probable scenarios where liquidity risk crisis and possible actions that can be taken.

The Bank's liabilities consist of TL and foreign currency funding, of which a large portion is USD/EUR. Deposits and capital constitute most of TL funding. For the reasons like real person customers can not use foreign currency credit but are able to deposit foreign currency funds, TL and foreign currency deposit and credit amount may differ. Long term funding obtained from foreign banks and creditors are mainly in foreign currency. For these reasons overall foreign currency liabilities are usually more than foreign currency liabilities. Unused portion of USD and EUR foreign currency funding is turned to TL via currency swap transactions and used in TL funding. Lines extended by CBRT and BIST aren't used to full extent, unused limits and high quality liquid asset stock is held is kept to use in the case of a liquidity scarcity in market. Also T.C. Eurobonds aren't used to secure funding and kept as reserve to use in the case of a foreign currency liquidity scarcity in market. In TL and foreign currency liquidity management, regulatory ratios, internally set warnings, limits and other liquidity and funding metrics are monitored.

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## 4.6.1 LIQUIDITY COVERAGE RATIO

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" (the Regulation) 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.

Items in balance sheet and off balance sheet items are taken into account after being multiplied by the coefficients advised in the Regulation. In both bank-only and consolidated LCR calculations cash inflows are limited by 75% of cash outflows and cash inflows from high quality liquid assets aren't included.

High quality liquid assets consist of cash, deposits in central banks and securities considered as high quality liquid assets. Reserve deposits are included in high quality liquid assets, limited by the amount that is allowed by central bank to use in liquidity shortages. High quality liquid assets are composed of 3.86% cash, 53.27% deposits in central banks and 42.87% securities considered as high quality liquid assets.

The Bank's main funding sources are deposits, funds borrowed, money market borrowings and securities issued. Consolidated funding source composition as of report date is 66.81% deposits, 21.88% funds borrowed and money market borrowings and 7.87% securities issued.

In consolidated LCR calculations, cash outflows are mainly consist of deposits, secured and unsecured borrowings, securities issued and off balance sheet items.

The cash flows from derivative financial instruments are included in consolidated LCR calculations according to the Regulation's terms. The Bank also considers changes in fair value of the liabilities that result in margin calls when calculating cash outflows.

There was an increase in high quality liquid assets in items included in LCR calculations during the period.

CURRENT PERIOD	TOTAL UNWEIGHTED VALUE (AVERAGE) (*)		TOTAL WEIGHTED VALUE (AVERAGE) (*)	
	TL+FC	FC	TL+FC	FC
<b>HIGH-QUALITY LIQUID ASSETS</b>			<b>64,790,253</b>	<b>40,139,185</b>
1 Total high-quality liquid assets (HQLA)			64,790,253	40,139,185
<b>CASH OUTFLOWS</b>				
2 Retail deposits and deposits from small business customers, of which:	135,642,321	66,124,346	12,251,062	6,599,097
3 Stable deposits	26,263,389	266,749	1,313,169	13,337
4 Less stable deposits	109,378,932	65,857,597	10,937,893	6,585,760
5 Unsecured wholesale funding, of which:	61,137,592	37,122,946	34,871,826	19,709,976
6 Operational deposits	-	-	-	-
7 Non-operational deposits	44,548,861	28,938,651	21,421,150	13,772,645
8 Unsecured funding	16,588,731	8,184,295	13,450,676	5,937,331
9 Secured wholesale funding			-	-
10 Other cash outflows of which:	53,605,853	13,861,660	11,511,430	11,493,014
11 Outflows related to derivative exposures and other collateral requirements	8,160,609	10,645,765	8,160,609	10,645,765
12 Outflows related to restructured financial instruments	-	-	-	-
13 Payment commitments and other off-balance sheet commitments granted for debts to financial markets	45,445,244	3,215,895	3,350,821	847,249
14 Other revocable off-balance sheet commitments and contractual obligations	659,719	452,474	32,986	22,624
15 Other irrevocable or conditionally revocable off-balance sheet obligations	59,639,580	40,843,912	2,981,979	2,042,196
<b>16 Total Cash Outflows</b>			<b>61,649,283</b>	<b>39,866,907</b>
<b>CASH INFLOWS</b>				
17 Secured receivables	7,145	-	-	-
18 Unsecured receivables	23,650,905	9,432,284	15,575,537	6,682,654
19 Other cash inflows	1,636,498	8,248,238	1,631,773	8,244,841
<b>20 Total Cash Inflows</b>	<b>25,294,548</b>	<b>17,680,522</b>	<b>17,207,310</b>	<b>14,927,495</b>

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		UPPER LIMIT APPLIED VALUES	
<b>21</b>	<b>Total HQLA</b>		
		<b>64,790,253</b>	<b>40,139,185</b>
<b>22</b>	<b>Total Net Cash Outflows</b>		
		<b>44,441,973</b>	<b>24,939,412</b>
<b>23</b>	<b>Liquidity Coverage Ratio (%)</b>		
		<b>146.12</b>	<b>164.58</b>

(\*) The average of last three months' month-end consolidated liquidity ratios.

The table below presents the last three months' consolidated liquidity ratios:

PERIOD	TL+FC	FC
31 October 2017	140.63%	151.78%
30 November 2017	157.44%	205.74%
31 December 2017	140.28%	136.20%

PRIOR PERIOD	TOTAL UNWEIGHTED VALUE (AVERAGE) (*)		TOTAL WEIGHTED VALUE (AVERAGE) (*)	
	TL+FC	FC	TL+FC	FC
<b>HIGH-QUALITY LIQUID ASSETS</b>			45,090,574	22,119,347
1 Total high-quality liquid assets (HQLA)			45,090,574	22,119,347
<b>CASH OUTFLOWS</b>				
2 Retail deposits and deposits from small business customers, of which:	116,761,030	56,119,861	10,456,146	5,602,111
3 Stable deposits	24,399,138	197,514	1,219,957	9,876
4 Less stable deposits	92,361,892	55,922,347	9,236,189	5,592,235
5 Unsecured wholesale funding, of which:	52,366,443	31,129,537	30,831,694	17,157,234
6 Operational deposits	-	-	-	-
7 Non-operational deposits	37,094,336	24,296,740	18,652,878	12,182,976
8 Unsecured funding	15,272,107	6,832,797	12,178,816	4,974,258
9 Secured wholesale funding			367,422	367,422
10 Other cash outflows of which:	51,791,461	15,362,666	12,104,797	11,314,382
11 Outflows related to derivative exposures and other collateral requirements	9,048,417	10,460,072	9,048,417	10,460,072
12 Outflows related to restructured financial instruments	-	-	-	-
13 Payment commitments and other off-balance sheet commitments granted for debts to financial markets	42,743,044	4,902,594	3,056,380	854,310
14 Other revocable off-balance sheet commitments and contractual obligations	2,145,910	2,004,151	107,296	100,208
15 Other irrevocable or conditionally revocable off-balance sheet obligations	55,273,763	38,426,973	2,763,688	1,921,349
<b>16 Total Cash Outflows</b>			<b>56,631,043</b>	<b>36,462,706</b>
<b>CASH INFLOWS</b>				
17 Secured receivables	19,528	-	-	-
18 Unsecured receivables	20,265,164	7,568,440	13,532,742	5,254,539
19 Other cash inflows	1,744,748	5,749,639	1,738,284	5,743,356
<b>20 Total Cash Inflows</b>	<b>22,029,440</b>	<b>13,318,079</b>	<b>15,271,026</b>	<b>10,997,895</b>
		UPPER LIMIT APPLIED VALUES		
<b>21 Total HQLA</b>			<b>45,090,574</b>	<b>22,119,347</b>
<b>22 Total Net Cash Outflows</b>			<b>41,360,017</b>	<b>25,464,811</b>
<b>23 Liquidity Coverage Ratio (%)</b>			<b>108.97</b>	<b>86.72</b>

(\*) The average of last three months' month-end consolidated liquidity ratios.

PERIOD	TL+FC	FC
31 October 2016	109.44%	83.64%
30 November 2016	112.29%	95.90%
31 December 2016	105.17%	80.63%

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## 4.6.2 MATURITY ANALYSIS OF ASSETS AND LIABILITIES ACCORDING TO REMAINING MATURITIES

	DEMAND	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER	UNDISTRIBUTED (* )	TOTAL
<b>CURRENT PERIOD</b>								
<b>Assets</b>								
Cash (Cash on Hand, Money in Transit, Purchased Cheques) And Balances with the Central Bank	7,366,915	26,236,726	-	-	-	-	-	<b>33,603,641</b>
Banks	10,284,079	3,139,828	343,394	1,539,869	4,143,947	19,226	-	<b>19,470,343</b>
Financial Assets at Fair Value through Profit/Loss (**)	40,057	493,432	643,416	632,539	748,677	319,692	-	<b>2,877,813</b>
Interbank Money Market Placements	-	3,353	-	-	-	-	-	<b>3,353</b>
Financial Assets Available-for Sale	274,872	545,142	16,315	1,302,458	12,784,887	11,354,314	-	<b>26,277,988</b>
Loans (**)	647,492	37,892,655	19,249,687	56,952,579	85,925,980	23,999,173	4,685,719	<b>229,353,285</b>
Investments Held-to-Maturity	-	1,730	155,380	1,106,532	3,310,421	9,077,305	10,663,172	<b>24,314,540</b>
Other Assets	2,247,891	2,350,668	1,524,335	2,313,814	3,747,464	480,385	7,766,147	<b>20,430,704</b>
<b>Total Assets</b>	<b>20,861,306</b>	<b>70,663,534</b>	<b>21,932,527</b>	<b>63,847,791</b>	<b>110,661,376</b>	<b>45,250,095</b>	<b>23,115,038</b>	<b>356,331,667</b>
<b>Liabilities</b>								
Bank Deposits	918,215	306,678	139,193	261,736	-	-	-	<b>1,625,822</b>
Other Deposits	53,366,394	104,663,125	21,198,227	18,279,358	1,617,338	23,296	-	<b>199,147,738</b>
Other Fundings	-	1,842,770	526,616	18,198,270	18,138,380	8,398,683	-	<b>47,104,719</b>
Interbank Money Market Takings	104	17,614,187	228,965	154,146	588,770	51,684	-	<b>18,637,856</b>
Securities Issued	-	1,853,586	2,973,024	2,250,354	10,732,278	5,834,681	-	<b>23,643,923</b>
Miscellaneous Payables	881,474	9,398,989	52,282	43,120	-	439	42	<b>10,376,346</b>
Other Liabilities (***)	1,781,846	1,515,183	821,726	1,186,849	182,369	235,755	50,071,535	<b>55,795,263</b>
<b>Total Liabilities</b>	<b>56,948,033</b>	<b>137,194,518</b>	<b>25,940,033</b>	<b>40,373,833</b>	<b>31,259,135</b>	<b>14,544,538</b>	<b>50,071,577</b>	<b>356,331,667</b>
<b>Liquidity Gap</b>	<b>(36,086,727)</b>	<b>(66,530,984)</b>	<b>(4,007,506)</b>	<b>23,473,958</b>	<b>79,402,241</b>	<b>30,705,557</b>	<b>(26,956,539)</b>	<b>-</b>
<b>Net Off-Balance Sheet Position</b>	<b>-</b>	<b>(498,276)</b>	<b>(173,639)</b>	<b>(352,946)</b>	<b>275,705</b>	<b>37,607</b>	<b>-</b>	<b>(711,549)</b>
Derivative Financial Assets	-	77,833,182	28,433,105	32,107,432	5,638,883	1,881,475	-	145,894,077
Derivative Financial Liabilities	-	78,331,458	28,606,744	32,460,378	5,363,178	1,843,868	-	146,605,626
<b>Non-Cash Loans</b>	<b>-</b>	<b>8,082,943</b>	<b>4,478,582</b>	<b>6,769,545</b>	<b>1,186,726</b>	<b>246,692</b>	<b>93,022,795</b>	<b>113,787,283</b>
<b>PRIOR PERIOD</b>								
<b>Total Assets</b>	<b>17,662,498</b>	<b>56,025,807</b>	<b>21,128,903</b>	<b>54,849,372</b>	<b>101,224,879</b>	<b>50,385,570</b>	<b>10,844,910</b>	<b>312,121,939</b>
<b>Total Liabilities</b>	<b>49,705,179</b>	<b>116,180,029</b>	<b>27,639,427</b>	<b>40,524,381</b>	<b>26,819,626</b>	<b>9,348,265</b>	<b>41,905,032</b>	<b>312,121,939</b>
<b>Liquidity Gap</b>	<b>(32,042,681)</b>	<b>(60,154,222)</b>	<b>(6,510,524)</b>	<b>14,324,991</b>	<b>74,405,253</b>	<b>41,037,305</b>	<b>(31,060,122)</b>	<b>-</b>
<b>Net Off-Balance Sheet Position</b>	<b>-</b>	<b>526,190</b>	<b>(104,836)</b>	<b>547,096</b>	<b>5,636</b>	<b>87,715</b>	<b>-</b>	<b>1,061,801</b>
Derivative Financial Assets	-	60,394,076	27,198,909	34,159,810	9,584,052	1,610,733	-	132,947,580
Derivative Financial Liabilities	-	59,867,886	27,303,745	33,612,714	9,578,416	1,523,018	-	131,885,779
<b>Non-Cash Loans</b>	<b>-</b>	<b>4,255,623</b>	<b>4,910,315</b>	<b>6,374,916</b>	<b>1,089,367</b>	<b>223,599</b>	<b>89,084,131</b>	<b>105,937,951</b>

(\*) Certain assets on the balance sheet that are necessary for the banking operations but not convertible into cash in short period such as tangible assets, investments in associates and affiliates, stationary supplies, prepaid expenses and loans under follow-up, are included in this column.

(\*\*) Includes subordinated securities issued and presented under subordinated loans debt balance sheet.

(\*\*\*) Shareholders' Equity is included in "Other liabilities" line under "Undistributed" column.

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## 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.

CURRENT PERIOD	CARRYING VALUE	NOMINAL PRINCIPAL OUTFLOW	DEMAND	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER
Bank Deposits	1,625,822	1,623,090	918,005	306,441	139,085	259,559	-	-
Other Deposits	199,147,738	198,282,621	53,366,015	104,196,406	21,053,390	18,037,402	1,606,260	23,148
Other Fundings	47,104,719	46,940,914	-	1,755,632	555,686	18,174,300	18,111,911	8,343,385
Interbank Money Market Takings	18,637,856	18,607,719	104	17,589,151	227,161	151,400	588,770	51,133
Securities Issued	23,643,923	23,225,618	-	1,844,478	2,944,922	2,198,156	10,475,247	5,762,815
<b>Total</b>	<b>290,160,058</b>	<b>288,679,962</b>	<b>54,284,124</b>	<b>125,692,108</b>	<b>24,920,244</b>	<b>38,820,817</b>	<b>30,782,188</b>	<b>14,180,481</b>

PRIOR PERIOD	CARRYING VALUE	NOMINAL PRINCIPAL OUTFLOW	DEMAND	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER
Bank Deposits	4,487,946	4,480,851	2,912,318	1,151,604	94,010	322,919	-	-
Other Deposits	174,201,867	173,564,384	43,812,427	91,883,002	22,654,467	13,465,056	1,727,342	22,090
Other Fundings	46,581,853	46,289,185	-	2,081,588	1,886,656	20,007,331	15,873,073	6,440,537
Interbank Money Market Takings	11,230,193	11,219,662	87	10,487,138	207,000	218,766	259,140	47,531
Securities Issued	17,745,648	17,391,262	-	641,177	1,683,472	5,012,872	7,955,438	2,098,303
<b>Total</b>	<b>254,247,507</b>	<b>252,945,344</b>	<b>46,724,832</b>	<b>106,244,509</b>	<b>26,525,605</b>	<b>39,026,944</b>	<b>25,814,993</b>	<b>8,608,461</b>

## 4.7 CONSOLIDATED LEVERAGE RATIO

The leverage ratio table prepared in accordance with the communiqué "Regulation on Measurement and Assessment of Leverage Ratios of Banks" published in the Official Gazette no. 28812 dated 5 November 2013 is presented below:

The Bank's consolidated leverage ratio calculated by taking simple average of end of month leverage ratios for the last three-month periods, is 8.41% (31 December 2016: 8.23%). Main reason for the variance compared to prior period is the increase in balance sheet and off balance sheet exposures lower than the increase in capital. While the capital increased by 15.84% as a result of increase in net profits, the balance sheet exposure increased by 15.33% and the off balance sheet exposure increased by 7.67%. Therefore, the current period leverage ratio increased by 18 basis points compared to prior period.

	CURRENT PERIOD(***)	PRIOR PERIOD(***)
1 Total assets in consolidated financial statements prepared in accordance with Turkish Accounting Standards (*) (**)	336,616,872	308,318,527
2 The difference between total assets prepared in accordance with Turkish Accounting Standards (*) and total assets in consolidated financial statements prepared in accordance with the communiqué "Preparation of Consolidated Financial Statements" (**)	3,062,255	3,803,412
3 The difference between the amounts of derivative financial instruments and credit derivatives in consolidated financial statements prepared in accordance with the communiqué "Preparation of Consolidated Financial Statements" and risk amounts of such instruments	(10,547,347)	(8,436,784)
4 The difference between the amounts of securities or commodity financing transactions in consolidated financial statements prepared in accordance with the communiqué "Preparation of Consolidated Financial Statements" and risk amounts of such instruments	12,921,783	14,523,665
5 The difference between the amounts of off-balance items in consolidated financial statements prepared in accordance with the communiqué "Preparation of Consolidated Financial Statements" and risk amounts of such items	3,765,170	2,550,420
6 Other differences between the amounts in consolidated financial statements prepared in accordance with the communiqué "Preparation of Consolidated Financial Statements" and risk amounts of such items	-	-
7 Total risk amount	480,096,821	423,189,090

(\*) Consolidated financial statements prepared in compliance with the paragraph 6 of article 5 of the communiqué "Preparation of Consolidated Financial Statements."

(\*\*) For the current period consolidated financial statements prepared in accordance with Turkish Accounting Standards as of 30 September 2017 and for the prior period consolidated financial statements prepared in accordance with Turkish Accounting Standards as of 31 December 2016 are used.

(\*\*\*) Amounts in the table are three-month average amounts.

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ON-BALANCE SHEET ASSETS		CURRENT PERIOD(*)	PRIOR PERIOD(*)
1	On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	352,252,554	305,441,515
2	(Assets deducted in determining Tier I capital)	(455,111)	(380,379)
3	Total on-balance sheet risks (sum of lines 1 and 2)	351,797,443	305,061,136
DERIVATIVE FINANCIAL INSTRUMENTS AND CREDIT DERIVATIVES			
4	Replacement cost associated with all derivative financial instruments and credit derivatives	3,061,421	3,494,125
5	Add-on amounts for PFE associated with all derivative financial instruments and credit derivatives	11,169,170	8,482,319
6	Total risks of derivative financial instruments and credit derivatives (sum of lines 4 and 5)	14,230,591	11,976,444
SECURITIES OR COMMODITY FINANCING TRANSACTIONS (SCFT)			
7	Risks from SCFT assets (excluding on-balance sheet)	2,561,479	1,645,458
8	Risks from brokerage activities related exposures	-	-
9	Total risks related with securities or commodity financing transactions (sum of lines 7 and 8)	2,561,479	1,645,458
OTHER OFF-BALANCE SHEET TRANSACTIONS			
10	Gross notional amounts of off-balance sheet transactions	115,272,482	107,056,472
11	(Adjustments for conversion to credit equivalent amounts)	(3,765,174)	(2,550,420)
12	Total risks of off-balance sheet items (sum of lines 10 and 11)	111,507,308	104,506,052
CAPITAL AND TOTAL RISKS			
13	Tier I capital	40,355,639	34,836,155
14	Total risks (sum of lines 3, 6, 9 and 12)	480,096,821	423,189,090
LEVERAGE RATIO			
15	Leverage ratio	8.41%	8.23%

(\*) Amounts in the table are three-month average amounts.

## 4.8 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	CARRYING VALUE		FAIR VALUE	
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD
<b>Financial Assets</b>	<b>329,714,730</b>	<b>286,623,676</b>	<b>331,642,754</b>	<b>287,919,196</b>
Interbank Money Market Placements	3,353	373,871	3,353	373,871
Banks (*)	49,765,564	37,747,565	49,765,564	37,747,565
Financial Assets Available-for-Sale	26,277,988	23,983,448	26,277,988	23,983,448
Investments Held-to-Maturity	24,314,540	23,109,696	24,600,253	22,799,307
Loans	229,353,285	201,409,096	230,995,596	203,015,005
<b>Financial Liabilities</b>	<b>300,536,404</b>	<b>263,587,255</b>	<b>300,536,404</b>	<b>263,587,255</b>
Bank Deposits	1,625,822	4,487,946	1,625,822	4,487,946
Other Deposits	199,147,738	174,201,867	199,147,738	174,201,867
Other Fundings from Financial Institutions	65,742,575	57,812,046	65,742,575	57,812,046
Securities Issued (**)	23,643,923	17,745,648	23,643,923	17,745,648
Miscellaneous Payables	10,376,346	9,339,748	10,376,346	9,339,748

(\*) Including the balances at the Central Bank of Turkey.

(\*\*) Including subordinated securities issued and presented under subordinated debts in balance sheet.

Fair values of financial assets available-for-sale and investments held-to-maturity are derived from market prices or in case of absence of such prices, market prices of other securities quoted in similar qualified markets and having substantially similar characteristics in terms of interest, maturity and other conditions.

Fair values of loans are calculated discounting future cash flows at current market interest rates for fixed-rate loans. The carrying values of floating-rate loans are deemed an approximation for their fair values.

Fair values of other financial assets and liabilities represent the total acquisition costs and accrued interest.

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

CURRENT PERIOD	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial Assets Available-for-Sale	23,786,851	2,384,564	106,573	26,277,988
Financial Assets Held for Trading	928,020	87	2,717	930,824
Derivative Financial Assets Held for Trading	1,205	1,945,784	-	1,946,989
Derivative Financial Assets Held for Risk Management	-	670,720	-	670,720
<b>Financial Assets at Fair Value</b>	<b>24,716,076</b>	<b>5,001,155</b>	<b>109,290</b>	<b>29,826,521</b>
Derivative Financial Liabilities Held for Trading	230	2,898,592	-	2,898,822
Funds Borrowed	-	9,228,338	-	9,228,338
Derivative Financial Liabilities Held for Risk Management	-	198,826	-	198,826
<b>Financial Liabilities at Fair Value</b>	<b>230</b>	<b>12,325,756</b>	<b>-</b>	<b>12,325,986</b>
PRIOR PERIOD	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial Assets Available-for-Sale	23,120,636	246,183	616,629	23,983,448
Financial Assets Held for Trading	191,828	-	-	191,828
Derivative Financial Assets Held for Trading	12,449	3,601,264	-	3,613,713
Derivative Financial Assets Held for Risk Management	-	666,295	-	666,295
<b>Financial Assets at Fair Value</b>	<b>23,324,913</b>	<b>4,513,742</b>	<b>616,629</b>	<b>28,455,284</b>
Derivative Financial Liabilities Held for Trading	977	3,713,008	-	3,713,985
Funds Borrowed	-	1,763,177	-	1,763,177
Derivative Financial Liabilities Held for Risk Management	-	343,314	-	343,314
<b>Financial Liabilities at Fair Value</b>	<b>977</b>	<b>5,819,499</b>	<b>-</b>	<b>5,820,476</b>

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)

The movement of financial assets in Level 3 is presented below.

	CURRENT PERIOD	PRIOR PERIOD
<b>Balances at Beginning of Period</b>	<b>616,629</b>	<b>573,698</b>
Purchases During the Period	41,085	96,517
Disposals Through Sale/Redemptions	(495,861)	(83,451)
Valuation Effect	(3,805)	(6,335)
Transfers	(48,758)	36,200
<b>Balances at End of Period</b>	<b>109,290</b>	<b>616,629</b>

## 4.9 TRANSACTIONS CARRIED OUT ON BEHALF OF CUSTOMERS AND ITEMS HELD IN TRUST

None.

## 4.10 RISK MANAGEMENT OBJECTIVES AND POLICIES

The notes under this caption are prepared as per the "Regulation on Calculation of Risk Management Disclosures" published in the Official Gazette no. 29511 dated 23 October 2015.

## 4.10.I RISK MANAGEMENT STRATEGY AND WEIGHTED AMOUNTS

### 4.10.I.I RISK MANAGEMENT STRATEGY

The Bank's risk management strategy is to ensure that risk management culture is recognized and risk management principles are widely embraced throughout the Bank and its affiliates, an integrated risk management system is established which pursues risk-return-capital relationship. Essential principles are adopted in order to ensure that policies determined to assess and manage risks the Bank is exposed to, are kept updated, adapted to changing conditions, applied and managed.

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

Policies and procedures regarding risk management are established for consolidated affiliates. Policies and procedures are prepared in compliance with applicable legislations that the affiliate subject to and the parent Bank's risk management strategy, reviewed regularly and revised if necessary. The parent Bank ensures that risk management system is applied in affiliates where risks are defined, measured, monitored and controlled.

Risk management activities are structured under the responsibility of the board of directors. The Risk Committee composed of the members of the board is responsible to oversee the Bank's risk management policies and practices, including the alignment with its strategic objectives and management's ability to assess and manage the various risks present in its activities including capital adequacy and planning and liquidity adequacy, as well as all other risk management functions envisioned under the applicable laws and regulations. Upper level management is responsible against the board of directors for the monitoring and management of risks that their departments are exposed to. Accordingly, the Risk Management, which performs risk management functions, reports to the board of directors via the Risk Committee, whereas the Internal Audit Department, performing internal audit functions, the Internal Control Unit, performing internal control functions, and the Compliance Department, which implements compliance controls and performs activities to prevent laundering proceeds of crime, and financing of terrorism, report directly to the board of directors.

The Bank's main approach for the implementation of risk management model is establishing risk culture throughout the Bank, and aims that the importance of risk management for maintaining business operations is understood and risk awareness and sensitivity is ensured for decision making and implementation mechanisms process by all employees.

The Bank measures and monitors risks that exposed to, considering methods suitable with international standards, compliant with legislation. Risk measuring and reporting are performed via advanced methods and risk management softwares. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, periodic and non-periodic reports are prepared for board of directors, relevant committees and senior management.

The Bank's risk appetite framework determines the risk level that the board of directors is prepared to accept in order to accomplish the goals and strategies with due consideration to the capacity of the institution to safely absorbs those risks and the Bank monitors regularly risk appetite metrics regarding capital, liquidity, income recurrence and risk based limits. Risks that the Bank is exposed is managed by providing effective control environment and monitoring limits. Unmitigated risks are either accepted with current risk levels or decreasing/terminating the activity that causes the risk.

The Risk Management function conducts the implementation of internal capital adequacy assessment report, to be sent to the BRSA by coordinating relevant parties. Stress test report is reported to the BRSA, which evaluates how adverse effects on macroeconomic parameters, in the scope of determined scenarios, affect the Bank's three year budget plan and results, and certain ratios, including capital adequacy.

Training programs for employees, risk reports to the board of directors, senior management and committees, risk appetite framework established by the Bank and internal capital adequacy assessment process generate significant inputs to ensure that risk management culture is widely embraced.



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## 4.10.1.2 RISK WEIGHTED AMOUNTS

	RISK WEIGHTED AMOUNTS		MINIMUM CAPITAL REQUIREMENTS
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD
1 Credit risk (excluding counterparty credit risk) (CCR) (*)	241,262,479	222,091,394	19,300,998
2 Of which standardised approach (SA)	241,262,479	222,091,394	19,300,998
3 Of which internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	3,837,586	5,680,859	307,007
5 Of which standardised approach for counterparty credit risk (SA-CCR)	3,837,586	5,680,859	307,007
6 Of which internal model method (IMM)	-	-	-
7 Equity position in banking book under basic risk weighting or internal rating-based	-	-	-
8 Equity investments in funds - look-through approach	-	-	-
9 Equity investments in funds - mandate-based approach	4,890	-	391
10 Equity investments in funds - 1250% risk weighting approach	-	-	-
11 Settlement risk	-	-	-
12 Securitisation exposures in banking book	-	-	-
13 Of which IRB ratings-based approach (RBA)	-	-	-
14 Of which IRB supervisory formula approach (SFA)	-	-	-
15 Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	6,748,950	6,136,375	539,916
17 Of which standardised approach (SA)	6,748,950	6,136,375	539,916
18 Of which internal model approaches (IMM)	-	-	-
19 Operational risk	25,033,623	21,096,899	2,002,690
20 Of which basic indicator approach	25,033,623	21,096,899	2,002,690
21 Of which standardised approach	-	-	-
22 Of which advanced measurement approach	-	-	-
23 Amounts below the thresholds for deduction from capital (subject to 250% risk weight)	1,137,058	3,420,013	90,965
24 Floor adjustment	-	-	-
25 <b>Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>278,024,586</b>	<b>258,425,540</b>	<b>22,241,967</b>

(\*) Excluding equity investments in funds and amounts below the thresholds for deductions from capital.

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## 4.10.2 LINKAGES BETWEEN FINANCIAL STATEMENTS AND RISK AMOUNTS

### 4.10.2.1 DIFFERENCES AND MATCHING BETWEEN ASSET AND LIABILITIES' CARRYING VALUES IN FINANCIAL STATEMENTS AND RISK AMOUNTS IN CAPITAL ADEQUACY CALCULATION

CURRENT PERIOD	CARRYING VALUES OF ITEMS IN ACCORDANCE WITH TURKISH ACCOUNTING STANDARDS					
	CARRYING VALUES IN FINANCIAL STATEMENTS PREPARED AS PER TAS (*)	CARRYING VALUES IN CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS PER TAS BUT IN COMPLIANCE WITH THE COMMUNIQUÉ "PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS"	SUBJECT TO CREDIT RISK	SUBJECT TO COUNTERPARTY CREDIT RISK	SUBJECT TO MARKET RISK (**)	NOT SUBJECT TO CAPITAL REQUIREMENTS OR SUBJECT TO DEDUCTION FROM CAPITAL
<b>ASSETS</b>						
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances With Central Bank of Turkey	39,220,034	33,603,641	33,603,641	-	-	-
Financial Assets Held for Trading	3,114,332	2,877,813	72,794	1,873,995	2,081,173	-
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-	-
Banks	11,553,963	19,470,343	19,470,163	-	-	-
Interbank Money Markets Placements	7,313	3,353	-	3,353	-	-
Financial Assets Available-for-Sale	24,699,789	26,277,988	26,104,810	14,788,886	171,784	1,394
Loans	215,442,140	229,353,285	229,322,411	-	-	30,879
Factoring Receivables	3,378,320	3,379,768	3,379,768	-	-	-
Investment Held-to-Maturity	23,025,486	24,314,540	24,314,540	1,010,967	-	-
Investment in Associates	37,291	35,751	35,751	-	-	-
Investment in Subsidiaries	3,097	116,681	116,681	-	-	-
Investment in Joint-Ventures	-	-	-	-	-	-
Lease Receivables	5,775,351	5,788,436	5,788,436	-	-	-
Derivative Financial Assets Held for Risk Management	570,643	670,720	-	670,720	-	-
Tangible Assets	5,490,232	4,096,651	3,965,737	-	-	130,914
Intangible Assets	116,614	379,308	24,024	-	-	355,284
Investment Property	327,993	559,388	559,388	-	-	-
Tax Asset	880,066	467,698	460,317	-	-	7,381
Assets Held for Sale and Assets of Discontinued Operations	835,552	835,552	835,552	-	-	-
Other Assets	2,138,656	4,100,751	4,100,751	-	-	-
<b>TOTAL ASSETS</b>	<b>336,616,872</b>	<b>356,331,667</b>	<b>352,154,764</b>	<b>18,347,921</b>	<b>2,252,957</b>	<b>525,852</b>
<b>LIABILITIES</b>						
Deposits	195,155,684	200,773,560	-	-	-	200,773,560
Derivative Financial Liabilities Held for Trading	2,294,937	2,898,822	-	-	-	2,898,822
Funds Borrowed	42,757,908	47,104,719	-	11,838,445	-	35,266,274
Interbank Money Markets	18,505,682	18,637,856	-	1,746,412	16,474	16,891,444
Securities Issued	19,347,705	20,794,452	-	-	-	20,794,452
Funds	-	-	-	-	-	-
Miscellaneous Payables	10,274,769	10,376,346	-	-	-	10,376,346
Other External Fundings Payable	983,676	3,080,350	-	-	28,116	3,052,234
Factoring Payables	-	-	-	-	-	-
Lease Payables	-	-	-	-	-	-

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Derivative Financial Liabilities Held for Risk Management	235,239	198,826	-	-	-	198,826
Provisions	3,050,325	6,848,102	-	-	-	6,848,102
Tax Liability	478,457	1,163,162	-	-	-	1,163,162
Liabilities for Assets Held for Sale and Assets of Discontinued Operations	-	-	-	-	-	-
Subordinated Debts	2,715,786	2,849,471	-	-	-	2,849,471
Shareholders' Equity	40,816,704	41,606,001	-	-	-	41,606,001
<b>TOTAL LIABILITIES</b>	<b>336,616,872</b>	<b>356,331,667</b>	<b>-</b>	<b>13,584,857</b>	<b>44,590</b>	<b>342,718,694</b>

(\*) As per financial statements prepared in compliance with the paragraph 6 of article 5 of the communiqué "Preparation of Consolidated Financial Statements" as of 30 September 2017.  
(\*\*) Disclosed based on gross position amounts subject to general market risk and specific risk.

PRIOR PERIOD	CARRYING VALUES OF ITEMS IN ACCORDANCE WITH TURKISH ACCOUNTING STANDARDS					
	CARRYING VALUES IN FINANCIAL STATEMENTS PREPARED AS PER TAS (*)	CARRYING VALUES IN CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS PER TAS BUT IN COMPLIANCE WITH THE COMMUNIQUÉ "PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS"	SUBJECT TO CREDIT RISK	SUBJECT TO COUNTERPARTY CREDIT RISK	SUBJECT TO MARKET RISK (**)	NOT SUBJECT TO CAPITAL REQUIREMENTS OR SUBJECT TO DEDUCTION FROM CAPITAL (***)
<b>ASSETS</b>						
Cash (Cash on Hand, Money in Transit, Purchased Cheques) and Balances With Central Bank of Turkey	33,734,687	23,951,474	23,951,474	-	-	-
Financial Assets Held for Trading	1,835,133	3,805,541	7,842	3,577,256	1,491,646	-
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-	-
Banks	11,877,548	16,881,044	16,112,947	-	-	1,540,185
Interbank Money Markets Placements	318,688	373,871	351,691	22,180	-	-
Financial Assets Available-for-Sale	23,179,823	23,983,448	22,878,689	5,699,440	1,081,227	23,532
Loans	182,659,386	201,409,096	201,372,108	-	-	36,994
Factoring Receivables	2,149,726	2,851,223	2,851,223	-	-	-
Investment Held-to-Maturity	21,306,528	23,109,696	23,109,696	8,308,738	-	-
Investment in Associates	37,261	37,261	36,998	-	-	263
Investment in Subsidiaries	4,125	115,858	1,240,965	-	-	-
Investment in Joint-Ventures	-	-	-	-	-	-
Lease Receivables	5,462,940	5,794,260	5,794,874	-	-	-
Derivative Financial Assets Held for Risk Management	283,059	666,295	-	666,295	-	-
Tangible Assets	4,567,214	3,680,621	3,473,471	-	-	123,614
Intangible Assets	106,340	327,653	25,670	-	-	301,983
Investment Property	537,494	543,825	630,270	-	-	-
Tax Asset	879,961	260,678	244,564	-	-	15,167
Assets Held for Sale and Assets of Discontinued Operations	490,659	605,015	548,690	-	-	56,325
Other Assets	1,612,144	3,725,080	3,644,832	-	-	125,041
<b>TOTAL ASSETS</b>	<b>291,042,716</b>	<b>312,121,939</b>	<b>306,276,004</b>	<b>18,273,909</b>	<b>2,572,873</b>	<b>2,223,104</b>

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LIABILITIES						
Deposits	167,133,455	178,689,813	-	-	-	178,689,813
Derivative Financial Liabilities Held for Trading	1,812,567	3,713,985	-	-	-	3,713,985
Funds Borrowed	39,334,000	46,581,853	-	5,798,862	-	40,782,991
Interbank Money Markets	18,678,332	11,230,193	-	7,813,821	26,027	3,416,372
Securities Issued	15,128,623	17,745,648	-	-	-	17,745,648
Funds	-	-	-	-	-	-
Miscellaneous Payables	9,228,088	9,339,748	-	-	-	9,339,748
Other External Fundings Payable	1,472,437	3,170,339	-	-	21,136	3,149,203
Factoring Payables	-	-	-	-	-	-
Lease Payables	-	-	-	-	-	-
Derivative Financial Liabilities Held for Risk Management	514,247	343,314	-	-	-	343,314
Provisions	1,831,781	5,032,873	-	-	-	5,032,873
Tax Liability	171,439	478,266	-	-	-	478,266
Liabilities for Assets Held for Sale and Assets of Discontinued Operations	-	-	-	-	-	-
Subordinated Debts	-	-	-	-	-	-
Shareholders' Equity	35,737,747	35,795,907	-	-	-	35,795,907
<b>TOTAL LIABILITIES</b>	<b>291,042,716</b>	<b>312,121,939</b>	<b>-</b>	<b>13,612,683</b>	<b>47,163</b>	<b>298,488,120</b>

(\*) As per financial statements prepared in compliance with the paragraph 6 of article 5 of the communiqué "Preparation of Consolidated Financial Statements" as of 30 September 2016.  
(\*\*) Disclosed based on gross position amounts subject to general market risk and specific risk.

(\*\*\*) According to the "Bank Capital Regulation" article 10 paragraph 4, which published on Official Gazette dated 5 September 2013 with no. 28756, the banks also calculate their consolidated capital as if their investments in insurance companies are not consolidated as per 9th article's 4th paragraph's (c) and (ç) items. Lesser of consolidated capital calculated according to 1st and 4th paragraphs is considered the consolidated capital according to this regulation. The consolidated capital calculated without including insurance affiliate is less than the consolidated capital calculated including insurance affiliate. Therefore, the carrying value of the insurance company not subjected to regulatory consolidation is represented under the column "not subject to capital requirements or subject to deduction from capital".

## 4.10.2.2 MAJOR ITEMS CAUSING DIFFERENCES BETWEEN ASSETS AND LIABILITIES' CARRYING VALUES IN FINANCIAL STATEMENTS AND RISK AMOUNTS IN CAPITAL ADEQUACY CALCULATION

CURRENT PERIOD	TOTAL	CREDIT RISK	COUNTERPARTY CREDIT RISK	MARKET RISK (*)
1 Carrying Value of Assets in Accordance with Communiqué "Preparation of Consolidated Financial Statements"	339,991,050	336,339,999	2,533,156	2,252,957
2 Carrying Value of Debt Instruments Subject Counterparty Credit Risk in Accordance with Communiqué "Preparation of Consolidated Financial Statements"	15,814,765	15,814,765	15,814,765	-
3 Carrying Value of Liabilities Subject to Counterparty Credit Risk in Accordance with Communiqué "Preparation of Consolidated Financial Statements"	13,584,857	-	13,584,857	16,474
4 Carrying Value of Other Liabilities in Accordance with Communiqué "Preparation of Consolidated Financial Statements"	28,116	-	-	28,116
5 Total Net Amount Under Regulatory Consolidation	342,192,842	352,154,764	4,763,064	2,208,367
6 Off-balance Sheet Amounts (**)	300,558,195	44,034,598	1,911,559	178,242,558
7 Credit Risk Mitigation	-	(20,912,222)	(28,948)	-
8 Repurchase Transactions Valuation Adjustments	-	-	929,923	-
<b>9 Risk Amounts</b>	<b>642,751,037</b>	<b>375,277,140</b>	<b>7,575,598</b>	<b>180,450,925</b>

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PRIOR PERIOD	TOTAL	CREDIT RISK	COUNTERPARTY CREDIT RISK	MARKET RISK (*)
1 Carrying Value of Assets in Accordance with Communiqué "Preparation of Consolidated Financial Statements"	295,871,173	292,248,342	4,246,247	2,572,873
2 Carrying Value of Debt Instruments Subject Counterparty Credit Risk in Accordance with Communiqué "Preparation of Consolidated Financial Statements"	14,027,662	14,027,662	14,027,662	-
3 Carrying Value of Liabilities Subject to Counterparty Credit Risk in Accordance with Communiqué "Preparation of Consolidated Financial Statements"	13,612,683	-	13,612,683	-
4 Carrying Value of Other Liabilities in Accordance with Communiqué "Preparation of Consolidated Financial Statements"	21,136	-	-	47,163
5 Total Net Amount Under Regulatory Consolidation	296,265,016	306,276,004	4,661,226	2,525,710
6 Off-balance Sheet Amounts (**)	265,731,181	41,073,373	1,802,817	165,812,704
7 Credit Risk Mitigation	-	(18,684,545)	(9,751)	-
8 Repurchase Transactions Valuation Adjustments	-	-	1,495,079	-
<b>9 Risk Amounts</b>	<b>561,966,197</b>	<b>328,664,832</b>	<b>7,949,371</b>	<b>168,338,414</b>

(\*) Disclosed based on gross position amounts subject to general market risk and specific risk.

(\*\*) The amounts present the balances of the off-balance sheet items subject to capital adequacy regulation.

## 4.10.2.3 EXPLANATIONS ON DIFFERENCES BETWEEN CARRYING VALUES IN FINANCIAL STATEMENTS AND RISK AMOUNTS IN CAPITAL ADEQUACY CALCULATION OF ASSETS AND LIABILITIES

There is no material differences between the carrying values in financial statements and the risk amounts in capital adequacy calculation of assets and liabilities.

## 4.10.3 CONSOLIDATED CREDIT RISK

### 4.10.3.1 GENERAL INFORMATION ON CONSOLIDATED CREDIT RISK

#### 4.10.3.1.1 GENERAL QUALITATIVE INFORMATION ON CONSOLIDATED CREDIT RISK

The parent bank's credit risk management policies; under the relevant legislation in line with the bank's credit strategy approved by the Board are created based on the prudence, sustainability and customer's credit worthiness principles.

Diversification to avoid concentrations are performed while determining the Bank's credit risk profile. Credit portfolios are evaluated depending upon the credit type, managed aggregately during their life cycle. Customer selection is made in accordance with the policies and strategies, affordability of the borrower to fulfil on a timely basis all financial obligations with his expected cash flows from foreseeable specific transactions or from its regular operations; without depending upon guarantors, bails or pledged assets is predicated. Necessary risk rating/scoring models are developed for the different portfolios of the Bank. These models are created by ensuring the best separation of the customers in terms of their credibility and grading them using the objective criteria. The outputs of the internal rating and scoring models that developed based on the each portfolio, as well as an important part of the loan approval process, but also these models are used measuring the default risk of the customer and the portfolio, doing analysis regarding expected loss, internal capital and risk-based analyses.

The general risk policy including the risk appetite and indicators is determined by the board of directors. Risk management is handled, in order to reach the determined targets, by carrying out a continuous monitoring process with a proper classification of risks and customers in scope of the effective management mentality. The limit framework and delegation rules are specified by establishing proper decision systems in order to assess the risks correctly. Optimum limit levels are determined by taking into account the loss and returns during the limit setting process.

The security intelligence and analysis are done in order to measure the creditworthiness of the customer that will be entered in a credit relationship. Before the credit decisions, customer analysis is examined and evaluated by producing all factors (qualitative and quantitative data) that effected and will be effected the historical, current and future performance of the customer.

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Credit risk management is a structured process where credit risks are consistently assessed, quantified and monitored. In order to take the right decision, during the credit process which begins with the application of the customer and includes the phases of determination of the customer's credibility, collateralization, loan configuration, approval and usage, monitoring and closing the exposure, all required information and documents intended to identify the customer are collected in a centralized database, with this information the customer's financial strength is analysed, credit risk analysis is done, are graded according to customer segment and activity fields and the information is kept updated by inquiring the customers. Before a loan is granted, it is ensured that risks are well-understood, sufficient evaluation has been done and after the loan is granted the loan is monitored, controlled and reported.

Credit risk is managed on a portfolio basis considering the risk/return balance and asset quality of the Bank in the scope of the principles specified in the credit risk policy documents. Furthermore, loan based assessment, allocation and monitoring are carried out within the framework of related processes by related units in the Credit Group. Credit proposals, on the basis of the determined amount and in the framework of levels of authority, are concluded after being evaluated by the Regional Offices, Loans units of Headquarter, if required by the credit committee and the board of directors. The credit approval authority can be transferred starting from the board of directors. The authorities of the Headquarter and Credit Regional Offices are notified in written and transfer of authority is done.

Each unit operating in credit risk management is responsible for identifying risks arising from its own process, activities and systems, informing senior management and taking necessary action to reduce risk level.

Risk management activities are conducted in accordance with the Bank's risk appetite and capacity by using risk measurement and management tools within the policies which is established by the board of directors.

In this context, organizational structure related to credit risk management and control functions are detailed below: Units within the scope of Credit Risk Management; Corporate and Special Loans, Commercial Loans, Featured Collections, Commercial Products Collection, Bank and Country Risk, Retail and SME Loans Risk Strategies, Retail and SME Loans Evaluation, Retail Products Collection, Risk Planning Monitoring and Reporting, Risk Analytics, Technology and Innovation, Market Risk and Credit Risk Control and Region Coordination.

In addition, decisions regarding the credit policy in the corporate governance framework are taken by the relevant committees. In this context, there are Corporate and Commercial Loans Risk Committee, Retail Loans Risk Committee, Risk Management Committee and Board of Risk Committee. Allocated limits and conditions that exceeding the limits with their usage, evaluations regarding major risks and non-performing loans with high risk, information regarding NPLs, the data regarding the portfolios of subsidiaries are reported to senior management on a regular basis.

The Risk Management function measures, monitors and reports credit risks by using the Bank's probability of defaults obtained from the Bank's rating models, loss that is caused by defaulted customer and credit conversion factors. Bank's internal capital is calculated and adequacy is assessed by considering stress tests and scenario analysis. Also, the limits are determined for credit portfolios by considering optimum risk return balance and credit concentrations are monitored.

For credit risk, on-site and centralized controls of guarantees and contract are carried out by employees of the Internal Control Center. In this context, it is implemented a strategy which covers all branches. Internal control activities are carried out under the control programs prepared for the designated checkpoints and methodologies.

## 4.10.3.1.2 CREDIT QUALITY OF CONSOLIDATED ASSETS

CURRENT PERIOD	GROSS CARRYING VALUE IN CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS perTAS		ALLOWANCES/ AMORTISATION AND IMPAIRMENTS	NET VALUES
	DEFAULTED	NON-DEFAULTED EXPOSURES		
1 Loans	6,865,295	286,541,848	5,150,970	288,256,173
2 Debt securities	-	50,317,658	-	50,317,658
3 Off-balance sheet exposures	370,339	70,349,735	127,417	70,592,657
<b>4 Total</b>	<b>7,235,634</b>	<b>407,209,241</b>	<b>5,278,387</b>	<b>409,166,488</b>

PRIOR PERIOD	GROSS CARRYING VALUE IN CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS perTAS		ALLOWANCES/ AMORTISATION AND IMPAIRMENTS	NET VALUES
	DEFAULTED	NON-DEFAULTED EXPOSURES		
1 Loans	6,910,833	245,574,041	5,135,502	247,349,372
2 Debt securities	-	45,895,535	-	45,895,535
3 Off-balance sheet exposures	355,861	68,228,310	134,609	68,449,562
<b>4 Total</b>	<b>7,266,694</b>	<b>359,697,886</b>	<b>5,270,111</b>	<b>361,694,469</b>

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## 4.10.3.1.3 CHANGES IN STOCK OF DEFAULT LOANS AND DEBT SECURITIES

	CURRENT PERIOD	PRIOR PERIOD
1 Defaulted loans and debt securities at end of the previous reporting period	<b>6,910,833</b>	<b>6,090,168</b>
2 Loans and debt securities defaulted since the last reporting period	3,049,823	4,227,196
3 Receivables back to non-defaulted status	-	-
4 Amounts written off	1,295,891	1,687,658
5 Other changes	1,799,470	1,718,873
<b>6 Defaulted loans and debt securities at end of the reporting period</b>	<b>6,865,295</b>	<b>6,910,833</b>

## 4.10.3.1.4 ADDITIONAL INFORMATION ON CREDIT QUALITY OF CONSOLIDATED ASSETS

### 4.10.3.1.4.1 QUALITATIVE DISCLOSURES RELATED TO THE CREDIT QUALITY OF ASSETS

Taking into consideration the general economic outlook, sector specific situations and possible regulation changes, the Bank determines the provision rates that will be applied and the collateral types that will be taken into account in the calculations; provided that those rates cannot be lower than what is determined in the related regulation. Related decisions are applied after the approval of the Bank's Risk Management Committee.

A refinancing/restructuring refers to; extending a new loan for the purpose of repayment of a part or whole of the outstanding loans or related interest payments granted previously or, amending the conditions of such outstanding loans in order to facilitate the repayment capacity; due to current or foreseeable financial difficulties of the borrower or the related risk group.

### 4.10.3.1.4.2 BREAKDOWN OF EXPOSURES BY GEOGRAPHICAL AREAS, INDUSTRY AND AGEING

Disclosed under section 4.2 credit risk.

### 4.10.3.1.4.3 EXPOSURES PROVISIONED AGAINST BY MAJOR REGIONS AND SECTORS

	CURRENT PERIOD			PRIOR PERIOD		
	LOANS UNDER FOLLOW-UP	SPECIFIC PROVISIONS	WRITE-OFFS	LOANS UNDER FOLLOW-UP	SPECIFIC PROVISIONS	WRITE-OFFS
Domestic	5,712,104	4,445,293	1,045,411	5,699,448	4,437,990	1,078,118
European Union (EU) Countries	931,709	526,027	219,587	926,294	461,309	375,057
OECD Countries	98,470	63,542	1	108,053	75,525	7
Off-Shore Banking Regions	71,710	71,710	-	74,413	74,413	2,459
USA, Canada	15,740	14,468	-	26,114	20,446	6,800
Other Countries	35,562	29,930	30,892	76,511	65,819	225,217
<b>Total</b>	<b>6,865,295</b>	<b>5,150,970</b>	<b>1,295,891</b>	<b>6,910,833</b>	<b>5,135,502</b>	<b>1,687,658</b>

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CURRENT PERIOD	LOANS UNDER FOLLOW-UP	SPECIFIC PROVISIONS	WRITE-OFFS
<b>Agriculture</b>	<b>160,599</b>	<b>100,655</b>	<b>526,169</b>
Farming and Stockbreeding	156,568	97,783	522,314
Forestry	2,410	1,615	3,370
Fishery	1,621	1,257	485
<b>Manufacturing</b>	<b>912,454</b>	<b>574,132</b>	<b>202,793</b>
Mining and Quarrying	88,013	65,284	15,595
Production	656,486	423,969	186,364
Electricity, Gas and Water	167,955	84,879	834
<b>Construction</b>	<b>495,930</b>	<b>382,018</b>	<b>66,461</b>
<b>Services</b>	<b>2,227,221</b>	<b>1,353,622</b>	<b>290,555</b>
Wholesale and Retail Trade	1,126,253	706,853	213,443
Accommodation and Dining	216,329	85,017	25,455
Transportation and Telecommunication	740,736	469,144	40,655
Financial Institutions	27,458	20,568	531
Real Estate and Rental Services	42,480	21,178	985
Professional Services	4,737	1,504	54
Educational Services	40,685	30,600	973
Health and Social Services	28,543	18,758	8,459
<b>Others</b>	<b>3,069,091</b>	<b>2,740,543</b>	<b>209,913</b>
<b>Total</b>	<b>6,865,295</b>	<b>5,150,970</b>	<b>1,295,891</b>

PRIOR PERIOD	LOANS UNDER FOLLOW-UP	SPECIFIC PROVISIONS	WRITE-OFFS
<b>Agriculture</b>	<b>182,986</b>	<b>116,866</b>	<b>10,942</b>
Farming and Stockbreeding	178,277	113,925	10,591
Forestry	2,340	1,728	205
Fishery	2,369	1,213	146
<b>Manufacturing</b>	<b>1,086,460</b>	<b>710,335</b>	<b>413,201</b>
Mining and Quarrying	76,432	56,906	122,351
Production	859,311	582,830	290,285
Electricity, Gas and Water	150,717	70,599	565
<b>Construction</b>	<b>517,524</b>	<b>339,852</b>	<b>75,499</b>
<b>Services</b>	<b>2,054,471</b>	<b>1,222,595</b>	<b>346,090</b>
Wholesale and Retail Trade	1,161,515	678,193	272,745
Accommodation and Dining	194,674	80,912	25,342
Transportation and Telecommunication	539,040	366,100	33,587
Financial Institutions	22,308	19,766	2,246
Real Estate and Rental Services	36,832	18,749	4,507
Professional Services	4,091	1,422	21
Educational Services	59,857	32,978	1,472
Health and Social Services	36,154	24,475	6,170
<b>Others</b>	<b>3,069,392</b>	<b>2,745,854</b>	<b>841,926</b>
<b>Total</b>	<b>6,910,833</b>	<b>5,135,502</b>	<b>1,687,658</b>

#### 4.10.3.1.4.4 AGEING OF PAST-DUE EXPOSURES

CURRENT PERIOD	UP TO 3 MONTHS	3-12 MONTHS	1-3 YEARS	3-5 YEARS	5 YEARS AND OVER
Corporate and Commercial Loans	581,187	691,120	1,882,754	401,205	485,413
Retail Loans	213,645	461,084	616,406	188,672	230,796
Credit Cards	96,476	260,655	347,051	112,738	134,997
Others	17,937	37,149	91,587	10,815	3,608
<b>Total</b>	<b>909,245</b>	<b>1,450,008</b>	<b>2,937,798</b>	<b>713,430</b>	<b>854,814</b>



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PRIOR PERIOD	UP TO 3 MONTHS	3-12 MONTHS	1-3 YEARS	3-5 YEARS	5 YEARS AND OVER
Corporate and Commercial Loans	418,035	1,433,176	1,239,717	582,688	464,668
Retail Loans	260,473	516,265	562,037	149,034	196,804
Credit Cards	130,443	318,539	324,146	110,409	104,155
Others	3,942	27,888	55,434	10,334	2,646
<b>Total</b>	<b>812,893</b>	<b>2,295,868</b>	<b>2,181,334</b>	<b>852,465</b>	<b>768,273</b>

## 4.10.3.2 CONSOLIDATED CREDIT RISK MITIGATION

### 4.10.3.2.1 QUALITATIVE DISCLOSURE ON CONSOLIDATED CREDIT RISK MITIGATION TECHNIQUES

Parent bank assesses the cash flow of the activity or investment subject to credit as the primary repayment source during the credit assignment process.

Calculating the value of the collateral depends on margins determined according to market and FX risks. Standard margins in use throughout the Bank are specific to type of the collateral and changes according to the currency of the collateral.

If credit assignment is conditioned to a collateral extension, the data of the collaterals must be entered to the banking information system. Operational transactions are handled by centralized Operation unit (ABACUS). During the credit utilization, compliance of all conditions between credit decision and credit utilization (such as collateral conditions) are controlled systematically.

The Bank monitors up to date value of the collaterals by type. Credit monitoring process involves the control of the balance between the value of the collateral and risk besides creditworthiness of the customer.

The Bank's credit risk exposure and mitigation techniques used in order to reduce the exposure level are taken into account according to the principles stated in the related regulation. The Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals. The standardized risk weights are applied to the rest of the loans and receivables that remained unprotected after credit risk mitigation techniques. Financial collaterals, that are composed of cash or cash equivalents, real estate mortgages, high quality securities and Credit Guarantee Fund suretyship having Treasury guarantee, have been used in credit risk mitigation.

### 4.10.3.2.2 CONSOLIDATED CREDIT RISK MITIGATION TECHNIQUES

CURRENT PERIOD	EXPOSURES UNSECURED: CARRYING AMOUNT AS PER TAS	EXPOSURES SECURED BY COLLATERAL	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY COLLATERAL	EXPOSURES SECURED BY FINANCIAL GUARANTEES	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY FINANCIAL GUARANTEES	EXPOSURES SECURED BY CREDIT DERIVATIVES	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY CREDIT DERIVATIVES
1 Loans	248,903,161	39,353,012	34,304,927	11,427,381	11,427,381	-	-
2 Debt securities	50,317,658	-	-	-	-	-	-
<b>3 Total</b>	<b>299,220,819</b>	<b>39,353,012</b>	<b>34,304,927</b>	<b>11,427,381</b>	<b>11,427,381</b>	-	-
4 Of which defaulted	6,755,250	110,045	8,520	-	-	-	-

PRIOR PERIOD	EXPOSURES UNSECURED: CARRYING AMOUNT AS PER TAS	EXPOSURES SECURED BY COLLATERAL	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY COLLATERAL	EXPOSURES SECURED BY FINANCIAL GUARANTEES	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY FINANCIAL GUARANTEES	EXPOSURES SECURED BY CREDIT DERIVATIVES	COLLATERALIZED AMOUNT OF EXPOSURES SECURED BY CREDIT DERIVATIVES
1 Loans	195,545,999	51,803,373	42,649,778	-	-	-	-
2 Debt securities	45,895,535	-	-	-	-	-	-
<b>3 Total</b>	<b>241,441,534</b>	<b>51,803,373</b>	<b>42,649,778</b>	-	-	-	-
4 Of which defaulted	6,866,835	43,998	14,357	-	-	-	-

## 4.10.3.3 CONSOLIDATED CREDIT RISK UNDER STANDARDISED APPROACH

### 4.10.3.3.1 QUALITATIVE DISCLOSURES ON BANKS' USE OF EXTERNAL CREDIT RATINGS UNDER THE STANDARDISED APPROACH FOR CREDIT RISK

An international rating firm, Fitch Ratings' external risk ratings are used to determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks".

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The international risk ratings are used for the exposures to central governments and central banks, whereas for central governments and central banks that are not rated by Fitch Ratings, the published country ratings as announced by the Organisation for Economic Cooperation and Development (OECD) are used.

According to the regulation on capital adequacy, external risk ratings are used only for the exposures to banks and brokerage houses and to corporates where the counterparties are resident in abroad, to determine their risk weights. Where the counterparties are domestic, the related exposures are included in the calculation of capital adequacy as unrated.

In the determination of risk weights; if a relevant rating is available then such rating, but if it is an unrated exposure then the rating available for the issuer is used.

Rating notes issued by Fitch Ratings are presented in the table below, as per credit quality levels and risk weights per risk classes:

CREDIT QUALITY LEVEL	FITCH RATINGS LONG TERM CREDIT RATING	RISK CLASSES			
		EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS	EXPOSURES TO BANKS AND BROKERAGE HOUSES		EXPOSURES TO CORPORATES
			EXPOSURES WITH ORIGINAL MATURITIES LESS THAN 3 MONTHS	EXPOSURES WITH ORIGINAL MATURITIES MORE THAN 3 MONTHS	
1	AAA to AA-	0%	20%	20%	20%
2	A+ to A-	20%	20%	50%	50%
3	BBB+ to BBB-	50%	20%	50%	100%
4	BB+ to BB-	100%	50%	100%	100%
5	B+ to B-	100%	50%	100%	150%
6	CCC+ and below	150%	150%	150%	150%

## 4.10.3.3.2 CONSOLIDATED CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION TECHNIQUES

CURRENT PERIOD	RISK CLASSES	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST CCF AND CRM		RWA AND RWA DENSITY	
		ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	RWA	RWA DENSITY
1	Exposures to sovereigns and their central banks	81,704,085	176,554	93,044,942	91,577	12,733,203	14%
2	Exposures to regional and local governments	122,898	3,415	119,620	1,695	60,658	50%
3	Exposures to administrative bodies and non-commercial entities	299,434	65,505	299,431	16,419	315,849	100%
4	Exposures to multilateral development banks	202,781	-	202,781	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-
6	Exposures to banks and brokerage houses	20,702,340	17,085,257	16,279,490	2,228,308	9,811,319	53%
7	Exposures to corporates	121,902,879	53,142,446	114,143,606	22,189,719	134,334,858	99%
8	Retail exposures	77,406,533	46,090,805	71,466,831	4,143,535	56,705,522	75%
9	Exposures secured by residential property	20,531,592	110,465	20,517,716	56,942	7,201,113	35%
10	Exposures secured by commercial property	16,583,733	2,153,453	16,349,582	1,381,721	10,919,725	62%
11	Past-due items	1,161,094	54	1,160,452	-	1,028,608	89%
12	Exposures in high-risk categories	590,381	100,946	590,312	45,446	830,703	131%
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
15	Exposures in the form of collective investment undertakings	44,516	-	44,516	-	4,890	11%
16	Shares	164,293	-	164,293	-	164,293	100%
17	Other exposures	10,283,383	-	10,283,383	-	7,156,628	70%
<b>18</b>	<b>Total</b>	<b>351,699,942</b>	<b>118,928,900</b>	<b>344,666,955</b>	<b>30,155,362</b>	<b>241,267,369</b>	

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PRIOR PERIOD	RISK CLASSES	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST CCF AND CRM		RWA AND RWA DENSITY	
		ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	RWA	RWA DENSITY
1	Exposures to sovereigns and their central banks	62,991,190	978,372	62,991,190	312,694	12,214,626	19%
2	Exposures to regional and local governments	131,400	2,534	128,824	1,255	61,449	47%
3	Exposures to administrative bodies and non-commercial entities	62,244	5,646	62,244	1,884	64,128	100%
4	Exposures to multilateral development banks	190,237	-	190,237	-	55,402	29%
5	Exposures to international organizations	-	-	-	-	-	-
6	Exposures to banks and brokerage houses	22,550,426	14,968,656	18,321,242	2,249,912	8,408,466	41%
7	Exposures to corporates	109,256,649	53,142,207	107,264,656	21,288,372	125,080,583	97%
8	Retail exposures	62,900,760	41,762,190	62,488,339	3,636,124	49,592,183	75%
9	Exposures secured by residential property	19,318,279	151,697	19,313,597	77,622	6,786,927	35%
10	Exposures secured by commercial property	16,338,647	1,655,679	16,323,202	960,619	11,054,150	64%
11	Past-due items	1,065,373	1,363	1,064,645	-	884,208	83%
12	Exposures in high-risk categories	837,314	159,743	836,664	69,524	1,296,815	143%
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-
15	Exposures in the form of collective investment undertakings	-	-	-	-	-	-
16	Shares	218,991	-	218,991	-	181,935	83%
17	Other exposures	9,494,987	-	9,494,987	-	6,410,522	68%
<b>18</b>	<b>Total</b>	<b>305,356,497</b>	<b>112,828,087</b>	<b>298,698,818</b>	<b>28,598,006</b>	<b>222,091,394</b>	

## 4.10.3.3.3 CONSOLIDATED EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

CURRENT PERIOD	REGULATORY PORTFOLIO	0%	10%	20%	35% SECURED BY PROPERTY MORTGAGE	50%	75%	100%	150%	200%	OTHERS	TOTAL RISK
												AMOUNT (POST-CCF AND CRM)
1	Exposures to sovereigns and their central banks	80,351,650	-	33,729	-	49,365	-	12,701,775	-	-	-	93,136,519
2	Exposures to regional and local government	-	-	-	-	121,314	-	1	-	-	-	121,315
3	Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	-	315,850	-	-	-	315,850
4	Exposures to multilateral development banks	202,781	-	-	-	-	-	-	-	-	-	202,781
5	Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-
6	Exposures to banks and brokerage houses	-	-	7,669,767	-	5,121,332	-	5,716,699	-	-	-	18,507,798
7	Exposures to corporates	-	-	479,348	-	3,229,975	-	132,624,002	-	-	-	136,333,325
8	Retail exposures	-	-	-	-	9,078	75,601,288	-	-	-	-	75,610,366
9	Exposures secured by residential property	-	-	-	20,574,658	-	-	-	-	-	-	20,574,658
10	Exposures secured by commercial property	-	-	-	-	13,623,154	-	4,108,149	-	-	-	17,731,303
11	Past-due items	-	-	-	-	263,688	-	896,764	-	-	-	1,160,452
12	Exposures in high-risk categories	-	-	-	-	91,175	-	63,520	481,063	-	-	635,758
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-	-
15	Exposures in the form of collective investment undertakings	39,626	-	-	-	-	-	4,890	-	-	-	44,516
16	Shares	-	-	-	-	-	-	164,293	-	-	-	164,293
17	Other exposures	3,126,512	-	305	-	-	-	7,156,566	-	-	-	10,283,383
<b>18</b>	<b>Total</b>	<b>83,720,569</b>	<b>-</b>	<b>8,183,149</b>	<b>20,574,658</b>	<b>22,509,081</b>	<b>75,601,288</b>	<b>163,752,509</b>	<b>481,063</b>	<b>-</b>	<b>-</b>	<b>374,822,317</b>

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PRIOR PERIOD		0%	10%	20%	35% SECURED BY PROPERTY MORTGAGE	50%	75%	100%	150%	200%	OTHERS	TOTAL RISK AMOUNT (POST- CCF AND CRM) SONRASI)
REGULATORY PORTFOLIO												
1	Exposures to sovereigns and their central banks	38,851,453	-	38,642	-	24,413,782	-	7	-	-	-	63,303,884
2	Exposures to regional and local government	-	-	11,970	-	118,109	-	-	-	-	-	130,079
3	Exposures to administrative bodies and non-commercial entities	-	-	-	-	-	-	64,128	-	-	-	64,128
4	Exposures to multilateral development banks	-	-	132,386	-	57,851	-	-	-	-	-	190,237
5	Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-
6	Exposures to banks and brokerage houses	-	-	6,476,701	-	13,962,653	-	131,800	-	-	-	20,571,154
7	Exposures to corporates	-	-	573,924	-	6,026,629	-	121,952,475	-	-	-	128,553,028
8	Retail exposures	-	-	630	-	3,265	66,120,568	-	-	-	-	66,124,463
9	Exposures secured by residential property	-	-	-	19,391,219	-	-	-	-	-	-	19,391,219
10	Exposures secured by commercial property	-	-	-	-	12,459,341	-	4,824,480	-	-	-	17,283,821
11	Past-due items	-	-	-	-	360,873	-	703,772	-	-	-	1,064,645
12	Exposures in high-risk categories	-	-	-	-	30,017	-	64,897	811,274	-	-	906,188
13	Exposures in the form of bonds secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
14	Short term exposures to banks, brokerage houses and corporates	-	-	-	-	-	-	-	-	-	-	-
15	Exposures in the form of collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-
16	Shares	37,057	-	-	-	-	-	181,934	-	-	-	218,991
17	Other exposures	3,082,509	-	2,444	-	-	-	6,410,034	-	-	-	9,494,987
<b>18</b>	<b>Total</b>	<b>41,971,019</b>	<b>-</b>	<b>7,236,697</b>	<b>19,391,219</b>	<b>57,432,520</b>	<b>66,120,568</b>	<b>134,333,527</b>	<b>811,274</b>	<b>-</b>	<b>-</b>	<b>327,296,824</b>

## 4.10.4 CONSOLIDATED COUNTERPARTY CREDIT RISK

### 4.10.4.1 QUALITATIVE DISCLOSURE ON CONSOLIDATED COUNTERPARTY CREDIT RISK

Counterparty credit risk management policies include evaluating and monitoring risk developments, taking necessary measures, setting risk limits, ensuring that the risks remain within the limits, and establishing required reporting, control and audit mechanisms by using the methods aligned with both international standards and local regulations. The policies regarding counterparty credit risk measurement, monitoring, and limit settings are defined by the board of directors.

Counterparty credit risk arising from derivative transactions is periodically being monitored and reported by the Market Risk and Credit Risk Control units on product, country, counterparty and counterparty type basis.

International framework agreements (ISDA, CSA, GMRA, etc.) are being used through collateral and margin call mechanisms in order to mitigate the counterparty credit risk.

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## 4.10.4.2 CONSOLIDATED COUNTERPARTY CREDIT RISK (CCR) APPROACH ANALYSIS

CURRENT PERIOD		REPLACEMENT COST	POTENTIAL FUTURE EXPOSURE	EEPE (EFFECTIVE EXPECTED POSITIVE EXPOSURE)	ALPHA USED FOR COMPUTING REGULATORY EAD	EAD POST-CRM	RWA
1	Standardised Approach -CCR (for derivatives)	2,516,682	1,911,559		1.4	4,399,294	2,225,032
2	Internal Model Method (for derivative financial instruments, repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-	-	-	-
3	Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
4	Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					3,176,304	179,160
5	Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
<b>6</b>	<b>Total</b>						<b>2,404,192</b>

PRIOR PERIOD		REPLACEMENT COST	POTENTIAL FUTURE EXPOSURE	EEPE (EFFECTIVE EXPECTED POSITIVE EXPOSURE)	ALPHA USED FOR COMPUTING REGULATORY EAD	EAD POST-CRM	RWA
1	Standardised Approach -CCR (for derivatives)	4,220,220	1,802,817		1.4	6,013,287	3,165,331
2	Internal Model Method (for derivative financial instruments, repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-	-	-	-
3	Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
4	Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					1,936,086	594,068
5	Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
<b>6</b>	<b>Total</b>						<b>3,759,399</b>

## 4.10.4.3 CONSOLIDATED CAPITAL REQUIREMENT FOR CREDIT VALUATION ADJUSTMENT (CVA)

	CURRENT PERIOD		PRIOR PERIOD	
	EAD POST-CRM	RWA	EAD POST-CRM	RWA
Total portfolios subject to the Advanced CVA capital obligation	-	-	-	-
1 (i) VaR component (including the 3×multiplier)		-		-
2 (ii) Stressed VaR component (including the 3×multiplier)		-		-
3 All portfolios subject to the Standardised CVA capital obligation	4,359,261	1,433,394	6,013,287	1,921,460
<b>4 Total subject to the CVA capital obligation</b>	<b>4,359,261</b>	<b>1,433,394</b>	<b>6,013,287</b>	<b>1,921,460</b>

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## 4.10.4.4 CONSOLIDATED CCR EXPOSURES BY RISK CLASS AND RISK WEIGHTS

CURRENT PERIOD	RISK WEIGHT	0%	10%	20%	50%	75%	100%	150%	OTHER	TOTAL CREDIT EXPOSURE
<b>REGULATORY PORTFOLIO</b>										
Exposures to sovereigns and their central banks		2,192,204	-	-	-	-	16,689	-	-	2,208,893
Exposures to regional and local governments		-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and non-commercial entities		-	-	-	-	-	5	-	-	5
Exposures to multilateral development banks		563,446	-	-	-	-	-	-	-	563,446
Exposures to international organizations		-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses		-	-	1,172,619	2,873,700	-	51,732	-	-	4,098,051
Exposures to corporates		-	-	59	74,278	-	616,356	-	-	690,693
Retail exposures		-	-	-	-	14,510	-	-	-	14,510
Exposures secured by property mortgages		-	-	-	-	-	-	-	-	-
Past-due items		-	-	-	-	-	-	-	-	-
Exposures in high-risk categories		-	-	-	-	-	-	-	-	-
Exposures in the form of bonds secured by mortgages		-	-	-	-	-	-	-	-	-
Securitization positions		-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates		-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings		-	-	-	-	-	-	-	-	-
Shares		-	-	-	-	-	-	-	-	-
Other exposures		-	-	-	-	-	-	-	-	-
Other assets		-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>2,755,650</b>	<b>-</b>	<b>1,172,678</b>	<b>2,947,978</b>	<b>14,510</b>	<b>684,782</b>	<b>-</b>	<b>-</b>	<b>7,575,598</b>

PRIOR PERIOD	RISK WEIGHT	0%	10%	20%	50%	75%	100%	150%	OTHER	TOTAL CREDIT EXPOSURE
<b>REGULATORY PORTFOLIO</b>										
Exposures to sovereigns and their central banks		177,436	-	-	-	-	-	-	-	177,436
Exposures to regional and local governments		-	-	-	-	-	-	-	-	-
Exposures to administrative bodies and non-commercial entities		-	-	-	-	-	4	-	-	4
Exposures to multilateral development banks		413,954	-	-	-	-	-	-	-	413,954
Exposures to international organizations		-	-	-	-	-	-	-	-	-
Exposures to banks and brokerage houses		-	-	1,102,626	5,400,596	-	1,116	-	-	6,504,338
Exposures to corporates		-	-	546	20,882	4	769,901	-	-	791,333
Retail exposures		-	-	-	-	48,608	-	-	-	48,608
Exposures secured by property mortgages		-	-	-	-	-	-	-	-	-
Past-due items		-	-	-	-	-	-	-	-	-
Exposures in high-risk categories		-	-	-	-	-	-	13,700	-	13,700
Exposures in the form of bonds secured by mortgages		-	-	-	-	-	-	-	-	-
Securitization positions		-	-	-	-	-	-	-	-	-
Short term exposures to banks, brokerage houses and corporates		-	-	-	-	-	-	-	-	-
Exposures in the form of collective investment undertakings		-	-	-	-	-	-	-	-	-
Shares		-	-	-	-	-	-	-	-	-
Other exposures		-	-	-	-	-	-	-	-	-
Other assets		-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>591,390</b>	<b>-</b>	<b>1,103,172</b>	<b>5,421,478</b>	<b>48,612</b>	<b>771,021</b>	<b>13,700</b>	<b>-</b>	<b>7,949,373</b>

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## 4.10.4.5 COLLATERALS FOR CONSOLIDATED CCR

CURRENT PERIOD	COLLATERAL FOR DERIVATIVE TRANSACTIONS				COLLATERAL FOR OTHER TRANSACTIONS	
	FAIR VALUE OF COLLATERAL RECEIVED		FAIR VALUE OF COLLATERAL GIVEN		FAIR VALUE OF COLLATERAL RECEIVED	FAIR VALUE OF COLLATERAL GIVEN
	SEGREGATED	UNSEGREGATED	SEGREGATED	UNSEGREGATED		
Cash-domestic currency	6,514	-	-	-	10,855,261	16,474
Cash-foreign currency	22,433	-	-	-	2,728,579	-
Domestic sovereign debts	-	-	-	-	16,474	14,428,461
Other sovereign debts	-	-	-	-	-	794,108
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	592,173
<b>Total</b>	<b>28,947</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,600,314</b>	<b>15,831,216</b>

PRIOR PERIOD	COLLATERAL FOR DERIVATIVE TRANSACTIONS				COLLATERAL FOR OTHER TRANSACTIONS	
	FAIR VALUE OF COLLATERAL RECEIVED		FAIR VALUE OF COLLATERAL GIVEN		FAIR VALUE OF COLLATERAL RECEIVED	FAIR VALUE OF COLLATERAL GIVEN
	SEGREGATED	UNSEGREGATED	SEGREGATED	UNSEGREGATED		
Cash-domestic currency	4,944	-	-	-	8,276,773	26,027
Cash-foreign currency	4,807	-	-	-	5,330,999	-
Domestic sovereign debts	-	-	-	-	26,027	13,342,612
Other sovereign debts	-	-	-	-	-	655,413
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>9,751</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,633,799</b>	<b>14,024,052</b>

## 4.10.4.6 CONSOLIDATED CREDIT DERIVATIVES

	CURRENT PERIOD		PRIOR PERIOD	
	PROTECTION BOUGHT	PROTECTION SOLD	PROTECTION BOUGHT	PROTECTION SOLD
<b>Notionals</b>				
Single-name credit default swaps	75,516	-	87,825	-
Index credit default swaps	-	-	-	-
Total return swaps	-	9,272,286	-	7,026,000
Credit options	-	-	-	-
Other credit derivatives	-	-	-	-
<b>Total Notionals</b>	<b>75,516</b>	<b>9,272,286</b>	<b>87,825</b>	<b>7,026,000</b>
<b>Fair Values</b>	<b>(628)</b>	<b>(4,093)</b>	<b>215</b>	<b>(395,144)</b>
Positive fair values (asset)	-	38,977	215	6,677
Negative fair values (liability)	(628)	(43,070)	-	(401,821)

## 4.10.5 CONSOLIDATED SECURITISATIONS

None.

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## 4.10.6 CONSOLIDATED MARKET RISK

### 4.10.6.1 QUALITATIVE DISCLOSURE ON CONSOLIDATED MARKET RISK

Market risk is managed in accordance with the strategics and policies defined by the Bank. The Bank takes economic climate, market and liquidity conditions and their effects on market risk, the structure of portfolio subject to market risk, the sufficiency of the Bank's definition, measurement, evaluation, monitoring, reporting, control and mitigation of market risk and the availability of the related processes into account while defining the market risk management. Market risk strategy and policies are reviewed by the board of directors and related top management by considering financial performance, capital required for market risk, and the existing market developments. Market risk strategy for internal use, implementation fundamentals and procedures are being developed on bank-only and consolidated level in consideration of the size and complexity of the operations.

Market risk is managed through measuring the risks in parallel with the international standards, setting the limits, capital reserving and additionally through mitigating via hedging transactions.

Market Risk Function under Market Risk and Credit Risk Control Department monitors the activities of Treasury Department via risk reports and the limits approved by the board of directors.

Market Risk, which is defined as the risk arising from the price fluctuations in balance sheet and off-balance sheet trading positions, is being calculated and reported daily via Value at Risk (VaR) Model.

### 4.10.6.2 CONSOLIDATED MARKET RISK UNDER STANDARDISED APPROACH

	RWA	
	CURRENT PERIOD (*)	PRIOR PERIOD
Outright products	6,570,025	5,698,712
1 Interest rate risk (general and specific)	922,187	1,774,024
2 Equity risk (general and specific)	132,675	144,125
3 Foreign exchange risk	5,437,825	3,249,988
4 Commodity risk	77,338	530,575
Options	178,925	437,663
5 Simplified approach	-	-
6 Delta-plus method	178,925	437,663
7 Scenario approach	-	-
8 Securitisation	-	-
<b>9 Total</b>	<b>6,748,950</b>	<b>6,136,375</b>

(\*) According to "Bank Capital Regulation" article 10 paragraph 4, which published on Official Gazette dated 5th September 2013 and numbered 28756, banks calculated their consolidated capital with their consolidated insurance company investments as unconsolidated financial institutions if 9th article's 4th paragraph's (c) and (ç) items apply. Lesser of consolidated capital calculated according to 1st and 4th paragraphs is considered the consolidated capital according to this regulation. As the consolidated capital calculated including the insurance affiliate is lesser, consolidated equity and the amounts subject to the market risk are calculated based on the consolidated financial statements including the insurance affiliate.

### 4.10.7 CONSOLIDATED OPERATIONAL RISK

The value at operational risk is calculated according to the basic indicator approach as per the Article 14 of "Regulation regarding Measurement and Assessment of Capital Adequacy Ratios of Banks".

The annual gross income is composed of net interest income and net non-interest income after deducting realised gains/losses from the sale of securities available-for-sale and held-to-maturity, extraordinary income and income derived from insurance claims at year-end.



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CURRENT PERIOD	31 DECEMBER 2014	31 DECEMBER 2015	31 DECEMBER 2016	TOTAL/ NO. OF YEARS OF POSITIVE GROSS INCOME	RATE (%)	TOTAL
Gross Income	11,598,174	12,929,126	15,526,497	13,351,265	15	2,002,690
<b>Value at Operational Risk (Total x % 12.5)</b>						25,033,623

PRIOR PERIOD (*)	31 DECEMBER 2014	31 DECEMBER 2015	31 DECEMBER 2016	TOTAL/ NO. OF YEARS OF POSITIVE GROSS INCOME	RATE (%)	TOTAL
Gross Income	10,180,473	11,163,774	12,410,791	11,251,679	15	1,687,752
<b>Value at Operational Risk (Total x % 12.5)</b>						21,096,899

(\*) According to "Bank Capital Regulation" article 10 paragraph 4, which published on Official Gazette dated 5th September 2013 and numbered 28756, banks calculated their consolidated capital with their consolidated insurance company investments as unconsolidated financial institutions if 9th article's 4th paragraph's (c) and (ç) items apply. Lesser of consolidated capital calculated according to 1st and 4th paragraphs is considered the consolidated capital according to this regulation. As the consolidated capital calculated without including the insurance affiliate is lesser than the consolidated capital calculated including the insurance affiliate, when proceeding from the consolidated financial statements to the consolidated capital there is an adjustment for excluding the insurance company from consolidation.

## 4.10.8 CONSOLIDATED BANKING BOOK INTEREST RATE RISK

### 4.10.8.1 NATURE OF INTEREST RATE RISK RESULTING FROM BANKING BOOK, MAJOR ASSUMPTIONS ON EARLY REPAYMENT OF LOANS AND MOVEMENTS IN DEPOSITS OTHER THAN TERM DEPOSITS AND FREQUENCY OF MEASURING INTEREST RATE RISK

The interest rate risk resulting from the banking book is assessed in terms of repricing risk, yield-curve risk, base risk and option risk, measured as per international standards and managed through limitations and mitigations through hedging transactions.

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

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

Within the scope of monitoring the re-pricing risk arising from maturity mismatch, the sensitivity of the durations/gap, economic value, economic capital, net interest income, earnings at risk, market price of securities portfolio are measured and the internal early warning and limit levels in this context are monitored and reported regularly. Calculated risk metrics and generated reports are used in the management of the balance sheet interest risk under the supervision of the Asset and Liability Committee. In the said analyses, the present value and the net interest income are calculated over the cash flows of the sensitive assets and liability items by using the yield curves constructed by using the market interest rates. For non-matured products, maturity is determined based on interest rate determination frequency and customer behaviour. These results are supported by periodic sensitivities and scenario analyses against fluctuations that may be experienced in the markets.

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

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

Branches and lines of business are eliminated from interest rate risk through the transfer pricing system and these risks are transferred to the Asset and Liability Management Department (ALM) and managed by ALM in a central structure.

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## 4.10.8.2 ECONOMIC VALUE DIFFERENCES RESULTED FROM INTEREST RATE INSTABILITIES CALCULATED ON A BANK-ONLY BASIS ACCORDING TO REGULATION ON MEASUREMENT AND EVALUATION OF INTEREST RATE RISK RESULTED FROM BANKING BOOK AS PER STANDARD SHOCK METHOD

CURRENT PERIOD		SHOCKS APPLIED (+/- BASIS POINTS)	GAINS/LOSSES	GAINS/EQUITY LOSSES/EQUITY
TYPE OF CURRENCY				
1	TL	(+) 500 bps	(4,855,405)	(10.47)%
2	TL	(-) 400 bps	4,598,875	9.91%
3	USD	(+) 200 bps	(98,558)	(0.21)%
4	USD	(-) 200 bps	256,656	0.55%
5	EURO	(+) 200 bps	(36,553)	(0.08)%
6	EURO	(-) 200 bps	158,193	0.34%
<b>Total (of negative shocks)</b>			<b>5,013,724</b>	<b>10.81%</b>
<b>Total (of positive shocks)</b>			<b>(4,990,516)</b>	<b>(10.76)%</b>

PRIOR PERIOD		SHOCKS APPLIED (+/- BASIS POINTS)	GAINS/LOSSES	GAINS/EQUITY LOSSES/EQUITY
TYPE OF CURRENCY				
1	TL	(+) 500 bps	(4.209.703)	(11.18)%
2	TL	(-) 400 bps	4.052.171	10.76%
3	USD	(+) 200 bps	(810.330)	(2.15)%
4	USD	(-) 200 bps	1.055.840	2.80%
5	EURO	(+) 200 bps	(14.342)	(0.04)%
6	EURO	(-) 200 bps	(44.364)	(0.12)%
<b>Total (of negative shocks)</b>			<b>5.063.647</b>	<b>13.44%</b>
<b>Total (of positive shocks)</b>			<b>(5.034.375)</b>	<b>(13.37)%</b>

## 4.10.9 REMUNERATION POLICY

### 4.10.9.1 QUALITATIVE DISCLOSURES REGARDING REMUNERATION POLICIES

#### 4.10.9.1.1 DISCLOSURES RELATED WITH REMUNERATION COMMITTEE

The Bank's Remuneration Committee is comprised of two non-executive members of the board. The committee has convened for once during the year. The duties and responsibilities of the Committee include the following:

- To conduct the necessary monitoring and audit process in order to ensure that the remuneration policy and practices are implemented in accordance with the related laws and regulations and risk management principles;
- To review and if necessary, revise the remuneration policy at least once a year in order to ensure its compliance with the laws and regulations or market practices in Turkey;
- To determine and approve remuneration packages of the executive and non-executive Board of Directors, Chief Executive Officer and Executive Vice Presidents;
- To follow up the revision requirements of the policies, procedures and regulations related with its areas of responsibility and to take actions in order to ensure that they are kept updated.

The Bank has received consultancy service within the framework of the activities for compliance with the Guidelines on Sound Remuneration Practices in Banks.

The fundamental principles of the remuneration policy are applicable for all bank employees.

The Bank board members, senior management and the bank staff deemed to perform the functions having material impact on the Bank's risk profile are considered as identified staff; by the end of 2017, the number of identified staff is 30.

## 4.10.9.1.2 INFORMATION ON THE DESIGN AND STRUCTURE OF REMUNERATION PROCESS

The Bank relies on the following values while managing its Remuneration Policy. These values are considered in all compensation practices.

- Fair
- Transparent
- Based on measurable and balanced performance targets
- Encouraging sustainable success
- In line with the Bank Risk Management Principles

The main objective of the Remuneration Policy is to maintain the internal and external balances in the remuneration structure. Internal balance is ensured with the principles of "equal pay for equal work" and performance-based remuneration". As for external balance, the data obtained from employee reward and benefit researches conducted by independent research organizations are taken into account.

In the meeting dated 7 December 2017, the Remuneration Committee evaluated its decisions previously taken with respect to remuneration of the senior managers and members of the board of directors considering the provisions of the Guidelines on Sound Remuneration Practices in Banks. Increases in the remuneration of employees working in the units responsible for internal systems are determined depending on the basic rate of increase specified by the Bank and their personal performances. In the variable remuneration, only the performance criteria associated with their personal performance or the performance of the unit that they work in are taken into account independently of the performance of the business units that they control.

## 4.10.9.1.3 EVALUATION ABOUT HOW THE BANK'S REMUNERATION PROCESSES TAKE THE CURRENT AND FUTURE RISKS INTO ACCOUNT

The Bank follows the Risk Management Principles while implementing the remuneration processes. It adopts the remuneration policies that are in line with the Bank's long-term objectives and risk management structures and avoiding excessive risk-taking.

## 4.10.9.1.4 EVALUATION ABOUT HOW THE BANK ASSOCIATES VARIABLE REMUNERATIONS WITH PERFORMANCE

In the association of variable remunerations with performance, various indicators considered among financial and non-financial performance criteria specified by the Bank such as return on regulatory capital, efficiency, profitability, customer satisfaction (NTS), digital sales are taken into account.

In the variable remuneration for the identified staff, personal performance criteria, the Bank's performance criteria and BBVA Group's performance criteria are collectively taken into account. The weightings of such performances taken into account as such may vary according to the position of the identified staff member.

In case of occurrence of risky situations regarding capital adequacy or if and when necessary, Bank may pursue a more conservative policy in relation to all remuneration issues, particularly regarding variable remunerations. In this context, methodological changes such as deferral, retention, malus and clawback may be applied in relation to variable remunerations in accordance with the principles set out by the applicable laws.

## 4.10.9.1.5 EVALUATION ABOUT THE BANK'S METHODS TO ADJUST REMUNERATIONS ACCORDING TO LONG-TERM PERFORMANCE

Regarding variable remunerations of identified staff, it has been adopted based on the principles in the "Guidelines on Sound Remuneration Practices in Banks" that at least 40% of variable remunerations will be deferred for at least 3 years and at least 50% of it will be paid in non-cash instruments.

Remuneration Committee decided on that variable remuneration of identified staff is subject to cancellation and clawback..

## 4.10.9.1.6 EVALUATION ABOUT THE INSTRUMENTS USED BY THE BANK FOR VARIABLE REMUNERATIONS AND THE PURPOSES OF USE OF SUCH INSTRUMENTS

The variable remunerations of identified staff are paid using cash and share-linked non-cash instruments. Considering the principles in the "Guidelines on Sound Remuneration Practices in Banks" variable remunerations of identified staff are paid both with cash and non-cash (share-linked) instruments. Regarding variable remunerations of identified staff for the financial period of 2017, Banco Bilbao Vizcaya Argentaria S.A. shares are taken as reference for payments based on non-cash instruments.

The type and weight of non-cash instruments used in payment of variable remuneration are the same for all identified staff.

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## 5 DISCLOSURES AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS

### 5.1 CONSOLIDATED ASSETS

#### 5.1.1 CASH AND BALANCES WITH CENTRAL BANK

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Cash in TL/Foreign Currency	1,297,568	1,550,335	1,357,697	848,206
Central Bank of Turkey	6,338,400	23,956,821	5,366,015	15,500,506
Others	-	460,517	-	879,050
<b>Total</b>	<b>7,635,968</b>	<b>25,967,673</b>	<b>6,723,712</b>	<b>17,227,762</b>

<i>Balances with the Central Bank of Turkey</i>	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Unrestricted Demand Deposits	2,407,115	1,651,380	5,366,015	155
Unrestricted Time Deposits	-	-	-	38
Restricted Time Deposits	3,931,285	22,305,441	-	15,500,313
<b>Total</b>	<b>6,338,400</b>	<b>23,956,821</b>	<b>5,366,015</b>	<b>15,500,506</b>

The reserve deposits kept as per the Communiqué no. 2005/1 "Reserve Deposits" of the Central Bank of Turkey in Turkish Lira, foreign currencies and gold, are included in the table above.

#### 5.1.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT/LOSS

##### 5.1.2.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT/LOSS SUBJECT TO REPURCHASE AGREEMENTS AND PROVIDED AS COLLATERAL/BLOCKED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Collateralised/Blocked Assets	15,522	-	13,777	-
Assets Subject to Repurchase Agreements	2,834	-	3,983	-
<b>Total</b>	<b>18,356</b>	<b>-</b>	<b>17,760</b>	<b>-</b>

##### 5.1.2.2 POSITIVE DIFFERENCES ON DERIVATIVE FINANCIAL ASSETS HELD FOR TRADING

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Forward Transactions	176,147	25,663	249,419	51,101
Swap Transactions	1,051,330	485,361	1,985,329	803,335
Futures	151	561	3	1,097
Options	152,137	47,002	426,836	92,514
Others	4	8,633	-	4,079
<b>Total</b>	<b>1,379,769</b>	<b>567,220</b>	<b>2,661,587</b>	<b>952,126</b>

##### 5.1.2.3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT/LOSS

None.

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## 5.1.3 BANKS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Banks				
Domestic banks	903,988	1,145,363	823,557	831,980
Foreign banks	106,739	17,314,253	390,952	14,834,555
Foreign headoffices and branches	-	-	-	-
<b>Total</b>	<b>1,010,727</b>	<b>18,459,616</b>	<b>1,214,509</b>	<b>15,666,535</b>

Due from foreign banks

	UNRESTRICTED BALANCES		RESTRICTED BALANCES	
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD
EU Countries	4,808,866	6,369,548	8,715,509	7,046,561
USA, Canada	2,386,950	638,547	94,261	415,053
OECD Countries (1)	202,045	17,165	-	-
Off-shore Banking Regions	834,759	570,815	134,832	96,147
Others	243,770	71,671	-	-
<b>Total</b>	<b>8,476,390</b>	<b>7,667,746</b>	<b>8,944,602</b>	<b>7,557,761</b>

(1) OECD countries other than the EU countries, USA and Canada

The placements at foreign banks include blocked accounts amounting TL 8,944,602 thousands (31 December 2016: TL 7,557,761 thousands) of which TL 2,717,355 thousands (31 December 2016: TL 116,841 thousands) and TL 134,832 thousands (31 December 2016: TL 96,147 thousands) are kept at the central banks of Malta and Turkish Republic of Northern Cyprus, respectively as reserve deposits and TL 6,092,415 thousands (31 December 2016: TL 7,344,773 thousands) as collateral against funds borrowed at various banks.

Furthermore, there are restricted deposits at various domestic banks amounting TL 334,998 thousands (31 December 2016: TL 254,130 thousands) as required for insurance activities.

## 5.1.4 FINANCIAL ASSETS AVAILABLE-FOR-SALE

### 5.1.4.1 FINANCIAL ASSETS SUBJECT TO REPURCHASE AGREEMENTS AND PROVIDED AS COLLATERAL/BLOCKED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Collateralised/Blocked Assets	11,212,879	28,206	2,976,848	21,803
Assets subject to Repurchase Agreements	120,152	794,108	4,306,605	655,413
<b>Total</b>	<b>11,333,031</b>	<b>822,314</b>	<b>7,283,453</b>	<b>677,216</b>

### 5.1.4.2 DETAILS OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

	CURRENT PERIOD	PRIOR PERIOD
<b>Debt Securities</b>	<b>23,698,918</b>	<b>22,639,523</b>
Quoted at Stock Exchange	23,563,231	22,067,470
Unquoted at Stock Exchange	135,687	572,053
<b>Common Shares/Investment Fund</b>	<b>193,164</b>	<b>174,953</b>
Quoted at Stock Exchange	7,079	7,669
Unquoted at Stock Exchange	186,085	167,284
<b>Value Increase/Impairment Losses (-)</b>	<b>2,385,906</b>	<b>1,168,972</b>
<b>Total</b>	<b>26,277,988</b>	<b>23,983,448</b>

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## 5.1.5 LOANS

### 5.1.5.1 LOANS AND ADVANCES TO SHAREHOLDERS AND EMPLOYEES OF THE BANK

	CURRENT PERIOD		PRIOR PERIOD	
	CASH LOANS	NON-CASH LOANS	CASH LOANS	NON-CASH LOANS
<b>Direct Lendings to Shareholders</b>	-	<b>434,931</b>	-	<b>168,241</b>
Corporates	-	434,931	-	168,241
Real Persons	-	-	-	-
<b>Indirect Lendings to Shareholders</b>	<b>2,628,582</b>	<b>653,806</b>	<b>2,204,037</b>	<b>474,103</b>
<b>Loans to Employees</b>	<b>330,049</b>	<b>74</b>	<b>293,178</b>	<b>146</b>
<b>Total</b>	<b>2,958,631</b>	<b>1,088,811</b>	<b>2,497,215</b>	<b>642,490</b>

### 5.1.5.2 LOANS AND OTHER RECEIVABLES CLASSIFIED IN GROUPS I AND II INCLUDING CONTRACTS WITH REVISED TERMS

CURRENT PERIOD	PERFORMING LOANS AND OTHER RECEIVABLES			LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP		
	LOANS AND OTHER RECEIVABLES (TOTAL)	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS		LOANS AND OTHER RECEIVABLES (TOTAL) (*)	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS	
		EXTENSION OF REPAYMENT PLAN	OTHER CHANGES		EXTENSION OF REPAYMENT PLAN	OTHER CHANGES
<b>CASH LOANS</b>						
<b>Loans</b>	<b>210,937,017</b>	<b>2,403,089</b>	<b>610,269</b>	<b>17,055,595</b>	<b>5,981,456</b>	<b>1,343,252</b>
Working Capital Loans	38,249,643	44,814	32,685	1,354,101	732,152	160,376
Export Loans	11,585,535	975	-	239,737	83,336	44,402
Import Loans	618,440	-	-	9,311	-	-
Loans to Financial Sector	5,743,384	-	2	7	-	-
Consumer Loans	49,995,050	2,222,556	134,895	1,841,647	522,600	58,283
Credit Cards	21,551,114	-	381,876	384,074	-	140,571
Others	83,193,851	134,744	60,811	13,226,718	4,643,368	939,620
<b>Specialization Loans</b>	-	<b>1,322</b>	<b>39,332</b>	-	-	-
<b>Other Receivables</b>	-	-	-	-	-	-
<b>Total</b>	<b>210,937,017</b>	<b>2,404,411</b>	<b>649,601</b>	<b>17,055,595</b>	<b>5,981,456</b>	<b>1,343,252</b>

(\*) The loans and interest accruals granted to the shareholder of a strategically important company operating in the telecommunication sector amounting to USD 1,060,263,379.13 and EUR 8,059,584.09 are classified under "Loans and Other Receivables Under Follow-Up". Discussions between the shareholders of the company, creditor banks and related sovereign institutions including also a possible change in shareholder structure regarding restructuring of loans granted continue, and a positive outcome of these discussions is expected.

PRIOR PERIOD	PERFORMING LOANS AND OTHER RECEIVABLES			LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP		
	LOANS AND OTHER RECEIVABLES (TOTAL) (*)	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS		LOANS AND OTHER RECEIVABLES (TOTAL)	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS	
		EXTENSION OF REPAYMENT PLAN	OTHER CHANGES		EXTENSION OF REPAYMENT PLAN	OTHER CHANGES
<b>CASH LOANS</b>						
<b>Loans</b>	<b>190,302,117</b>	<b>3,654,915</b>	<b>535,712</b>	<b>9,773,607</b>	<b>4,228,489</b>	<b>909,186</b>
Working Capital Loans	25,036,594	475,760	31,611	1,188,910	512,795	175,499
Export Loans	10,392,159	136,762	-	293,705	109,642	23,312
Import Loans	273,584	-	-	83,269	-	-
Loans to Financial Sector	6,324,341	14,517	-	48	-	-
Consumer Loans	43,381,988	2,359,246	47,346	1,957,402	649,987	55,300
Credit Cards	18,485,865	-	428,089	522,710	-	280,601
Others	86,407,586	668,630	28,666	5,727,563	2,956,065	374,474
<b>Specialization Loans</b>	-	<b>1,252</b>	<b>12,739</b>	-	-	-
<b>Other Receivables</b>	-	-	-	-	-	-
<b>Total</b>	<b>190,302,117</b>	<b>3,656,167</b>	<b>548,451</b>	<b>9,773,607</b>	<b>4,228,489</b>	<b>909,186</b>

(\*) The loans and interest accruals granted to the shareholder of a strategically important company operating in the telecommunication sector amounting to USD 996,291,045.41 and EUR 7,743,370 were classified under "Performing Loans and Other Receivables".

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As of 31 December 2017, loans amounting to TL 6,861,412 thousands (31 December 2016: TL 5,269,501 thousands) are benefited as collateral under funding transactions.

## Collaterals received for loans under follow-up

CURRENT PERIOD	CORPORATE / COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
Loans Collateralized by Cash	39,714	4,244	-	43,958
Loans Collateralized by Mortgages	8,654,722	914,106	-	9,568,828
Loans Collateralized by Pledged Assets	713,659	75,559	-	789,218
Loans Collateralized by Cheques and Notes	63,740	604,763	-	668,503
Loans Collateralized by Other Collaterals	3,640,331	41,067	-	3,681,398
Unsecured Loans	1,717,708	201,908	384,074	2,303,690
<b>Total</b>	<b>14,829,874</b>	<b>1,841,647</b>	<b>384,074</b>	<b>17,055,595</b>
PRIOR PERIOD	CORPORATE / COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
Loans Collateralized by Cash	47,618	4,620	-	52,238
Loans Collateralized by Mortgages	4,322,929	974,409	-	5,297,338
Loans Collateralized by Pledged Assets	1,043,152	69,944	-	1,113,096
Loans Collateralized by Cheques and Notes	12,488	560,040	-	572,528
Loans Collateralized by Other Collaterals	1,376,107	35,134	-	1,411,241
Unsecured Loans	491,201	313,255	522,710	1,327,166
<b>Total</b>	<b>7,293,495</b>	<b>1,957,402</b>	<b>522,710</b>	<b>9,773,607</b>

## Delinquency periods of loans under follow-up

CURRENT PERIOD	CORPORATE / COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
31-60 days	532,802	827,264	166,444	1,526,510
61-90 days	132,531	287,760	44,206	464,497
Other	14,164,541	726,623	173,424	15,064,588
<b>Total</b>	<b>14,829,874</b>	<b>1,841,647</b>	<b>384,074</b>	<b>17,055,595</b>
PRIOR PERIOD	CORPORATE / COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
31-60 days	598,949	745,107	194,622	1,538,678
61-90 days	164,408	287,597	57,501	509,506
Other	6,530,138	924,698	270,587	7,725,423
<b>Total</b>	<b>7,293,495</b>	<b>1,957,402</b>	<b>522,710</b>	<b>9,773,607</b>

## Loans and other receivables with extended payment plans

CURRENT PERIOD	PERFORMING LOANS AND OTHER RECEIVABLES	LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP
<b>NO. OF EXTENSIONS</b>		
1 or 2 times	2,383,270	5,807,350
3, 4 or 5 times	16,902	85,571
Over 5 times	4,239	88,535
<b>Total</b>	<b>2,404,411</b>	<b>5,981,456</b>
PRIOR PERIOD	PERFORMING LOANS AND OTHER RECEIVABLES	LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP
<b>NO. OF EXTENSIONS</b>		
1 or 2 times	3,313,489	4,074,970
3, 4 or 5 times	108,157	115,311
Over 5 times	234,521	38,208
<b>Total</b>	<b>3,656,167</b>	<b>4,228,489</b>

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CURRENT PERIOD		PERFORMING LOANS AND OTHER RECEIVABLES	LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP
EXTENTION PERIODS			
0 - 6 months		238,617	1,928,567
6 - 12 months		228,908	150,892
1 - 2 years		769,955	431,542
2 - 5 year		1,137,027	1,828,686
5 years and over		29,904	1,641,769
<b>Total</b>		<b>2,404,411</b>	<b>5,981,456</b>

PRIOR PERIOD		PERFORMING LOANS AND OTHER RECEIVABLES	LOANS AND OTHER RECEIVABLES UNDER FOLLOW-UP
EXTENTION PERIODS			
0 - 6 months		361,795	722,811
6 - 12 months		442,831	235,537
1 - 2 years		1,464,535	315,417
2 - 5 year		1,221,799	1,753,567
5 years and over		165,207	1,201,157
<b>Total</b>		<b>3,656,167</b>	<b>4,228,489</b>

## 5.1.5.3 MATURITY ANALYSIS OF CASH LOANS

CURRENT PERIOD	PERFORMING LOANS AND OTHER RECEIVABLES		LOANS UNDER FOLLOW-UP AND OTHER RECEIVABLES	
	LOANS AND OTHER RECEIVABLES	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS	LOANS AND OTHER RECEIVABLES	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS
<b>Short-Term Loans</b>	<b>64,221,544</b>	<b>504,792</b>	<b>1,225,199</b>	<b>381,886</b>
Loans	64,221,544	504,792	1,225,199	381,886
Specialization Loans	-	-	-	-
Other Receivables	-	-	-	-
<b>Medium and Long-Term Loans</b>	<b>146,715,473</b>	<b>2,549,220</b>	<b>15,830,396</b>	<b>6,942,822</b>
Loans	146,715,473	2,549,220	15,830,396	6,942,822
Specialization Loans	-	-	-	-
Other Receivables	-	-	-	-
<b>Total</b>	<b>210,937,017</b>	<b>3,054,012</b>	<b>17,055,595</b>	<b>7,324,708</b>

PRIOR PERIOD	PERFORMING LOANS AND OTHER RECEIVABLES		LOANS UNDER FOLLOW-UP AND OTHER RECEIVABLES	
	LOANS AND OTHER RECEIVABLES	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS	LOANS AND OTHER RECEIVABLES	LOANS AND RECEIVABLES WITH REVISED CONTRACT TERMS
<b>Short-Term Loans</b>	<b>58,449,317</b>	<b>727,414</b>	<b>1,572,624</b>	<b>628,479</b>
Loans	58,449,317	727,414	1,572,624	628,479
Specialization Loans	-	-	-	-
Other Receivables	-	-	-	-
<b>Medium and Long-Term Loans</b>	<b>131,852,800</b>	<b>3,477,204</b>	<b>8,200,983</b>	<b>4,509,196</b>
Loans	131,852,800	3,477,204	8,200,983	4,509,196
Specialization Loans	-	-	-	-
Other Receivables	-	-	-	-
<b>Total</b>	<b>190,302,117</b>	<b>4,204,618</b>	<b>9,773,607</b>	<b>5,137,675</b>



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## 5.1.5.4 CONSUMER LOANS, RETAIL CREDIT CARDS, PERSONNEL LOANS AND PERSONNEL CREDIT CARDS

CURRENT PERIOD	SHORT-TERM	MEDIUM AND LONG-TERM	TOTAL
<b>Consumer Loans - TL</b>	<b>911,100</b>	<b>45,957,542</b>	<b>46,868,642</b>
Housing Loans	29,632	23,171,465	23,201,097
Automobile Loans	72,369	2,283,541	2,355,910
General Purpose Loans	806,934	20,502,536	21,309,470
Others	2,165	-	2,165
<b>Consumer Loans - FC-indexed</b>	<b>-</b>	<b>165,624</b>	<b>165,624</b>
Housing Loans	-	165,579	165,579
Automobile Loans	-	-	-
General Purpose Loans	-	45	45
Others	-	-	-
<b>Consumer Loans - FC</b>	<b>230,965</b>	<b>3,390,858</b>	<b>3,621,823</b>
Housing Loans	4,410	1,818,532	1,822,942
Automobile Loans	179	16,405	16,584
General Purpose Loans	14,054	1,030,940	1,044,994
Others	212,322	524,981	737,303
<b>Retail Credit Cards - TL</b>	<b>17,163,201</b>	<b>527,872</b>	<b>17,691,073</b>
With Installment	8,452,785	527,872	8,980,657
Without Installment	8,710,416	-	8,710,416
<b>Retail Credit Cards - FC</b>	<b>148,211</b>	<b>129,249</b>	<b>277,460</b>
With Installment	-	-	-
Without Installment	148,211	129,249	277,460
<b>Personnel Loans - TL</b>	<b>19,264</b>	<b>115,539</b>	<b>134,803</b>
Housing Loan	-	1,498	1,498
Automobile Loans	-	4	4
General Purpose Loans	19,264	114,037	133,301
Others	-	-	-
<b>Personnel Loans - FC-indexed</b>	<b>-</b>	<b>405</b>	<b>405</b>
Housing Loans	-	405	405
Automobile Loans	-	-	-
General Purpose Loans	-	-	-
Others	-	-	-
<b>Personnel Loans - FC</b>	<b>1,534</b>	<b>66,885</b>	<b>68,419</b>
Housing Loans	90	29,448	29,538
Automobile Loans	-	-	-
General Purpose Loans	436	30,683	31,119
Others	1,008	6,754	7,762
<b>Personnel Credit Cards - TL</b>	<b>120,550</b>	<b>880</b>	<b>121,430</b>
With Installment	50,773	880	51,653
Without Installment	69,777	-	69,777
<b>Personnel Credit Cards - FC</b>	<b>2,244</b>	<b>2,748</b>	<b>4,992</b>
With Installment	-	-	-
Without Installment	2,244	2,748	4,992
<b>Deposit Accounts- TL (Real Persons)</b>	<b>976,981</b>	<b>-</b>	<b>976,981</b>
<b>Deposit Accounts- FC (Real Persons)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>19,574,050</b>	<b>50,357,602</b>	<b>69,931,652</b>

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PRIOR PERIOD	SHORT-TERM	MEDIUM AND LONG-TERM	TOTAL
<b>Consumer Loans - TL</b>	<b>745,039</b>	<b>41,174,705</b>	<b>41,919,744</b>
Housing Loans	29,927	21,414,214	21,444,141
Automobile Loans	66,063	2,133,790	2,199,853
General Purpose Loans	649,049	17,626,701	18,275,750
Others	-	-	-
<b>Consumer Loans - FC-indexed</b>	<b>188</b>	<b>172,014</b>	<b>172,202</b>
Housing Loans	188	171,585	171,773
Automobile Loans	-	2	2
General Purpose Loans	-	427	427
Others	-	-	-
<b>Consumer Loans - FC</b>	<b>203,934</b>	<b>2,338,334</b>	<b>2,542,268</b>
Housing Loans	2,953	1,180,029	1,182,982
Automobile Loans	117	12,158	12,275
General Purpose Loans	8,745	838,004	846,749
Others	192,119	308,143	500,262
<b>Retail Credit Cards - TL</b>	<b>15,172,949</b>	<b>775,677</b>	<b>15,948,626</b>
With Installment	7,403,316	775,677	8,178,993
Without Installment	7,769,633	-	7,769,633
<b>Retail Credit Cards - FC</b>	<b>88,081</b>	<b>108,172</b>	<b>196,253</b>
With Installment	16	-	16
Without Installment	88,065	108,172	196,237
<b>Personnel Loans - TL</b>	<b>21,508</b>	<b>91,980</b>	<b>113,488</b>
Housing Loan	-	1,165	1,165
Automobile Loans	-	90	90
General Purpose Loans	21,508	90,725	112,233
Others	-	-	-
<b>Personnel Loans - FC-indexed</b>	<b>-</b>	<b>378</b>	<b>378</b>
Housing Loans	-	378	378
Automobile Loans	-	-	-
General Purpose Loans	-	-	-
Others	-	-	-
<b>Personnel Loans - FC</b>	<b>1,347</b>	<b>66,774</b>	<b>68,121</b>
Housing Loans	75	27,834	27,909
Automobile Loans	-	-	-
General Purpose Loans	204	31,985	32,189
Others	1,068	6,955	8,023
<b>Personnel Credit Cards - TL</b>	<b>106,354</b>	<b>1,060</b>	<b>107,414</b>
With Installment	43,217	1,060	44,277
Without Installment	63,137	-	63,137
<b>Personnel Credit Cards - FC</b>	<b>1,727</b>	<b>2,052</b>	<b>3,779</b>
With Installment	-	-	-
Without Installment	1,727	2,052	3,779
<b>Deposit Accounts- TL (Real Persons)</b>	<b>523,189</b>	<b>-</b>	<b>523,189</b>
<b>Deposit Accounts- FC (Real Persons)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>16,864,316</b>	<b>44,731,146</b>	<b>61,595,462</b>

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## 5.1.5.5 INSTALLMENT BASED COMMERCIAL LOANS AND CORPORATE CREDIT CARDS

CURRENT PERIOD	SHORT-TERM	MEDIUM AND LONG-TERM	TOTAL
<b>Installment-based Commercial Loans - TL</b>	<b>1,621,458</b>	<b>14,720,433</b>	<b>16,341,891</b>
Real Estate Loans	850	788,851	789,701
Automobile Loans	138,541	2,283,802	2,422,343
General Purpose Loans	1,482,067	11,647,780	13,129,847
Others	-	-	-
<b>Installment-based Commercial Loans - FC-indexed</b>	<b>303,531</b>	<b>2,426,419</b>	<b>2,729,950</b>
Real Estate Loans	-	74,599	74,599
Automobile Loans	3,644	892,261	895,905
General Purpose Loans	299,887	1,459,559	1,759,446
Others	-	-	-
<b>Installment-based Commercial Loans - FC</b>	<b>1,313,672</b>	<b>2,058,957</b>	<b>3,372,629</b>
Real Estate Loans	-	284	284
Automobile Loans	86	20,075	20,161
General Purpose Loans	27	88,072	88,099
Others	1,313,559	1,950,526	3,264,085
<b>Corporate Credit Cards - TL</b>	<b>3,777,393</b>	<b>42,624</b>	<b>3,820,017</b>
With Installment	1,800,911	42,624	1,843,535
Without Installment	1,976,482	-	1,976,482
<b>Corporate Credit Cards - FC</b>	<b>20,216</b>	<b>-</b>	<b>20,216</b>
With Installment	15	-	15
Without Installment	20,201	-	20,201
<b>Deposit Accounts- TL (Corporates)</b>	<b>871,611</b>	<b>-</b>	<b>871,611</b>
<b>Deposit Accounts- FC (Corporates)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>7,907,881</b>	<b>19,248,433</b>	<b>27,156,314</b>
<b>PRIOR PERIOD</b>	<b>SHORT-TERM</b>	<b>MEDIUM AND LONG-TERM</b>	<b>TOTAL</b>
<b>Installment-based Commercial Loans - TL</b>	<b>1,767,307</b>	<b>11,094,610</b>	<b>12,861,917</b>
Real Estate Loans	3,262	831,376	834,638
Automobile Loans	107,647	2,174,041	2,281,688
General Purpose Loans	1,656,398	8,089,193	9,745,591
Others	-	-	-
<b>Installment-based Commercial Loans - FC-indexed</b>	<b>264,798</b>	<b>2,405,434</b>	<b>2,670,232</b>
Real Estate Loans	-	72,529	72,529
Automobile Loans	8,927	730,518	739,445
General Purpose Loans	255,871	1,602,387	1,858,258
Others	-	-	-
<b>Installment-based Commercial Loans - FC</b>	<b>868,851</b>	<b>1,720,464</b>	<b>2,589,315</b>
Real Estate Loans	-	637	637
Automobile Loans	42	14,356	14,398
General Purpose Loans	668	71,464	72,132
Others	868,141	1,634,007	2,502,148
<b>Corporate Credit Cards - TL</b>	<b>2,687,757</b>	<b>53,475</b>	<b>2,741,232</b>
With Installment	1,279,033	53,475	1,332,508
Without Installment	1,408,724	-	1,408,724
<b>Corporate Credit Cards - FC</b>	<b>11,271</b>	<b>-</b>	<b>11,271</b>
With Installment	176	-	176
Without Installment	11,095	-	11,095
<b>Deposit Accounts- TL (Corporates)</b>	<b>881,614</b>	<b>-</b>	<b>881,614</b>
<b>Deposit Accounts- FC (Corporates)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>6,481,598</b>	<b>15,273,983</b>	<b>21,755,581</b>

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## 5.1.5.6 ALLOCATION OF LOANS BY CUSTOMERS

	CURRENT PERIOD	PRIOR PERIOD
Public Sector	674,605	792,965
Private Sector	227,318,007	199,282,759
<b>Total</b>	<b>227,992,612</b>	<b>200,075,724</b>

## 5.1.5.7 ALLOCATION OF DOMESTIC AND FOREIGN LOANS

	CURRENT PERIOD	PRIOR PERIOD
Domestic Loans	209,895,952	185,557,687
Foreign Loans	18,096,660	14,518,037
<b>Total</b>	<b>227,992,612</b>	<b>200,075,724</b>

## 5.1.5.8 LOANS TO ASSOCIATES AND AFFILIATES

	CURRENT PERIOD	PRIOR PERIOD
Direct Lending	33,435	13,289
Indirect Lending	-	-
<b>Total</b>	<b>33,435</b>	<b>13,289</b>

## 5.1.5.9 SPECIFIC PROVISIONS FOR LOANS

SPECIFIC PROVISIONS	CURRENT PERIOD	PRIOR PERIOD
Substandard Loans and Receivables - Limited Collectibility	591,928	522,689
Doubtful Loans and Receivables	841,974	1,175,099
Uncollectible Loans and Receivables	3,382,410	3,093,301
<b>Total</b>	<b>4,816,312</b>	<b>4,791,089</b>

## 5.1.5.10 NON-PERFORMING LOANS (NPLS) (NET)

Non-performing loans and other receivables restructured or rescheduled

	GROUP III SUBSTANDARD LOANS AND RECEIVABLES	GROUP IV DOUBTFUL LOANS AND RECEIVABLES	GROUP V UNCOLLECTIBLE LOANS AND RECEIVABLES
<b>CURRENT PERIOD</b>			
(Gross amounts before specific provisions)			
Restructured Loans and Receivables	352,136	576,421	1,083,196
Rescheduled Loans and Receivables	5,122	2,953	23,764
<b>Total</b>	<b>357,258</b>	<b>579,374</b>	<b>1,106,960</b>
<b>PRIOR PERIOD</b>			
(Gross amounts before specific provisions)			
Restructured Loans and Receivables	296,602	722,845	873,501
Rescheduled Loans and Receivables	4,364	5,992	88,658
<b>Total</b>	<b>300,966</b>	<b>728,837</b>	<b>962,159</b>

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## Movements in non-performing loan groupst

CURRENT PERIOD	GROUP III	GROUP IV	GROUP V
	SUBSTANDARD LOANS AND RECEIVABLES	DOUBTFUL LOANS AND RECEIVABLES	UNCOLLECTIBLE LOANS AND RECEIVABLES
<b>Balances at Beginning of Period</b>	<b>782,833</b>	<b>1,571,137</b>	<b>3,770,491</b>
Additions during the Period (+)	2,444,401	121,472	211,178
Transfer from Other NPL Categories (+)	10,965	1,816,674	1,961,874
Transfer to Other NPL Categories (-)	1,809,918	1,968,030	11,565
Collections during the Period (-)	559,637	409,649	653,337
Write-offs (-) <sup>(*)</sup>	3,362	16,178	1,082,364
Corporate and Commercial Loans	1,348	15,693	567,094
Retail Loans	1,037	485	250,991
Credit Cards	977	-	264,279
Others	-	-	-
<b>Balances at End of Period</b>	<b>865,282</b>	<b>1,115,426</b>	<b>4,196,277</b>
Specific Provisions (-)	591,928	841,974	3,382,410
<b>Net Balance on Balance Sheet</b>	<b>273,354</b>	<b>273,452</b>	<b>813,867</b>

PRIOR PERIOD	GROUP III	GROUP IV	GROUP V
	SUBSTANDARD LOANS AND RECEIVABLES	DOUBTFUL LOANS AND RECEIVABLES	UNCOLLECTIBLE LOANS AND RECEIVABLES
<b>Balances at Beginning of Period</b>	<b>1,123,595</b>	<b>889,101</b>	<b>3,633,117</b>
Additions during the Period (+)	3,340,638	78,690	278,528
Transfer from Other NPL Categories (+)	14,325	2,975,192	2,076,143
Transfer to Other NPL Categories (-)	3,037,481	2,023,573	24,037
Collections during the Period (-)	637,883	334,747	540,532
Write-offs (-) <sup>(*)</sup>	20,361	13,526	1,652,728
Corporate and Commercial Loans	19,315	5,709	887,358
Retail Loans	753	5,013	473,297
Credit Cards	293	2,804	292,073
Others	-	-	-
<b>Balances at End of Period</b>	<b>782,833</b>	<b>1,571,137</b>	<b>3,770,491</b>
Specific Provisions (-)	522,689	1,175,099	3,093,301
<b>Net Balance on Balance Sheet</b>	<b>260,144</b>	<b>396,038</b>	<b>677,190</b>

(\*) Includes also the sale of non-performing loans.

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## Movements in specific loan provisions

CURRENT PERIOD	CORPORATE / COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
<b>Balances at End of Prior Period</b>	<b>2,320,019</b>	<b>1,483,459</b>	<b>987,611</b>	<b>4,791,089</b>
Additions during the Period (+)	914,288	881,889	519,891	2,316,068
Restructured/Rescheduled Loans (-)	-	-	-	-
Collections during the Period (-) <sup>(*)</sup>	349,968	569,077	290,393	1,209,438
Write-Offs (-) <sup>(**)</sup>	564,969	251,182	265,256	1,081,407
<b>Balances at End of Period</b>	<b>2,319,370</b>	<b>1,545,089</b>	<b>951,853</b>	<b>4,816,312</b>
<b>PRIOR PERIOD</b>	<b>CORPORATE / COMMERCIAL LOANS</b>	<b>CONSUMER LOANS</b>	<b>CREDIT CARDS</b>	<b>TOTAL</b>
<b>Balances at End of Prior Period</b>	<b>1,826,030</b>	<b>1,486,364</b>	<b>986,073</b>	<b>4,298,467</b>
Additions during the Period (+)	1,570,984	1,018,613	598,937	3,188,534
Restructured/Rescheduled Loans (-)	-	-	-	-
Collections during the Period (-) <sup>(*)</sup>	206,714	547,505	303,170	1,057,389
Write-Offs (-) <sup>(**)</sup>	870,281	474,013	294,229	1,638,523
<b>Balances at End of Period</b>	<b>2,320,019</b>	<b>1,483,459</b>	<b>987,611</b>	<b>4,791,089</b>

(\*) Foreign affiliates' foreign exchange rate changes are included in the collections during the period line.

(\*\*) Includes also the sale of non-performing loans.

## Non-performing loans in foreign currencies

	GROUP III SUBSTANDARD LOANS AND RECEIVABLES	GROUP IV DOUBTFUL LOANS AND RECEIVABLESR	GROUP V UNCOLLECTIBLE LOANS AND RECEIVABLES
<b>CURRENT PERIOD</b>			
<b>Balance at End of Period</b>	<b>324,278</b>	<b>466,661</b>	<b>1,221,918</b>
Specific Provisions (-)	166,146	280,632	811,856
<b>Net Balance at Balance Sheet</b>	<b>158,132</b>	<b>186,029</b>	<b>410,062</b>
<b>PRIOR PERIOD</b>			
<b>Balance at End of Period</b>	<b>240,824</b>	<b>458,233</b>	<b>1,273,467</b>
Specific Provisions (-)	100,824	283,281	916,275
<b>Net Balance at Balance Sheet</b>	<b>140,000</b>	<b>174,952</b>	<b>357,192</b>

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Gross and net non-performing loans and receivables as per customer categories

	GROUP III	GROUP IV	GROUP V
	SUBSTANDARD LOANS AND RECEIVABLES	DOUBTFUL LOANS AND RECEIVABLES	UNCOLLECTIBLE LOANS AND RECEIVABLES
<b>CURRENT PERIOD (NET)</b>	<b>273,354</b>	<b>273,452</b>	<b>813,867</b>
Loans to Individuals and Corporates (Gross)	865,282	1,115,426	4,194,961
Specific Provision (-)	591,928	841,974	3,381,094
Loans to Individuals and Corporates (Net)	273,354	273,452	813,867
Banks (Gross)	-	-	311
Specific Provision (-)	-	-	311
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	1,005
Specific Provision (-)	-	-	1,005
Other Loans and Receivables (Net)	-	-	-
<b>PRIOR PERIOD (NET)</b>	<b>260,144</b>	<b>396,038</b>	<b>677,190</b>
Loans to Individuals and Corporates (Gross)	782,833	1,571,137	3,769,175
Specific Provision (-)	522,689	1,175,099	3,091,985
Loans to Individuals and Corporates (Net)	260,144	396,038	677,190
Banks (Gross)	-	-	311
Specific Provision (-)	-	-	311
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	1,005
Specific Provision (-)	-	-	1,005
Other Loans and Receivables (Net)	-	-	-

Collaterals received for non-performing loans

CURRENT PERIOD	CORPORATE/ COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
Loans Collateralized by Cash	2,872	260	-	3,132
Loans Collateralized by Mortgages	1,595,170	170,498	-	1,765,668
Loans Collateralized by Pledged Assets	312,249	48,274	-	360,523
Loans Collateralized by Cheques and Notes	147,639	4,666	-	152,305
Loans Collateralized by Other Collaterals	1,113,964	1,144,994	-	2,258,958
Unsecured Loans	288,701	395,784	951,914	1,636,399
<b>Total</b>	<b>3,460,595</b>	<b>1,764,476</b>	<b>951,914</b>	<b>6,176,985</b>
PRIOR PERIOD	CORPORATE/ COMMERCIAL LOANS	CONSUMER LOANS	CREDIT CARDS	TOTAL
Loans Collateralized by Cash	3,016	184	-	3,200
Loans Collateralized by Mortgages	1,524,646	142,402	-	1,667,048
Loans Collateralized by Pledged Assets	440,060	47,119	-	487,179
Loans Collateralized by Cheques and Notes	268,837	7,286	-	276,123
Loans Collateralized by Other Collaterals	997,188	1,019,355	-	2,016,543
Unsecured Loans	217,723	468,953	987,692	1,674,368
<b>Total</b>	<b>3,451,470</b>	<b>1,685,299</b>	<b>987,692</b>	<b>6,124,461</b>

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## 5.1.5.II LIQUIDATION POLICY FOR UNCOLLECTIBLE LOANS AND RECEIVABLES

Such loans and receivables are collected through legal follow-up and liquidation of collaterals.

### 5.1.5.I2 WRITE-OFF POLICY

The Bank's general policy for write-offs of loans and receivables under follow-up is to write off such loans and receivables that are proven to be uncollectible in legal follow-up process.

## 5.1.6 FACTORING RECEIVABLES

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Short-Term	2,239,392	1,048,924	1,849,102	851,570
Medium and Long-Term	22,420	69,032	63,026	87,525
<b>Total</b>	<b>2,261,812</b>	<b>1,117,956</b>	<b>1,912,128</b>	<b>939,095</b>

## 5.1.7 INVESTMENTS HELD-TO-MATURITY

### 5.1.7.1 INVESTMENT SUBJECT TO REPURCHASE AGREEMENTS AND PROVIDED AS COLLATERAL/BLOCKED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Collateralised/Blocked Investments	9,251,733	3,701,943	5,793,705	4,341,183
Investments subject to Repurchase Agreements	784,006	212,280	3,147,892	-
<b>Total</b>	<b>10,035,739</b>	<b>3,914,223</b>	<b>8,941,597</b>	<b>4,341,183</b>

### 5.1.7.2 GOVERNMENT SECURITIES HELD-TO-MATURITY

	CURRENT PERIOD	PRIOR PERIOD
Government Bonds	20,232,556	19,108,804
Treasury Bills	-	-
Other Government Securities	-	-
<b>Total</b>	<b>20,232,556</b>	<b>19,108,804</b>

### 5.1.7.3 INVESTMENTS HELD-TO-MATURITY

	CURRENT PERIOD	PRIOR PERIOD
<b>Debt Securities</b>	<b>20,819,616</b>	<b>20,705,624</b>
Quoted at Stock Exchange	20,799,386	20,462,344
Unquoted at Stock Exchange	20,230	243,280
<b>Valuation Increase / (Decrease)</b>	<b>3,494,924</b>	<b>2,404,072</b>
<b>Total</b>	<b>24,314,540</b>	<b>23,109,696</b>

### 5.1.7.4 MOVEMENT OF INVESTMENTS HELD-TO-MATURITY

	CURRENT PERIOD	PRIOR PERIOD
<b>Balances at Beginning of Period</b>	<b>23,109,696</b>	<b>21,317,246</b>
Foreign Currency Differences on Monetary Assets	802,639	2,051,504
Purchases during the Period	302,008	314,669
Disposals through Sales/Redemptions	(985,994)	(1,186,759)
Valuation Effect	1,086,191	613,036
<b>Balances at End of Period</b>	<b>24,314,540</b>	<b>23,109,696</b>



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## 5.1.8 INVESTMENTS IN ASSOCIATES

### 5.1.8.1 UNCONSOLIDATED INVESTMENTS IN ASSOCIATES

ASSOCIATES	ADDRESS (CITY/ COUNTRY)	PARENT BANK'S SHARE - IF DIFFERENT, VOTING RIGHTS (%)	BANK RISK GROUP'S SHARE (%)
1 Emeklilik Gözetim Merkezi AŞ	İstanbul/Turkey	-	5.26
2 Bankalararası Kart Merkezi AŞ <sup>(1)</sup>	İstanbul/Turkey	10.15	10.15
3 Yatırım Finansman Menkul Değerler AŞ <sup>(1)</sup>	İstanbul/Turkey	0.77	0.77
4 İstanbul Takas ve Saklama Bankası AŞ <sup>(1)</sup>	İstanbul/Turkey	4.95	4.97
5 Borsa İstanbul AŞ <sup>(1)</sup>	İstanbul/Turkey	0.30	0.34
6 KKB Kredi Kayıt Bürosu AŞ <sup>(1)</sup>	İstanbul/Turkey	9.09	9.09
7 Türkiye Cumhuriyet Merkez Bankası AŞ <sup>(2)</sup>	Ankara/ Turkey	2.48	2.48
8 Kredi Garanti Fonu AŞ <sup>(1)</sup>	Ankara/ Turkey	1.54	1.54

	TOTAL ASSETS	SHAREHOLDERS' EQUITY	TOTAL FIXED ASSETS <sup>(*)</sup>	INTEREST INCOME	INCOME ON SECURITIES PORTFOLIO	CURRENT PERIOD PROFIT/LOSS	PRIOR PERIOD PROFIT/LOSS	COMPANY'S FAIR VALUE
1	11,249	7,873	1,544	916	6	578	122	-
2	80,677	46,880	47,322	1,043	-	6,983	14,517	-
3	650,558	79,102	2,500	23,448	560	7,079	(3,130)	-
4	9,913,087	1,170,007	92,594	281,518	7,404	201,251	162,178	-
5	1,280,167	1,237,174	241,246	38,556	156	221,156	223,697	-
6	259,153	175,797	172,992	4,049	95	36,919	16,458	-
7	522,864,251	71,767,643	685,646	8,726,740	2,744,355	23,115,976	20,736,851	-
8	486,557	462,323	10,969	21,449	-	127,873	17,738	-

(\*) Total fixed assets include tangible and intangible assets.

(1) Financial information is as of 30 September 2017.

(2) Financial information is as of 31 December 2016.

Unconsolidated investments in associates sold during the current period

None.

Unconsolidated investments in associates acquired during the current period

None.

### 5.1.8.2 CONSOLIDATED INVESTMENTS IN ASSOCIATES

ASSOCIATES	ADDRESS (CITY/ COUNTRY)	PARENT BANK'S SHARE - IF DIFFERENT, VOTING RIGHTS (%)	BANK RISK GROUP'S SHARE (%)
1 Garanti Yatırım Ortaklığı AŞ	İstanbul / Turkey	-	3.30

	TOTAL ASSETS	SHAREHOLDERS' EQUITY	TOTAL FIXED ASSETS <sup>(*)</sup>	INTEREST INCOME	INCOME ON SECURITIES PORTFOLIO	CURRENT PERIOD PROFIT/LOSS	PRIOR PERIOD PROFIT/LOSS	COMPANY'S FAIR VALUE
1	36,730	35,915	67	836	1,520	2,119	1,821	24,000

(\*) Total fixed assets include tangible and intangible assets.

Garanti Yatırım Ortaklığı AŞ that Garanti Yatırım participated by 3.30%, is consolidated in the accompanying consolidated financial statements under full consolidation method due to the company's right to elect all the members of the board of directors as resulted from its privilege in election of board members.

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## 5.1.8.3 MOVEMENT OF CONSOLIDATED INVESTMENTS IN ASSOCIATES

	CURRENT PERIOD	PRIOR PERIOD
<b>Balance at Beginning of Period</b>	<b>708</b>	<b>686</b>
<b>Movements during the Period</b>	<b>84</b>	<b>22</b>
Acquisitions and Capital Increases	-	-
Bonus Shares Received	-	-
Allocation from Current Period Profit	-	-
Sales	-	-
Reclassifications	-	-
Increase/Decrease in Fair Values	84	22
Currency Differences on Foreign Associates	-	-
Impairment Losses (-)	-	-
<b>Balance at End of Period</b>	<b>792</b>	<b>708</b>
<b>Capital Commitments</b>	-	-
<b>Share Percentage at the End of Period (%)</b>	-	-

*Valuation methods of consolidated investments in associates*

ASSOCIATES	CURRENT PERIOD	PRIOR PERIOD
Valued at Cost	-	-
Valued at Fair Value	792	708
Valued by Equity Method of Accounting	-	-

*Sectoral distribution of consolidated investments and associates*

ASSOCIATES	CURRENT PERIOD	PRIOR PERIOD
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Finance Companies	792	708
Other Associates	-	-

*Quoted consolidated investments in associates*

	CURRENT PERIOD	PRIOR PERIOD
Quoted at Domestic Stock Exchanges	792	708
Quoted at International Stock Exchanges	-	-

*Investments in associates sold during the current period*

None.

*Investments in associates acquired during the current period*

None.

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## 5.1.9 INVESTMENTS IN AFFILIATES

Information on capital adequacy of major affiliates

CURRENT PERIOD	GARANTİ BANK INTERNATIONAL NV	GARANTİ FINANSAL KIRALAMA AŞ	GARANTİ HOLDING BV
<b>COMMON EQUITY TIER I CAPITAL</b>			
Paid-in Capital to be Entitled for Compensation after All Creditors	624,487	357,848	1,745,428
Share Premium	-	-	58,760
Share Cancellation Profits	-	-	-
Legal Reserves	945,023	567,914	(254,424)
Other Comprehensive Income according to TAS	1,047,870	-	42,356
Current and Prior Periods' Profits	103,187	20,747	117,599
<b>Common Equity Tier I Capital Before Deductions</b>	<b>2,720,567</b>	<b>946,509</b>	<b>1,709,719</b>
<b>Deductions From Common Equity Tier I Capital</b>			
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	27,631	555	464,476
Leasehold Improvements on Operational Leases (-)	-	66	5,298
Goodwill and Other Intangible Assets and Related Deferred Taxes (-)	14,832	7,144	205,736
Net Deferred Tax Asset/Liability (-)	-	-	5,905
<b>Total Deductions from Common Equity Tier I Capital</b>	<b>42,463</b>	<b>7,765</b>	<b>681,415</b>
<b>Total Common Equity Tier I Capital</b>	<b>2,678,104</b>	<b>938,744</b>	<b>1,028,304</b>
<b>Total Deductions From Tier I Capital</b>	<b>3,708</b>	<b>1,786</b>	<b>52,910</b>
<b>Total Tier I Capital</b>	<b>2,674,396</b>	<b>936,958</b>	<b>975,394</b>
<b>TIER II CAPITAL</b>	<b>226,450</b>	<b>-</b>	<b>121,194</b>
<b>TOTAL CAPITAL</b>	<b>2,900,846</b>	<b>936,958</b>	<b>1,096,588</b>



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	TOTAL ASSETS	SHAREHOLDERS' EQUITY	TOTAL FIXED ASSETS (*)	INTEREST INCOME	INCOME ON SECURITIES PORTFOLIO	CURRENT PERIOD PROFIT/LOSS	PRIOR PERIOD PROFIT/LOSS	COMPANY'S FAIR VALUE	AMOUNT OF EQUITY REQUIREMENT
1	83,704	71,762	37	7,557	3	9,699	3,157	-	-
2	37,642	15,337	318	938	-	612	1,270	-	-
3	3,764	3,288	-	452	48	(456)	(4,028)	-	-
4	2,619	1,847	1,132	-	49	247	69	-	-
5	3,920	2,696	39	218	-	882	694	-	-
6	4,578	4,578	4,571	-	-	(2)	(2)	-	-
7	1,741,416	30,702	1,537,941	213	-	21,287	10,689	-	-
8	2,048	1,456	-	-	-	1,589	762	-	-

(\*) Total fixed assets include tangible and intangible assets.

Unconsolidated affiliates, reasons for not consolidating such investments and accounting treatments applied for such investments

The non-financial investments excluded from the consolidation scope, are accounted at cost.

## 5.1.9.2 MOVEMENT OF CONSOLIDATED INVESTMENTS IN AFFILIATES

	CURRENT PERIOD	PRIOR PERIOD
<b>Balance at Beginning of Period</b>	<b>5,069,629</b>	<b>4,342,264</b>
<b>Movements during the Period</b>	<b>1,365,470</b>	<b>727,365</b>
Acquisitions and Capital Increases	150	53,484
Bonus Shares Received	-	-
Dividends from Current Year Profit	-	-
Sales/Liquidations	-	(157,635)
Reclassifications	-	-
Value Increase/Decrease (*)	726,123	411,275
Currency Differences on Foreign Affiliates	639,197	420,241
Reversal of Impairment Losses / Impairment Losses (-)	-	-
<b>Balance at End of Period</b>	<b>6,435,099</b>	<b>5,069,629</b>
<b>Capital Commitments</b>	-	-
<b>Share Percentage at the End of Period (%)</b>	-	-

(\*) Except for quoted affiliates, value increases/(decreases) are based on the results of equity accounting application.

Valuation methods of consolidated investments in affiliates

	CURRENT PERIOD	PRIOR PERIOD
Valued at Cost	-	-
Valued at Fair Value	6,435,099	5,069,629

Sectoral distribution of consolidated investments in affiliates

	CURRENT PERIOD	PRIOR PERIOD
Banks	2,686,210	2,025,895
Insurance Companies	1,399,747	1,125,108
Factoring Companies	174,376	151,548
Leasing Companies	945,953	925,310
Finance Companies	1,228,813	841,768
Other Affiliates	-	-

Except for quoted affiliates, the balances are as per the results of equity accounting application.

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## Quoted consolidated investments in affiliates

	CURRENT PERIOD	PRIOR PERIOD
Quoted at Domestic Stock Exchanges	174,376	151,548
Quoted at International Stock Exchanges	-	-

## Other information on consolidated investments in affiliates

AFFILIATES	ADDRESS (CITY/ COUNTRY)	PARENT BANK'S SHARE - IF DIFFERENT, VOTING RIGHTS (%)	SHARES OF OTHER CONSOLIDATED AFFILIATES (%)	METHOD OF CONSOLIDATION
1 Garanti Finansal Kiralama AŞ	Istanbul/Turkey	100.00	-	Full Consolidation
2 Garanti Faktoring AŞ	Istanbul/Turkey	81.84	-	Full Consolidation
3 Garanti Yatırım Menkul Kıymetler AŞ	Istanbul/Turkey	100.00	-	Full Consolidation
4 Garanti Portföy Yönetimi AŞ	Istanbul/Turkey	100.00	-	Full Consolidation
5 Garanti Emeklilik ve Hayat AŞ	Istanbul/Turkey	84.91	-	Full Consolidation
6 Garanti Bank International NV	Amsterdam/the Netherlands	100.00	-	Full Consolidation
7 Garanti Holding BV	Amsterdam/the Netherlands	100.00	-	Full Consolidation
8 G Netherlands BV	Amsterdam/the Netherlands	-	100.00	Full Consolidation
9 Garanti Bank SA	Bucharest/Romania	-	100.00	Full Consolidation
10 Motoractive IFN SA	Bucharest/Romania	-	100.00	Full Consolidation
11 Ralfi IFN SA	Bucharest/Romania	-	100.00	Full Consolidation

	TOTAL ASSETS	SHAREHOLDERS' EQUITY	TOTAL FIXED ASSETS (*)	INTEREST INCOME	INCOME ON SECURITIES PORTFOLIO	CURRENT PERIOD PROFIT/LOSS	PRIOR PERIOD PROFIT/LOSS	COMPANY'S FAIR VALUE
1	5,440,877	945,954	10,318	403,026	-	20,747	84,003	-
2	3,451,880	212,985	7,430	288,268	-	27,603	19,716	-
3	170,260	117,635	13,407	4,897	2,422	49,931	20,156	-
4	80,928	71,147	3,408	4,824	-	18,891	12,971	-
5	2,164,598	1,648,492	38,969	204,397	1,590	323,576	245,940	-
6	19,371,398	2,693,389	140,785	560,541	59,295	103,187	50,996	-
7	1,541,868	1,541,596	-	-	-	(343)	(252)	-
8	1,564,918	1,354,946	-	221	-	(8,777)	53,447	-
9	9,792,647	1,253,382	309,429	315,858	24,235	95,237	(13,874)	-
10	798,100	112,674	5,063	42,667	-	12,386	17,135	-
11	593,204	80,410	6,158	59,922	-	17,092	13,100	-

(\*) Total fixed assets include tangible and intangible assets.

## Consolidated investments in affiliates disposed during the current period

None.

## Consolidated investments in affiliates acquired during the current period

None.

## 5.1.10 INVESTMENTS IN JOINT-VENTURES

None.

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## 5.1.II LEASE RECEIVABLES

### 5.1.II.1 FINANCIAL LEASE RECEIVABLES ACCORDING TO REMAINING MATURITIES

	CURRENT PERIOD		PRIOR PERIOD	
	GROSS	NET	GROSS	NET
Less than 1 Year	2,629,003	2,327,886	2,708,046	2,396,795
Between 1-5 Years	3,489,030	3,129,480	3,428,328	3,056,205
Longer than 5 Years	352,936	331,070	363,233	341,260
<b>Total</b>	<b>6,470,969</b>	<b>5,788,436</b>	<b>6,499,607</b>	<b>5,794,260</b>

### 5.1.II.2 NET FINANCIAL LEASE RECEIVABLES

	CURRENT PERIOD	PRIOR PERIOD
Gross Financial Lease Receivables	6,470,969	6,499,607
Unearned Income on Financial Lease Receivables (-)	(682,533)	(705,347)
Terminated Lease Contracts (-)	-	-
<b>Net Financial Lease Receivables</b>	<b>5,788,436</b>	<b>5,794,260</b>

### 5.1.II.3 FINANCIAL LEASE AGREEMENTS

#### Criteria applied for financial lease agreements

The customer applied for a financial lease is evaluated based on the lending policies and criteria taking into account the legal legislation. A "customer analysis report" according to the type and amount of the application is prepared for the evaluation of the customer by the Credit Committee and certain risk rating models such as "customer risk rating" and "equipment rating/scoring" are applied.

In compliance with the legal legislation and the authorization limits of the general manager, credit committee and board of directors, it is decided whether the loan will be granted considering the financial position and the qualitative characteristics of the customer and the criterias mentioned above, if yes, which conditions will be applied. At this stage, collateral such as bank guarantees, mortgages, asset pledges, promissory notes or the personal or corporate guarantees, may be required depending on the creditworthiness of the customer and the characteristics of the product to be sold.

The sectoral, equipment type and pledged asset concentration of the customers are monitored regularly.

#### Details monitored subsequent to signing of financial lease agreements

Subsequent to granting of loan, the fulfillment of monetary aspects such as lending procedures, timely collection of rental payments are monitored. Furthermore, updated information on the performance of companies is reported by the credit monitoring unit even for the performing customers.

The reports prepared by the credit monitoring unit for the performing companies and the assessments made by the administration follow-up and the legal units for the problematic companies, are presented to the top management following the assessments made by the related internal committees and the necessary actions are taken.

## 5.1.I2 DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGING PURPOSE

### 5.1.I2.1 POSITIVE DIFFERENCES ON DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSE

DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGING PURPOSE	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Fair Value Hedges	89,104	14,158	73,946	11,534
Cash Flow Hedges	465,501	101,957	5,526	575,289
Net Foreign Investment Hedges	-	-	-	-
<b>Total</b>	<b>554,605</b>	<b>116,115</b>	<b>79,472</b>	<b>586,823</b>

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As of 31 December 2017, the face values and the net fair values, recognised in the balance sheet, of the derivative financial instruments held for hedging purpose, are summarized below:

	CURRENT PERIOD			PRIOR PERIOD		
	FACE VALUE	ASSET	LIABILITY	FACE VALUE	ASSET	LIABILITY
Interest Rate Swaps	40,090,490	205,317	65,947	35,828,669	146,128	138,470
-TL	5,552,476	91,493	6,227	8,307,595	79,472	26,671
-FC	34,538,014	113,824	59,720	27,521,074	66,656	111,799
Cross Currency Swaps	5,342,034	465,403	132,879	8,525,480	520,167	204,844
-TL	1,702,916	463,112	1,025	1,837,687	-	-
-FC	3,639,118	2,291	131,854	6,687,793	520,167	204,844
<b>Total</b>	<b>45,432,524</b>	<b>670,720</b>	<b>198,826</b>	<b>44,354,149</b>	<b>666,295</b>	<b>343,314</b>

## 5.1.12.1.1 FAIR VALUE HEDGE ACCOUNTING

### CURRENT PERIOD

HEDGING ITEM	HEDGED ITEM	TYPE OF RISK	FAIR VALUE CHANGE OF HEDGED ITEM	NET FAIR VALUE CHANGE OF HEDGING ITEM		INCOME STATEMENT EFFECT (GAINS/LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS)
				ASSET	LIABILITY	
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	2,442	30,275	(39,034)	(6,317)
Interest Rate Swaps	Fixed-rate mortgage loans	Interest rate risk	(53,789)	57,887	-	4,098
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	(18,235)	15,100	(24,459)	(14,528)
Cross Currency Swaps	Fixed-rate securities issued	Interest rate and foreign currency exchange rate risk	(3,527)	-	(131,262)	(134,789)
Cross Currency Swaps	Fixed-rate commercial loans	Interest rate and foreign currency exchange rate risk	-	-	-	-

### PRIOR PERIOD

HEDGING ITEM	HEDGED ITEM	TYPE OF RISK	FAIR VALUE CHANGE OF HEDGED ITEM	NET FAIR VALUE CHANGE OF HEDGING ITEM		INCOME STATEMENT EFFECT (GAINS/LOSSES FROM DERIVATIVE FINANCIAL INSTRUMENTS)
				ASSET	LIABILITY	
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	42,431	15,833	(75,781)	(17,517)
Interest Rate Swaps	Fixed-rate mortgage loans	Interest rate risk	(42,169)	48,387	(344)	5,874
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	(27,048)	20,917	(36,290)	(1,649)
Cross Currency Swaps	Fixed-rate securities issued	Interest rate and foreign currency exchange rate risk	(13,071)	-	(164,529)	(177,600)
Cross Currency Swaps	Fixed-rate commercial loans	Interest rate and foreign currency exchange rate risk	231	343	-	574



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## 5.1.12.1.2 CASH FLOW HEDGE ACCOUNTING

### CURRENT PERIOD

HEDGING ITEM	HEDGED ITEM	TYPE OF RISK	FAIR VALUE CHANGE OF HEDGED ITEM		GAINS/LOSSES ACCOUNTED UNDER SHAREHOLDERS' EQUITY IN THE PERIOD	GAINS/LOSSES ACCOUNTED UNDER INCOME STATEMENT IN THE PERIOD	INEFFECTIVE PORTION (NET) ACCOUNTED UNDER INCOME STATEMENT
			ASSET	LIABILITY			
Interest Rate Swaps	Floating-rate securities issued	Cash flow risk resulted from change in market interest rates	39	-	(55)	67	-
Interest Rate Swaps	Floating-rate funds borrowed	Cash flow risk resulted from change in market interest rates	61,415	(2,120)	34,087	(22,643)	672
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	40,601	(334)	18,621	(7,071)	6,932
Cross Currency Swaps	Floating-rate securities issued	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	53	-	1,094	(1,042)	-
Cross Currency Swaps	Floating-rate funds borrowed	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	444,068	-	45	(60,340)	7
Cross Currency Swaps	Fixed-rate funds borrowed	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	21,282	(1,617)	2,242	(2,031)	-

As of 31 December 2016, the loss reclassified from the shareholders' equity to the income statement due to the ceased hedging transactions amounted to TL 619 thousands (31 December 2017: -).

### PRIOR PERIOD

HEDGING ITEM	HEDGED ITEM	TYPE OF RISK	FAIR VALUE CHANGE OF HEDGED ITEM		GAINS/LOSSES ACCOUNTED UNDER SHAREHOLDERS' EQUITY IN THE PERIOD	GAINS/LOSSES ACCOUNTED UNDER INCOME STATEMENT IN THE PERIOD	INEFFECTIVE PORTION (NET) ACCOUNTED UNDER INCOME STATEMENT
			ASSET	LIABILITY			
Interest Rate Swaps	Floating-rate securities issued	Cash flow risk resulted from change in market interest rates	66	-	(30)	(100)	-
Interest Rate Swaps	Floating-rate funds borrowed	Cash flow risk resulted from change in market interest rates	46,656	(26,054)	21,463	(21,882)	(135)
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	14,268	-	14,325	(3,344)	-
Cross Currency Swaps	Floating-rate securities issued	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	-	-	(6,677)	(12,091)	-
Cross Currency Swaps	Floating-rate funds borrowed	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	443,903	-	(17,541)	(89,625)	51
Cross Currency Swaps	Fixed-rate funds borrowed	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	75,922	(40,316)	(2,035)	1,827	-

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## 5.1.13 TANGIBLE ASSETS

	REAL ESTATES	LEASED TANGIBLE ASSETS	VEHICLES	OTHER TANGIBLE ASSETS	TOTAL
<b>Cost</b>	<b>2,834,190</b>	<b>281,569</b>	<b>23,668</b>	<b>2,250,105</b>	<b>5,389,532</b>
Accumulated Depreciation	(25,990)	(250,483)	(18,663)	(1,413,775)	(1,708,911)
<b>Net Book Value</b>	<b>2,808,200</b>	<b>31,086</b>	<b>5,005</b>	<b>836,330</b>	<b>3,680,621</b>
<b>Balances at End of Current Period</b>					
Net Book Value at Beginning of Current Period	2,808,200	31,086	5,005	836,330	3,680,621
Additions	318,974	1,573	4,808	330,777	656,132
Revaluation Model Difference	124,614	-	-	-	124,614
Transfers from Investment Property	4,655	-	-	-	4,655
Disposals (Net)	(53,514)	(60)	(250)	(68,919)	(122,743)
Disposals (Cost)	(84,721)	(18,585)	(3,044)	(124,498)	(230,848)
Disposals (Accumulated Depreciation)	31,207	18,525	2,794	55,579	108,105
Reversal of/Impairment Losses (-)	9,981	-	-	-	9,981
Depreciation Expense for Current Period	(21,214)	(7,414)	(2,272)	(255,344)	(286,244)
Currency Translation Differences on Foreign Operations, Net	17,617	-	286	11,732	29,635
Currency Translation Differences on Foreign Operations (Cost)	18,459	-	1,282	40,264	60,005
Currency Translation Differences on Foreign Operations (Accumulated Depreciation)	(842)	-	(996)	(28,532)	(30,370)
<b>Net Book Values at End of Current Period</b>	<b>3,209,313</b>	<b>25,185</b>	<b>7,577</b>	<b>854,576</b>	<b>4,096,651</b>
Cost at End of Current Period	3,226,152	264,557	26,714	2,496,648	6,014,071
Accumulated Depreciation at End of Current Period	(16,839)	(239,372)	(19,137)	(1,642,072)	(1,917,420)
<b>Net Book Values at End of Current Period</b>	<b>3,209,313</b>	<b>25,185</b>	<b>7,577</b>	<b>854,576</b>	<b>4,096,651</b>

## 5.1.14 INTANGIBLE ASSETS

### 5.1.14.1 USEFUL LIVES AND AMORTISATION RATES

The consolidation goodwill classified under intangible assets is not amortized. The estimated useful lives of softwares and other intangible assets vary between 3 and 15 years.

### 5.1.14.2 AMORTISATION METHODS

Intangible assets are amortised on a straight-line basis from the date of capitalisation. The consolidation goodwill is not amortized, however is subject to impairment testing regularly and if there is any impairment, a provision is made

### 5.1.14.3 BALANCES AT BEGINNING AND END OF CURRENT PERIOD

	CURRENT PERIOD		PRIOR PERIOD	
	COST	ACCUMULATED AMORTIZATION	COST	ACCUMULATED AMORTIZATION
Intangible Assets	896,489	517,181	735,627	407,974

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## 5.1.I4.4 MOVEMENTS OF INTANGIBLE ASSETS FOR CURRENT PERIOD

	CURRENT PERIOD	PRIOR PERIOD
<b>Net Book Value at Beginning Period</b>	<b>327,653</b>	<b>253,631</b>
Internally Generated Intangibles	-	-
Additions due to Mergers, Transfers and Acquisition	158,307	158,713
Disposals (-)	(5,354)	(1,843)
Impairment Losses/Reversals to/from Revaluation Surplus	-	-
Impairment Losses Recorded in Income Statement	-	-
Impairment Losses Reversed from Income Statement	-	-
Amortisation Expense for Current Period (-)	(107,554)	(89,117)
Currency Translation Differences on Foreign Operations	6,256	3,920
Other Movements	-	2,349
<b>Net Book Value at End of Current Period</b>	<b>379,308</b>	<b>327,653</b>

## 5.1.I4.5 DETAILS FOR ANY INDIVIDUALLY MATERIAL INTANGIBLE ASSETS

None.

## 5.1.I4.6 INTANGIBLE ASSETS CAPITALISED UNDER GOVERNMENT INCENTIVES AT FAIR VALUES

None.

## 5.1.I4.7 REVALUATION METHOD OF INTANGIBLE ASSETS CAPITALISED UNDER GOVERNMENT INCENTIVES AND VALUED AT FAIR VALUES AT CAPITALISATION DATES

None.

## 5.1.I4.8 NET BOOK VALUE OF INTANGIBLE ASSET THAT ARE RESTRICTED IN USAGE OR PLEDGED

None.

## 5.1.I4.9 COMMITMENTS TO ACQUIRE INTANGIBLE ASSETS

None.

## 5.1.I4.10 DISCLOSURE ON REVALUED INTANGIBLE ASSETS

None.

## 5.1.I4.11 RESEARCH AND DEVELOPMENT COSTS EXPENSED DURING CURRENT PERIOD

None.

## 5.1.I4.12 GOODWILL

GOODWILL	SHARES %	CARRYING VALUE
Garanti Yatırım Menkul Kıymetler AŞ	100.00	2,778
Garanti Finansal Kiralama AŞ	100.00	2,119
Garanti Faktoring AŞ	55.40	1,491
<b>Total</b>		<b>6,388</b>

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## 5.1.14.13 MOVEMENTS IN GOODWILL DURING CURRENT PERIOD

	CURRENT PERIOD
<b>Net Book Value at Beginning Period</b>	<b>6,388</b>
Movements in Current Period	-
Additions	-
Adjustments due to the Changes in Value of Assets and Liabilities	-
Disposals in Current Period due to a Discontinued Operation Or Partial or Complete Disposal of an Asset (-)	-
Amortisation Expense for Current Period (-)	-
Impairment Losses (-)	-
Reversal of Impairment Losses (-)	-
Other changes in Book Values	-
<b>Net Book Value at End of Current Period</b>	<b>6,388</b>

## 5.1.15 INVESTMENT PROPERTY

	CURRENT PERIOD	PRIOR PERIOD
<b>Net Book Value at Beginning Period</b>	<b>543,825</b>	<b>307,095</b>
Additions	4,746	231,273
Disposals	-	(8,125)
Transfers to Tangible Assets	4,430	12,098
Fair Value Change	6,387	1,484
Net Currency Translation Differences on Foreign Affiliates	-	-
<b>Net Book Value at End of Current Period</b>	<b>559,388</b>	<b>543,825</b>

The investment property is held for operational leasing purposes.

## 5.1.16 DEFERRED TAX ASSET

As of 31 December 2017, on a consolidated basis the Bank has a deferred tax asset of TL 441,932 thousands (31 December 2016: TL 233,342 thousands) calculated as the net amount remaining after netting of tax deductible timing differences and taxable timing differences in its consolidated financial statements.

As of 31 December 2017, deferred tax assets of TL 750,677 thousands (31 December 2016: TL 530,797 thousands) are reduced by deferred tax liabilities of TL 308,745 thousands with offsetting characteristics (31 December 2016: TL 297,455 thousands) and presented as net in the accompanying consolidated financial statements, on all taxable temporary differences arising between the carrying amounts and the taxable amounts of assets and liabilities on the financial statements that will be considered in the calculation of taxable earnings in the future periods.

For the cases where the differences between the carrying values and the taxable values of assets subject to tax are related with certain items on the shareholders' equity accounts, the deferred taxes are charged or credited directly to these accounts.

	CURRENT PERIOD		PRIOR PERIOD	
	TAX BASE	DEFERRED TAX AMOUNT	TAX BASE	DEFERRED TAX AMOUNT
Provisions (*)	1,313,504	271,477	976,182	196,283
Differences between the Carrying Values and Taxable Values of Financial Assets (**)	997,852	222,966	(427,008)	(95,290)
Revaluation Differences on Real Estates	(1,864,352)	(186,435)	(1,732,442)	(25,313)
Other	649,259	133,924	802,238	157,662
<b>Deferred Tax Asset, Net</b>	<b>1,096,263</b>	<b>441,932</b>	<b>(381,030)</b>	<b>233,342</b>

(\*) Consists of reserve for employee benefits, provision for promotion expenses of credit cards and other provisions.

(\*\*) Calculations are performed at the relevant tax rates applicable in the country of the foreign branches and affiliates' financial assets.

As of 31 December 2017, TL 322,836 thousands of deferred tax income (31 December 2016: TL 307,584 thousands of deferred tax expense) and TL 133,139 thousands of deferred tax income (31 December 2016: TL 62,489 thousands of deferred tax expense) were recognised in the income statement and the shareholders' equity, respectively.

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## 5.1.17 ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS

	CURRENT PERIOD	PRIOR PERIOD
<b>End of Prior Period</b>		
<b>Cost</b>	<b>621,671</b>	<b>375,548</b>
<b>Accumulated Depreciation</b>	<b>(16,656)</b>	<b>(9,183)</b>
<b>Net Book Value</b>	<b>605,015</b>	<b>366,365</b>
<b>End of Current Period</b>		
Additions	393,729	347,416
Disposals (Cost)	(167,095)	(99,936)
Disposals (Accumulated Depreciation)	1,900	1,358
Reversal of Impairment / Impairment Losses (-)	(615)	(3,514)
Depreciation Expense for Current Period (-)	-	(8,831)
Currency Translation Differences on Foreign Operations	2,618	2,157
<b>Cost</b>	<b>850,308</b>	<b>621,671</b>
<b>Accumulated Depreciation (-)</b>	<b>(14,756)</b>	<b>(16,656)</b>
<b>Net Book Value</b>	<b>835,552</b>	<b>605,015</b>

As of balance sheet date, the net book values of assets held for sale on which rights of repurchase exist amounting to TL 471,433 thousands (31 December 2016: TL 359,660 thousands).

## 5.1.18 OTHER ASSETS

### 5.1.18.1 RECEIVABLES FROM TERM SALE OF ASSETS

	CURRENT PERIOD	PRIOR PERIOD
Sale of Investments in Associates, Affiliates and Joint - Ventures	-	-
Sale of Real Estates	-	-
Sale of Available for Sale Assets	20,394	16,670
Sale of Other Assets	1,136	2,305
<b>Total</b>	<b>21,530</b>	<b>18,975</b>

### 5.1.18.2 PREPAID EXPENSES

	CURRENT PERIOD	PRIOR PERIOD
Prepaid Expenses	911,395	527,538
Prepaid Taxes	25,766	27,335

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## 5.2 CONSOLIDATED LIABILITIES

### 5.2.1 MATURITY PROFILE OF DEPOSITS

CURRENT PERIOD	DEMAND	7 DAYS NOTICE	UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	1 YEAR AND OVER	ACCUMULATING DEPOSIT ACCOUNTS	TOTAL
<b>Saving Deposits</b>	<b>10,913,763</b>	-	<b>2,604,119</b>	<b>42,872,344</b>	<b>1,928,240</b>	<b>595,160</b>	<b>803,336</b>	<b>4,104</b>	<b>59,721,066</b>
<b>Foreign Currency</b>	<b>30,305,453</b>	-	<b>8,539,990</b>	<b>47,538,061</b>	<b>4,135,845</b>	<b>5,981,841</b>	<b>12,632,465</b>	<b>53,388</b>	<b>109,187,043</b>
Residents in Turkey	21,122,458	-	7,355,971	42,563,359	1,770,505	1,540,387	1,015,526	52,147	75,420,353
Residents in Abroad	9,182,995	-	1,184,019	4,974,702	2,365,340	4,441,454	11,616,939	1,241	33,766,690
<b>Public Sector Deposits</b>	<b>539,397</b>	-	<b>2,151</b>	<b>23,704</b>	<b>5,309</b>	<b>10</b>	-	-	<b>570,571</b>
<b>Commercial Deposits</b>	<b>9,522,579</b>	-	<b>5,035,348</b>	<b>7,460,350</b>	<b>498,176</b>	<b>325,742</b>	<b>155,007</b>	-	<b>22,997,202</b>
<b>Others</b>	<b>240,019</b>	-	<b>138,566</b>	<b>1,351,057</b>	<b>93,816</b>	<b>406,570</b>	<b>2,247,113</b>	-	<b>4,477,141</b>
<b>Precious Metal</b>	<b>1,845,183</b>	-	<b>57,205</b>	<b>47,640</b>	<b>3,777</b>	<b>8,013</b>	<b>232,897</b>	-	<b>2,194,715</b>
<b>Bank Deposits</b>	<b>918,215</b>	-	<b>249,417</b>	<b>97,700</b>	<b>55,486</b>	<b>84,811</b>	<b>220,193</b>	-	<b>1,625,822</b>
Central Bank of Turkey	-	-	-	-	-	-	-	-	-
Domestic Banks	6,139	-	5,658	15,090	2,049	20,474	10,239	-	59,649
Foreign Banks	627,190	-	243,759	82,610	53,437	64,337	209,954	-	1,281,287
Special Financial Institutions	284,886	-	-	-	-	-	-	-	284,886
Others	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>54,284,609</b>	-	<b>16,626,796</b>	<b>99,390,856</b>	<b>6,720,649</b>	<b>7,402,147</b>	<b>16,291,011</b>	<b>57,492</b>	<b>200,773,560</b>

PRIOR PERIOD	DEMAND	7 DAYS NOTICE	UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	1 YEAR AND OVER	ACCUMULATING DEPOSIT ACCOUNTS	TOTAL
<b>Saving Deposits</b>	<b>9,406,286</b>	-	<b>3,618,003</b>	<b>39,391,571</b>	<b>536,188</b>	<b>364,615</b>	<b>470,517</b>	<b>4,046</b>	<b>53,791,226</b>
<b>Foreign Currency</b>	<b>23,618,814</b>	-	<b>6,953,347</b>	<b>42,994,576</b>	<b>2,795,107</b>	<b>7,441,131</b>	<b>13,052,825</b>	<b>56,941</b>	<b>96,912,741</b>
Residents in Turkey	16,049,046	-	6,345,098	39,173,531	1,631,107	1,086,601	1,137,770	55,783	65,478,936
Residents in Abroad	7,569,768	-	608,249	3,821,045	1,164,000	6,354,530	11,915,055	1,158	31,433,805
<b>Public Sector Deposits</b>	<b>493,327</b>	-	<b>72,724</b>	<b>27,688</b>	<b>116</b>	<b>4,994</b>	<b>24</b>	-	<b>598,873</b>
<b>Commercial Deposits</b>	<b>8,348,759</b>	-	<b>4,194,489</b>	<b>5,361,728</b>	<b>130,133</b>	<b>167,600</b>	<b>238,684</b>	-	<b>18,441,393</b>
<b>Others</b>	<b>212,836</b>	-	<b>140,766</b>	<b>1,023,250</b>	<b>52,904</b>	<b>447,810</b>	<b>553,501</b>	-	<b>2,431,067</b>
<b>Precious Metal</b>	<b>1,755,811</b>	-	-	<b>82,984</b>	<b>12,264</b>	<b>22,493</b>	<b>153,015</b>	-	<b>2,026,567</b>
<b>Bank Deposits</b>	<b>2,912,446</b>	-	<b>812,225</b>	<b>184,277</b>	<b>248,456</b>	<b>233,096</b>	<b>97,446</b>	-	<b>4,487,946</b>
Central Bank of Turkey	-	-	-	-	-	-	-	-	-
Domestic Banks	3,960	-	391,559	15,107	16,305	118,174	14,442	-	559,547
Foreign Banks	1,748,304	-	420,666	169,170	232,151	114,922	83,004	-	2,768,217
Special Financial Institutions	1,160,182	-	-	-	-	-	-	-	1,160,182
Others	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>46,748,279</b>	-	<b>15,791,554</b>	<b>89,066,074</b>	<b>3,775,168</b>	<b>8,681,739</b>	<b>14,566,012</b>	<b>60,987</b>	<b>178,689,813</b>

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## 5.2.1.1 SAVING DEPOSITS AND OTHER DEPOSIT ACCOUNTS INSURED BY SAVING DEPOSIT INSURANCE FUND

### 5.2.1.1.1 DEPOSITS EXCEEDING INSURANCE LIMIT

Saving deposits covered by deposit insurance and total amount of deposits exceeding insurance coverage limit:

SAVING DEPOSITS	COVERED BY DEPOSIT INSURANCE		OVER DEPOSIT INSURANCE LIMIT	
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD
Saving Deposits	29,074,468	27,843,202	30,170,165	25,576,417
Foreign Currency Saving Deposits	20,980,170	17,180,146	41,525,053	39,472,238
Other Saving Deposits	1,117,225	821,559	1,016,387	1,471,382
Foreign Branches' Deposits Under Foreign Insurance Coverage	-	-	-	-
Off-Shore Branches' Deposits Under Foreign Insurance Coverage	-	-	-	-

### 5.2.1.2 SAVING DEPOSITS AT DOMESTIC BRANCHES OF FOREIGN BANKS IN TURKEY UNDER THE COVERAGE OF FOREIGN INSURANCE

None.

### 5.2.1.3 SAVING DEPOSITS NOT COVERED BY INSURANCE LIMITS

#### 5.2.1.3.1 5.2.1.3.1 SAVING DEPOSITS OF INDIVIDUALS NOT COVERED BY INSURANCE LIMITS

	CURRENT PERIOD	PRIOR PERIOD
Deposits and Other Accounts held at Foreign Branches	1,009,774	860,876
Deposits and Other Accounts held by Shareholders and their Relatives	-	-
Deposits and Other Accounts of the Chairman and Members of Board of Directors, Chief Executive Officer, Senior Executive Officers and their Relatives	236,559	751,270
Deposits and Other Accounts held as Assets subject to the Crime defined in the Article 282 of the Turkish Criminal Code no. 5237 dated 26 September 2004	-	-
Deposits at Depository Banks established for Off-Shore Banking Activities in Turkey	-	-

## 5.2.2 NEGATIVE DIFFERENCES ON DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING

TRADING DERIVATIVES	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Forward Transactions	163,550	36,335	242,280	67,634
Swap Transactions	2,102,812	426,848	2,023,979	857,048
Futures	44	96	106	964
Options	114,881	45,917	373,051	144,526
Others	-	8,339	-	4,397
<b>Total</b>	<b>2,381,287</b>	<b>517,535</b>	<b>2,639,416</b>	<b>1,074,569</b>

## 5.2.3 FUNDS BORROWED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Central Bank of Turkey	-	685,843	-	1,880,102
Domestic Banks and Institutions	477,119	1,605,139	1,153,848	1,540,125
Foreign Banks, Institutions and Funds	657,139	43,679,479	1,973,831	40,033,947
<b>Total</b>	<b>1,134,258</b>	<b>45,970,461</b>	<b>3,127,679</b>	<b>43,454,174</b>

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## 5.2.3.1 MATURITIES OF FUNDS BORROWED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Short-Term	866,182	5,590,833	1,237,683	4,284,065
Medium and Long-Term	268,076	40,379,628	1,889,996	39,170,109
<b>Total</b>	<b>1,134,258</b>	<b>45,970,461</b>	<b>3,127,679</b>	<b>43,454,174</b>

In accordance with TAS 39 paragraph 9, the Bank classified a part of borrowings obtained through securitisations amounting to USD 2,455,714,286 as financial liability at fair value through profit/loss at the initial recognition in order to eliminate the accounting mismatch. As of 31 December 2017, the accumulated credit risk change and the credit risk change recognised in the income statement amounted to TL 43,948 thousands and a loss of TL 398,191 thousands, respectively. The carrying value of the related financial liability amounted to TL 9,228,338 thousands.

## 5.2.3.2 DISCLOSURES FOR CONCENTRATION AREAS OF BANK'S LIABILITIES

The Bank finances its ordinary banking activities through deposits and funds borrowed. Its deposit structure has a balanced TL and foreign currency concentration. The Bank's other funding sources specifically consist of foreign currency funds borrowed from abroad, TL funds obtained through repurchase transactions, and TL and foreign currency securities issued.

## 5.2.4 OTHER EXTERNAL FUNDS

### 5.2.4.1 SECURITIES ISSUED

CURRENT PERIOD	TL		FC	
	SHORT-TERM	MEDIUM AND LONG-TERM	SHORT-TERM	MEDIUM AND LONG-TERM
Nominal	4,065,669	4,258,267	-	13,133,935
Cost	3,926,455	4,087,678	-	13,065,899
Carrying Value <sup>(*)</sup>	4,003,253	4,159,746	-	12,631,453

PRIOR PERIOD	TL		FC	
	SHORT-TERM	MEDIUM AND LONG-TERM	SHORT-TERM	MEDIUM AND LONG-TERM
Nominal	2,297,303	3,831,336	-	12,328,286
Cost	2,203,896	3,552,593	-	12,242,657
Carrying Value <sup>(*)</sup>	2,240,063	3,631,583	-	11,874,002

<sup>(\*)</sup> The Bank and/or its financial affiliates repurchased the Bank's own TL securities with a total face value of TL 111,041 thousands (31 December 2016: TL 107,896 thousands) and foreign currency securities with a total face value of TL 780,571 thousands (31 December 2016: TL 764,060 thousands) and netted off such securities in the accompanying consolidated financial statements.

In accordance with TAS 39 paragraph 9, the Bank classified certain securities amounting to RON 34,500,000 as financial liability at fair value through profit/loss at the initial recognition in order to eliminate the accounting mismatch. As of 31 December 2017, the accumulated negative credit risks change, and the positive credit risk change recognised in the income statement in the current period amounted to TL 908 thousands and TL 1,815 thousands, respectively. The carrying value of the related financial liability amounted to TL 34,983 thousands and the related current period gains amounted to TL 1,898 thousands.



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## 5.2.4.2 FUNDS PROVIDED THROUGH REPURCHASE TRANSACTIONS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
<b>Domestic Transactions</b>	<b>887,411</b>	<b>-</b>	<b>7,287,738</b>	<b>-</b>
Financial Institutions and Organizations	750,756	-	7,196,813	-
Other Institutions and Organizations	92,302	-	40,765	-
Individuals	44,353	-	50,160	-
<b>Foreign Transactions</b>	<b>296</b>	<b>858,706</b>	<b>2</b>	<b>526,081</b>
Financial Institutions and Organizations	-	858,706	-	526,081
Other Institutions and Organizations	-	-	-	-
Individuals	296	-	2	-
<b>Total</b>	<b>887,707</b>	<b>858,706</b>	<b>7,287,740</b>	<b>526,081</b>

## 5.2.4.3 MISCELLANEOUS PAYABLES

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Payables from credit card transactions	8,985,632	48,506	7,833,260	41,268
Payables from insurance transactions	40,290	6	32,366	240
Other	559,649	742,263	394,462	1,038,152
<b>Total</b>	<b>9,585,571</b>	<b>790,775</b>	<b>8,260,088</b>	<b>1,079,660</b>

## 5.2.5 FACTORING PAYABLES

None.

## 5.2.6 LEASE PAYABLES

### 5.2.6.1 FINANCIAL LEASE PAYABLES

None.

### 5.2.6.2 OPERATIONAL LEASE AGREEMENTS

The operational leasing agreements are signed for some branches and ATM's. The agreements are prepared annually and annual rents are paid in advance and recorded as prepaid expense in "other assets". The Bank does not have any commitments arising on the existing operational lease agreements.

## 5.2.7 DERIVATIVE FINANCIAL LIABILITIES HELD FOR HEDGING PURPOSE

DERIVATIVE FINANCIAL LIABILITIES HELD FOR HEDGING PURPOSE	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Fair Value Hedges	6,227	188,528	26,671	250,273
Cash Flow Hedges	1,025	3,046	-	66,370
Net Foreign Investment Hedges	-	-	-	-
<b>Total</b>	<b>7,252</b>	<b>191,574</b>	<b>26,671</b>	<b>316,643</b>

Please refer to Note 5.1.12.1 for financial liabilities resulted from derivatives held for hedging purpose.

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## 5.2.8 PROVISIONS

### 5.2.8.1 GENERAL PROVISIONS

	CURRENT PERIOD	PRIOR PERIOD
<b>General Provision for</b>	<b>3,673,669</b>	<b>3,215,533</b>
Loans and Receivables in Group I	1,694,874	1,754,506
Loans and Receivables in Group II	1,370,937	872,064
Non-Cash Loans	369,087	360,322
Others	238,771	228,641

### 5.2.8.2 RESERVE FOR EMPLOYEE SEVERANCE INDEMNITY

	CURRENT PERIOD	PRIOR PERIOD
<b>Balances at Beginning of Period</b>	<b>355,535</b>	<b>308,530</b>
Provision for the Period	92,055	69,509
Actuarial Gain/Loss	22,045	8,198
Payments During the Period	(45,764)	(30,702)
<b>Balances at End of Period</b>	<b>423,871</b>	<b>355,535</b>

### 5.2.8.3 PROVISIONS FOR FOREIGN EXCHANGE DIFFERENCES ON FOREIGN CURRENCY INDEXED LOANS AND FINANCIAL LEASE RECEIVABLES

	CURRENT PERIOD	PRIOR PERIOD
Short-Term Loans	14,419	1,241
Medium and Long Term Loans	2,800	270
<b>Total</b>	<b>17,219</b>	<b>1,511</b>

Foreign exchange differences on foreign currency indexed loans are netted with loans on the asset side.

### 5.2.8.4 PROVISIONS FOR NON-CASH LOANS THAT ARE NOT INDEMNIFIED OR CONVERTED INTO CASH

	CURRENT PERIOD	PRIOR PERIOD
Substandard Loans and Receivables - Limited Collectibility	16,649	27,731
Doubtful Loans and Receivables	13,593	22,716
Uncollectible Loans and Receivables	97,175	84,162
<b>Total</b>	<b>127,417</b>	<b>134,609</b>

## 5.2.8.5 OTHER PROVISIONS

### 5.2.8.5.1 GENERAL RESERVES FOR POSSIBLE LOSSES

	CURRENT PERIOD	PRIOR PERIOD
General Reserves for Possible Losses	1,160,000	300,000

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## 5.2.8.5.2 OTHER PROVISIONS FOR POSSIBLE LOSSES

	CURRENT PERIOD	PRIOR PERIOD
Reserve for Employee Benefits	909,788	730,525
Insurance Technical Provisions, Net	389,886	306,775
Provision for Promotion Expenses of Credit Cards (*)	112,434	99,131
Provision for Lawsuits (**)	250,115	56,474
Provision for Non-Cash Loans	127,417	134,609
Other Provisions(***)	224,793	189,826
<b>Total</b>	<b>2,014,433</b>	<b>1,517,340</b>

(\*) The Bank provides full allowance for the committed promotion expenses of credit cards as of the balance sheet date.

(\*\*) In the current period, a provision of EUR 33,000,000 is provided for the ongoing lawsuit against the Bank in Paris, which was disclosed in the Public Disclosure Platform on 20 September 2017.

(\*\*\*) In the current period, a provision of TL 33,887 thousands is allocated for the dormant "other temporary accounts" standing longer than a year within the scope of "TAS 37 Provisions, Contingent Liabilities and Contingent Assets" Standard.

### Recognized liability for defined benefit plan obligations

The Bank obtained an actuarial report dated 13 December 2017 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the Law and it is determined that the assets of the Plan are above the amount that will be required to be paid to transfer the obligation and the asset surplus amounts to TL 3,125,485 thousands (31 December 2016: TL 2,772,742 thousands) at 31 December 2017 as details are given in the table below.

Furthermore, an actuarial report was prepared as of 31 December 2017 as per the requirements of the Law explained in Note 3.17, the accounting policies related with "employee benefits" for the benefits transferable to the SSF and as per TAS 19 for other benefits not transferable to the SSF and arising from other social rights and payments covered by the existing trust indenture of the Fund and medical benefits provided for employees. Based on the actuary's 13 December 2017 dated report, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully covers the benefits not transferable and still a surplus of TL 1,198,065 thousands (31 December 2016: TL 1,482,852 thousands) remains as of 31 December 2017 as details are given in the table below.

The Bank's management, acting prudently, did not consider the health premium surplus amounting TL 551,028 thousands (31 December 2016: TL 531,665 thousands) as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF as of 31 December 2017. However, despite this treatment there are no excess obligation that needs to be provided against.

	CURRENT PERIOD	PRIOR PERIOD
<b>Transferable Pension and Medical Benefits:</b>		
Net present value of pension benefits transferable to SSF	(989,677)	(770,448)
Net present value of medical benefits and health premiums transferable to SSF	551,028	531,665
General administrative expenses	(45,215)	(39,405)
<b>Present Value of Pension and Medical Benefits Transferable to SSF (1)</b>	<b>(483,864)</b>	<b>(278,188)</b>
<b>Fair Value of Plan Assets (2)</b>	<b>3,609,349</b>	<b>3,050,930</b>
<b>Asset Surplus over Transferable Benefits ((2)-(1)=(3))</b>	<b>3,125,485</b>	<b>2,772,742</b>
<b>Non-Transferable Benefits:</b>		
Other pension benefits	(846,997)	(662,751)
Other medical benefits	(1,080,423)	(627,139)
<b>Total Non-Transferable Benefits (4)</b>	<b>(1,927,420)</b>	<b>(1,289,890)</b>
<b>Asset Surplus over Total Benefits ((3)-(4)=(5))</b>	<b>1,198,065</b>	<b>1,482,852</b>
<b>Net Present Value of Medical Benefits and Health Premiums Transferable to SSF - but not considered acting prudently (6)</b>	<b>(551,028)</b>	<b>(531,665)</b>
<b>Present Value of Asset Surplus/(Defined Benefit Obligation) ((5)-(6))</b>	<b>647,037</b>	<b>951,187</b>

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Movement of recognized liability for asset shortage over the Bank's defined benefit plan:

	CURRENT PERIOD	PRIOR PERIOD
<b>Balance at Beginning of Period</b>	-	-
Actual contributions paid during the period	(71,463)	(63,291)
Total expense recognized in the income statement	44,052	36,552
Amount recognized in the shareholders' equity	27,411	26,739
<b>Balance at End of Period</b>	-	-

The major actuarial assumptions used in the calculation of other benefits not transferable to SSF in compliance with TAS 19 are as follows:

	CURRENT PERIOD	PRIOR PERIOD
	%	%
Discount Rate <sup>(*)</sup>	11.60	11.50
Inflation Rate <sup>(*)</sup>	8.40	7.80
Future Real Salary Increase Rate	1.50	1.50
Medical Cost Trend Rate	50% above inflation	40% above inflation
Future Pension Increase Rate <sup>(*)</sup>	8.40	7.80

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

The sensitivity analysis of defined benefit obligation of excess liabilities and retirement indemnities of the Bank are as follow:

DEFINED BENEFIT OBLIGATION	PENSION BENEFITS EFFECT	MEDICAL BENEFITS EFFECT	OVERALL EFFECT
Assumption change	%	%	
Discount rate +1%	(13.90)	(19.00)	(16.80)
Discount rate -1%	17.80	26.10	22.40
Medical inflation (+10% of CPI)	-	20.80	11.60
Medical inflation (-10% of CPI)	-	(16.20)	(9.10)

RETIREMENT INDEMNITIES	SENSITIVITY OF PAST SERVICE LIABILITY	SENSITIVITY OF NORMAL COST
Assumption change	%	%
Discount rate +1%	(12.20)	(16.30)
Discount rate -1%	14.80	20.40
Inflation rate +1%	14.40	20.00
Inflation rate -1%	(11.80)	(15.90)

## 5.2.9 TAX LIABILITY

### 5.2.9.1 CURRENT TAX LIABILITY

#### 5.2.9.1.1 TAX LIABILITY

As of 31 December 2017, the corporate tax liability amounts to TL 763,079 thousands (31 December 2016: TL 119,401 thousands) after offsetting with prepaid taxes.

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## 5.2.9.1.2 TAXES PAYABLE

	CURRENT PERIOD	PRIOR PERIOD
Corporate Taxes Payable	763,079	119,401
Taxation on Securities Income	131,422	122,010
Taxation on Real Estates Income	4,080	3,752
Banking Insurance Transaction Tax	155,555	120,305
Foreign Exchange Transaction Tax	89	86
Value Added Tax Payable	14,842	16,107
Others	66,171	82,880
<b>Total</b>	<b>1,135,238</b>	<b>464,541</b>

## 5.2.9.1.3 PREMIUMS PAYABLE

	CURRENT PERIOD	PRIOR PERIOD
Social Security Premiums-Employees	4,892	5,029
Social Security Premiums-Employer	4,309	3,571
Bank Pension Fund Premium-Employees	25	21
Bank Pension Fund Premium-Employer	25	21
Pension Fund Membership Fees and Provisions-Employees	-	-
Pension Fund Membership Fees and Provisions-Employer	-	-
Unemployment Insurance-Employees	1,470	1,220
Unemployment Insurance-Employer	2,802	2,613
Others	36	1,250
<b>Total</b>	<b>13,559</b>	<b>13,725</b>

## 5.2.9.2 DEFERRED TAX LIABILITY

As of 31 December 2017, the deferred tax liability amounts to TL 14,365 thousands (31 December 2016: -).

## 5.2.10 LIABILITIES FOR ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS

None.

## 5.2.II SUBORDINATED DEBTS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Domestic Banks	-	-	-	-
Domestic Other Institutions	-	-	-	-
Foreign Banks	-	-	-	-
Foreign Other Institutions	-	2,849,471	-	-
<b>Total</b>	-	<b>2,849,471</b>	-	-

Disclosures on subordinated debts are reported in Note 4.1.2.

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## 5.2.12 SHAREHOLDERS' EQUITY

### 5.2.12.1 PAID-IN CAPITAL

	CURRENT PERIOD	PRIOR PERIOD
Common shares	4,200,000	4,200,000
Preference shares	-	-

### 5.2.12.2 REGISTERED SHARE CAPITAL SYSTEM

CAPITAL SYSTEM	PAID-IN CAPITAL	CEILING PER REGISTERED SHARE CAPITAL
Registered Shares	4,200,000	10,000,000

### 5.2.12.3 CAPITAL INCREASES IN CURRENT PERIOD

None.

### 5.2.12.4 CAPITAL INCREASES FROM CAPITAL RESERVES IN CURRENT PERIOD

None.

### 5.2.12.5 CAPITAL COMMITMENTS FOR CURRENT AND FUTURE FINANCIAL PERIODS

None.

### 5.2.12.6 POSSIBLE EFFECT OF ESTIMATIONS MADE FOR THE PARENT BANK'S REVENUES, PROFITABILITY AND LIQUIDITY ON EQUITY CONSIDERING PRIOR PERIOD INDICATORS AND UNCERTAINTIES

None.

### 5.2.12.7 INFORMATION ON PRIVILEGES GIVEN TO STOCKS REPRESENTING THE CAPITAL

None.

### 5.2.12.8 SECURITIES VALUE INCREASE FUND

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
<b>Investments in Associates, Affiliates and Joint-Ventures</b>	-	-	-	-
Valuation Difference	-	-	-	-
Exchange Rate Difference	-	-	-	-
<b>Securities Available-for-Sale</b>	<b>(425,824)</b>	<b>108,010</b>	<b>(484,900)</b>	<b>(58,725)</b>
Valuation Difference	(425,824)	108,010	(484,900)	(58,725)
Exchange Rate Difference	-	-	-	-
<b>Total</b>	<b>(425,824)</b>	<b>108,010</b>	<b>(484,900)</b>	<b>(58,725)</b>

### 5.2.12.9 REVALUATION SURPLUS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Movables	-	-	-	-
Real Estates	1,494,986	24,889	1,508,875	5,772
Gain on Sale of Investments in Associates and Affiliates and Real Estates to be used for Capital Increases	227,994	-	176,415	-
Revaluation Surplus on Leasehold Improvements	-	-	-	-
<b>Total</b>	<b>1,722,980</b>	<b>24,889</b>	<b>1,685,290</b>	<b>5,772</b>

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## 5.2.12.10 BONUS SHARES OF ASSOCIATES, AFFILIATES AND JOINT-VENTURES

Bonus shares resulted from non-cash capital increases from the following investee companies; Doğuş Gayrimenkul Yatırım Ortaklığı AŞ by TL 21 thousands, Garanti Ödeme Sistemleri AŞ by TL 401 thousands, Kredi Kartları Bürosu by TL 481 thousands and Yatırım Finansman Menkul Değerler AŞ by TL 9 thousands.

## 5.2.12.11 LEGAL RESERVES

	CURRENT PERIOD	PRIOR PERIOD
I. Legal Reserve	1,038,987	1,022,250
II. Legal Reserve	353,272	249,272
Special Reserves	-	-
<b>Total</b>	<b>1,392,259</b>	<b>1,271,522</b>

## 5.2.12.12 EXTRAORDINARY RESERVES

	CURRENT PERIOD	PRIOR PERIOD
Legal Reserves allocated in compliance with the Decisions Made on the Annual General Assembly	25,901,360	22,192,305
Retained Earnings	-	-
Accumulated Losses	-	-
Exchange Rate Difference on Foreign Currency Capital	-	-
<b>Total</b>	<b>25,901,360</b>	<b>22,192,305</b>

## 5.2.12.13 MINORITY INTEREST

	CURRENT PERIOD	PRIOR PERIOD
<b>Balance at Beginning of Period</b>	<b>267,808</b>	<b>226,617</b>
Profit Share of Affiliates Net Profits	55,918	42,468
Prior Period Dividend Payment	(1,500)	(1,210)
Increase/(Decrease) in Minority Interest due to Sales	-	-
Others	(77)	(67)
<b>Balance at End of Period</b>	<b>322,149</b>	<b>267,808</b>

## 5.3 CONSOLIDATED OFF-BALANCE SHEET ITEMS

### 5.3.1 OFF-BALANCE SHEET CONTINGENCIES

#### 5.3.1.1 IRREVOCABLE CREDIT COMMITMENTS

The Bank and its consolidated financial affiliates have term asset purchase and sale commitments of TL 7,947,989 thousands (31 December 2016: TL 3,956,061 thousands), commitments for cheque payments of TL 3,797,901 thousands (31 December 2016: TL 3,555,087 thousands) and commitments for credit card limits of TL 29,542,049 thousands (31 December 2016: TL 28,226,693 thousands).

#### 5.3.1.2 POSSIBLE LOSSES AND COMMITMENTS RESULTED FROM OFF-BALANCE SHEET ITEMS

	CURRENT PERIOD	PRIOR PERIOD
Letters of Guarantee in Foreign Currency	20,283,642	20,901,575
Letters of Guarantee in TL	19,405,859	17,111,138
Letters of Credit	14,769,516	15,754,367
Bills of Exchange and Acceptances	1,550,650	2,127,334
Prefinancings	-	-
Other Guarantees	185,727	191,066
<b>Total</b>	<b>56,195,394</b>	<b>56,085,480</b>

A specific provision of TL 127,417 thousands (31 December 2016: TL 134,609 thousands) is made for unliquidated non-cash loans of TL

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370,339 thousands (31 December 2016: TL 355,861 thousands) recorded under the off-balance sheet items.

The detailed information for commitments, guarantees and sureties are provided under the statement of "off-balance sheet items".

## 5.3.1.3 NON-CASH LOANS

	CURRENT PERIOD	PRIOR PERIOD
Non-Cash Loans against Cash Risks	7,327,429	5,128,893
With Original Maturity of 1 Year or Less	644,377	331,380
With Original Maturity of More Than 1 Year	6,683,052	4,797,513
Other Non-Cash Loans	48,867,965	50,956,587
<b>Total</b>	<b>56,195,394</b>	<b>56,085,480</b>

## 5.3.1.4 OTHER INFORMATION ON NON-CASH LOANS

	CURRENT PERIOD				PRIOR PERIOD			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
<b>Agriculture</b>	<b>69,304</b>	<b>0.36</b>	<b>56,941</b>	<b>0.16</b>	<b>70,323</b>	<b>0.41</b>	<b>35,750</b>	<b>0.09</b>
Farming and Stockbreeding	58,351	0.30	43,111	0.11	59,983	0.35	25,075	0.06
Forestry	9,214	0.05	10,981	0.03	8,973	0.05	2,810	0.01
Fishery	1,739	0.01	2,849	0.01	1,367	0.01	7,865	0.02
<b>Manufacturing</b>	<b>5,510,704</b>	<b>28.37</b>	<b>18,091,020</b>	<b>49.20</b>	<b>4,392,728</b>	<b>25.63</b>	<b>18,009,127</b>	<b>46.24</b>
Mining and Quarrying	170,850	0.88	251,133	0.68	194,627	1.14	343,847	0.88
Production	3,013,861	15.52	13,784,292	37.49	2,432,210	14.19	12,997,280	33.37
Electricity, Gas, Water	2,325,993	11.97	4,055,595	11.03	1,765,891	10.30	4,668,000	11.99
<b>Construction</b>	<b>3,541,815</b>	<b>18.23</b>	<b>3,894,258</b>	<b>10.59</b>	<b>2,771,911</b>	<b>16.17</b>	<b>4,327,614</b>	<b>11.11</b>
<b>Services</b>	<b>8,857,539</b>	<b>45.60</b>	<b>12,678,809</b>	<b>34.48</b>	<b>8,579,268</b>	<b>50.06</b>	<b>14,125,523</b>	<b>36.27</b>
Wholesale and Retail Trade	5,966,692	30.71	7,562,115	20.57	5,889,557	34.36	8,783,670	22.55
Accommodation and Dining	232,237	1.20	513,201	1.40	236,345	1.38	300,746	0.77
Transportation and Telecommunication	738,939	3.80	1,476,485	4.01	602,422	3.52	1,724,313	4.43
Financial Institutions	1,502,741	7.74	2,842,584	7.73	1,442,429	8.42	3,064,787	7.87
Real Estate and Rental Services	224,964	1.16	222,682	0.61	251,658	1.47	221,390	0.57
Professional Services	-	-	-	-	-	-	-	-
Educational Services	25,522	0.13	1,049	-	24,350	0.14	3,552	0.01
Health and Social Services	166,444	0.86	60,693	0.16	132,507	0.77	27,065	0.07
<b>Others</b>	<b>1,445,568</b>	<b>7.44</b>	<b>2,049,436</b>	<b>5.57</b>	<b>1,324,754</b>	<b>7.73</b>	<b>2,448,482</b>	<b>6.29</b>
<b>Total</b>	<b>19,424,930</b>	<b>100.0</b>	<b>36,770,464</b>	<b>100.00</b>	<b>17,138,984</b>	<b>100.00</b>	<b>38,946,496</b>	<b>100.00</b>

## 5.3.1.5 NON-CASH LOANS CLASSIFIED UNDER GROUP I AND II

CURRENT PERIOD	GROUP I		GROUP II	
	TL	FC	TL	FC
<b>Non-Cash Loans</b>	<b>19,021,366</b>	<b>36,139,527</b>	<b>403,564</b>	<b>630,937</b>
Letters of Guarantee	19,002,295	19,841,136	403,564	442,506
Bills of Exchange and Bank Acceptances	14,273	1,536,377	-	-
Letters of Credit	4,798	14,576,287	-	188,431
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other Guarantees and Sureties	-	185,727	-	-



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PRIOR PERIOD	GROUP I		GROUP II	
	TL	FC	TL	FC
<b>Non-Cash Loans</b>	<b>16,922,328</b>	<b>38,105,749</b>	<b>216,656</b>	<b>840,747</b>
Letters of Guarantee	16,894,482	20,236,374	216,656	665,201
Bills of Exchange and Bank Acceptances	27,846	2,099,488	-	-
Letters of Credit	-	15,578,821	-	175,546
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Related Guarantees	-	-	-	-
Other Guarantees and Surities	-	191,066	-	-

## 5.3.2 FINANCIAL DERIVATIVE INSTRUMENTS

CURRENT PERIOD	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER	TOTAL
<b>Derivative Financial Instruments held for Risk Management</b>						
<b>A. Total Derivative Financial Instruments held for Risk Management</b>	<b>1,629,524</b>	<b>328,053</b>	<b>6,792,490</b>	<b>24,140,783</b>	<b>12,541,674</b>	<b>45,432,524</b>
Fair Value Hedges	-	-	1,891,714	7,880,440	8,597,164	18,369,318
Cash Flow Hedges	1,629,524	328,053	4,900,776	16,260,343	3,944,510	27,063,206
Net Foreign Investment Hedges	-	-	-	-	-	-
<b>Trading Derivatives</b>						
<b>Foreign Currency related Derivative Transactions (I)</b>	<b>148,983,110</b>	<b>56,031,169</b>	<b>59,539,784</b>	<b>5,239,790</b>	<b>505,098</b>	<b>270,298,951</b>
Currency Forwards - Purchases	10,210,712	3,286,058	3,179,110	522,230	-	17,198,110
Currency Forwards - Sales	10,233,157	3,279,345	3,260,423	597,181	-	17,370,106
Currency Swaps - Purchases	61,854,549	21,236,750	20,130,886	1,898,678	250,456	105,371,319
Currency Swaps - Sales	57,157,446	21,418,627	20,444,645	1,802,749	254,642	101,078,109
Currency Options - Purchases	4,649,454	3,366,011	6,179,844	192,501	-	14,387,810
Currency Options - Sales	4,870,131	3,409,648	6,232,206	226,451	-	14,738,436
Currency Futures - Purchases	3,931	7,066	54,120	-	-	65,117
Currency Futures - Sales	3,730	27,664	58,550	-	-	89,944
<b>Interest Rate related Derivative Transactions (II)</b>	<b>427,058</b>	<b>589,785</b>	<b>5,288,434</b>	<b>18,075,592</b>	<b>22,169,602</b>	<b>46,550,471</b>
Interest Rate Swaps - Purchases	211,386	271,864	1,427,383	5,791,900	10,429,017	18,131,550
Interest Rate Swaps - Sales	211,386	271,864	1,427,383	5,791,900	10,429,017	18,131,550
Interest Rate Options - Purchases	-	-	2,433,323	5,502,795	1,311,568	9,247,686
Interest Rate Options - Sales	-	-	-	988,997	-	988,997
Securities Options - Purchases	3,045	6,282	87	-	-	9,414
Securities Options - Sales	1,241	20,896	258	-	-	22,395
Interest Rate Futures - Purchases	-	-	-	-	-	-
Interest Rate Futures - Sales	-	18,879	-	-	-	18,879
<b>Other Trading Derivatives (III)</b>	<b>5,369,514</b>	<b>75,931</b>	<b>128,586</b>	<b>2,611,040</b>	<b>6,742,500</b>	<b>14,927,571</b>
<b>B. Total Trading Derivatives (I+II+III)</b>	<b>154,779,682</b>	<b>56,696,885</b>	<b>64,956,804</b>	<b>25,926,422</b>	<b>29,417,200</b>	<b>331,776,993</b>
<b>Total Derivative Transactions (A+B)</b>	<b>156,409,206</b>	<b>57,024,938</b>	<b>71,749,294</b>	<b>50,067,205</b>	<b>41,958,874</b>	<b>377,209,517</b>

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PRIOR PERIOD	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	5 YEARS AND OVER	TOTAL
<b>Derivative Financial Instruments held for Risk Management</b>						
<b>A. Total Derivative Financial Instruments held for Risk Management</b>	<b>1,583,120</b>	<b>1,557,242</b>	<b>4,934,366</b>	<b>21,117,429</b>	<b>15,161,992</b>	<b>44,354,149</b>
Fair Value Hedges	-	249,868	781,321	10,138,434	10,839,396	22,009,019
Cash Flow Hedges	1,583,120	1,307,374	4,153,045	10,978,995	4,322,596	22,345,130
Net Foreign Investment Hedges	-	-	-	-	-	-
<b>Trading Derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Foreign Currency related Derivative Transactions (I)</b>	<b>118,126,744</b>	<b>51,523,757</b>	<b>61,053,819</b>	<b>9,450,596</b>	<b>-</b>	<b>240,154,916</b>
Currency Forwards - Purchases	7,653,190	2,588,671	3,014,009	689,576	-	13,945,446
Currency Forwards - Sales	7,637,500	2,527,374	3,066,014	692,604	-	13,923,492
Currency Swaps - Purchases	42,242,070	17,125,043	17,214,589	2,762,114	-	79,343,816
Currency Swaps - Sales	41,987,403	17,169,235	17,013,562	2,940,386	-	79,110,586
Currency Options - Purchases	9,140,015	5,897,739	10,077,789	1,143,233	-	26,258,776
Currency Options - Sales	9,466,566	6,047,188	10,654,439	1,222,683	-	27,390,876
Currency Futures - Purchases	-	86,674	8,720	-	-	95,394
Currency Futures - Sales	-	81,833	4,697	-	-	86,530
<b>Interest Rate related Derivative Transactions (II)</b>	<b>88,840</b>	<b>409,526</b>	<b>6,427,866</b>	<b>18,641,774</b>	<b>18,461,638</b>	<b>44,029,644</b>
Interest Rate Swaps - Purchases	42	125,983	3,213,802	6,600,047	8,566,142	18,506,016
Interest Rate Swaps - Sales	42	125,983	3,213,802	6,600,047	8,566,142	18,506,016
Interest Rate Options - Purchases	-	-	-	4,598,560	1,329,354	5,927,914
Interest Rate Options - Sales	-	-	-	843,120	-	843,120
Securities Options - Purchases	36,438	18,731	112	-	-	55,281
Securities Options - Sales	52,318	38,708	150	-	-	91,176
Interest Rate Futures - Purchases	-	-	-	-	-	-
Interest Rate Futures - Sales	-	100,121	-	-	-	100,121
<b>Other Trading Derivatives (III)</b>	<b>172,461</b>	<b>892,200</b>	<b>736,010</b>	<b>1,945,734</b>	<b>5,269,501</b>	<b>9,015,906</b>
<b>B. Total Trading Derivatives (I+II+III)</b>	<b>118,388,045</b>	<b>52,825,483</b>	<b>68,217,695</b>	<b>30,038,104</b>	<b>23,731,139</b>	<b>293,200,466</b>
<b>Total Derivative Transactions (A+B)</b>	<b>119,971,165</b>	<b>54,382,725</b>	<b>73,152,061</b>	<b>51,155,533</b>	<b>38,893,131</b>	<b>337,554,615</b>

### 5.3.3 CREDIT DERIVATIVES AND RISK EXPOSURES ON CREDIT DERIVATIVES

As of 31 December 2017, there are total return swaps of the Bank with a total face value of USD 2,455,714,286 (31 December 2016: USD 2,000,000,000) classified under "other derivative financial instruments", where the Bank is on the selling side of the protection.

### 5.3.4 CONTINGENT LIABILITIES AND ASSETS

The Bank and its consolidated financial affiliates made a total provision amounting to TL 250,115 thousands (31 December 2016: TL 56,474 thousands) for the lawsuits filed by various customers and institutions which are likely to occur and for which cash outflow might be necessary, and disclosed it under Note 5.2.8.5.2, other provisions. There are various other lawsuits which are unlikely to occur and for which cash outflow is not expected to incur.

It is possible that the parent Bank or its consolidated financial affiliates may be required to provide additional collateral for the derivative transactions involved due to changes in certain financial indicators such as CDS levels, currency exchange rates, interest rates etc. As of 31 December 2017, there was no payment made related with such contingent liabilities.

### 5.3.5 SERVICES RENDERED ON BEHALF OF THIRD PARTIES

The Bank acts as an investment agent for banking transactions on behalf of its customers and provides custody services. Such transactions are followed under off-balance sheet accounts.

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## 5.4 CONSOLIDATED INCOME STATEMENT

### 5.4.1 INTEREST INCOME

#### 5.4.1.1 INTEREST INCOME FROM LOANS (\*)

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
<b>Interest Income from Loans</b>				
Short-term loans	5,436,172	409,067	5,242,992	295,014
Medium and long-term loans	11,940,768	4,024,730	8,394,047	3,569,896
Loans under follow-up	96,457	5,401	68,875	6,738
Premiums Received from Resource Utilization Support Fund	-	-	-	-
<b>Total</b>	<b>17,473,397</b>	<b>4,439,198</b>	<b>13,705,914</b>	<b>3,871,648</b>

(\*) Includes also fees and commissions income on cash loans

#### 5.4.1.2 INTEREST INCOME FROM BANKS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Central Bank of Turkey	183,942	40,641	-	16,194
Domestic Banks	117,086	30,024	100,472	14,113
Foreign Banks	2,734	77,323	1,939	72,408
Foreign Head Offices and Branches	-	-	-	-
<b>Total</b>	<b>303,762</b>	<b>147,988</b>	<b>102,411</b>	<b>102,715</b>

#### 5.4.1.3 INTEREST INCOME FROM SECURITIES PORTFOLIO

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Financial Assets Held for Trading	39,154	2,066	19,420	2,860
Financial Assets Valued at Fair Value Through Profit	-	-	-	-
Financial Assets Available-for-Sale	2,373,490	176,533	1,801,732	237,716
Investments Held-to-Maturity	1,599,271	601,108	1,110,089	522,984
<b>Total</b>	<b>4,011,915</b>	<b>779,707</b>	<b>2,931,241</b>	<b>763,560</b>

As disclosed in the accounting policies, the parent Bank values CPI-indexed government bonds in its securities portfolio according to the reference index on the issue date and the index that is calculated according to the expected inflation rate. The inflation rate used during the valuation is being updated during the year when it is considered necessary. As of 31 December 2017, the valuation of such securities was made according to annual inflation as of balance sheet date.

#### 5.4.1.4 INTEREST INCOME RECEIVED FROM ASSOCIATES AND AFFILIATES

	CURRENT PERIOD	PRIOR PERIOD
Interest Received from Investments in Associates and Affiliates	2,345	1,529

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## 5.4.2 INTEREST EXPENSES

### 5.4.2.1 INTEREST EXPENSES ON FUNDS BORROWED (\*)

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Banks				
Central Bank of Turkey	-	289	-	-
Domestic Banks	46,760	49,257	56,433	44,514
Foreign Banks	116,875	655,665	244,765	498,026
Foreign Head Offices and Branches	-	-	-	-
Other Institutions	-	454,323	-	299,374
<b>Total</b>	<b>163,635</b>	<b>1,159,534</b>	<b>301,198</b>	<b>841,914</b>

(\*) Includes also fees and commissions expenses on borrowings

### 5.4.2.2 INTEREST EXPENSES PAID TO ASSOCIATES AND AFFILIATES

	CURRENT PERIOD	PRIOR PERIOD
Interest Paid to Investments in Associates and Affiliates	9,379	3,900

### 5.4.2.3 INTEREST EXPENSES ON SECURITIES ISSUED

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Interest Expenses on Securities Issued	776,934	802,710	550,322	544,205

### 5.4.2.4 MATURITY STRUCTURE OF INTEREST EXPENSE ON DEPOSITS

CURRENT PERIOD	DEMAND DEPOSITS	TIME DEPOSITS					OVER 1 YEAR	ACCUMULATING DEPOSIT ACCOUNTS	TOTAL
		UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS				
<b>Turkish Lira</b>									
Bank Deposits	1,021	105,615	391	562	294	-	-	107,883	
Saving Deposits	4,614	223,243	4,370,937	145,994	38,490	61,578	-	4,844,856	
Public Sector Deposits	-	1,808	2,800	376	261	1	-	5,246	
Commercial Deposits	719	527,769	827,351	30,770	48,634	95,500	-	1,530,743	
Others	4	17,708	94,131	19,304	23,829	147,150	-	302,126	
"7 Days Notice" Deposits	-	-	-	-	-	-	-	-	
<b>Total TL</b>	<b>6,358</b>	<b>876,143</b>	<b>5,295,610</b>	<b>197,006</b>	<b>111,508</b>	<b>304,229</b>	<b>-</b>	<b>6,790,854</b>	
<b>Foreign Currency</b>									
Foreign Currency Deposits	31,612	93,169	1,000,587	66,303	138,439	289,895	779	1,620,784	
Bank Deposits	87	17,950	246	1,336	1,258	3,243	-	24,120	
"7 Days Notice" Deposits	-	-	-	-	-	-	-	-	
Precious Metal Deposits	-	13	42	-	16	4,020	-	4,091	
<b>Total FC</b>	<b>31,699</b>	<b>111,132</b>	<b>1,000,875</b>	<b>67,639</b>	<b>139,713</b>	<b>297,158</b>	<b>779</b>	<b>1,648,995</b>	
<b>Grand Total</b>	<b>38,057</b>	<b>987,275</b>	<b>6,296,485</b>	<b>264,645</b>	<b>251,221</b>	<b>601,387</b>	<b>779</b>	<b>8,439,849</b>	

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PRIOR PERIOD	DEMAND DEPOSITS	TIME DEPOSITS					ACCUMULATING DEPOSIT ACCOUNTS	TOTAL
		UP TO 1 MONTH	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	OVER 1 YEAR		
<b>Turkish Lira</b>								
Bank Deposits	1,104	251,718	7	681	662	-	-	254,172
Saving Deposits	4,330	245,931	3,701,519	90,142	39,603	48,930	-	4,130,455
Public Sector Deposits	-	890	4,680	11	86	2	-	5,669
Commercial Deposits	5,051	306,233	570,721	44,841	23,795	76,076	-	1,026,717
Others	9	12,739	81,804	11,671	65,656	29,675	-	201,554
"7 Days Notice" Deposits	-	-	-	-	-	-	-	-
<b>Total TL</b>	<b>10,494</b>	<b>817,511</b>	<b>4,358,731</b>	<b>147,346</b>	<b>129,802</b>	<b>154,683</b>	<b>-</b>	<b>5,618,567</b>
<b>Foreign Currency</b>								
Foreign Currency Deposits	39,325	62,664	731,481	53,909	111,705	354,148	825	1,354,057
Bank Deposits	7	17,609	1,203	827	3,483	3,209	-	26,338
"7 Days Notice" Deposits	-	-	-	-	-	-	-	-
Precious Metal Deposits	-	-	69	11	32	1,382	-	1,494
<b>Total FC</b>	<b>39,332</b>	<b>80,273</b>	<b>732,753</b>	<b>54,747</b>	<b>115,220</b>	<b>358,739</b>	<b>825</b>	<b>1,381,889</b>
<b>Grand Total</b>	<b>49,826</b>	<b>897,784</b>	<b>5,091,484</b>	<b>202,093</b>	<b>245,022</b>	<b>513,422</b>	<b>825</b>	<b>7,000,456</b>

## 5.4.2.5 INTEREST EXPENSE ON REPURCHASE AGREEMENTS

	CURRENT PERIOD		PRIOR PERIOD	
	TL	FC	TL	FC
Interest Paid on Repurchase Agreements	1,149,513	20,733	971,391	28,657

## 5.4.2.6 FINANCIAL LEASE EXPENSES

None.

## 5.4.2.7 INTEREST EXPENSES ON FACTORING PAYABLES

None.

## 5.4.3 DIVIDEND INCOME

	CURRENT PERIOD	PRIOR PERIOD
Trading Financial Assets	908	2,182
Financial Assets Valued at Fair Value through Profit or Loss	-	-
Financial Assets Available-for-Sale	2,116	966
Others	4,792	5,940
<b>Total</b>	<b>7,816</b>	<b>9,088</b>

## 5.4.4 TRADING INCOME/LOSSES (NET)

	CURRENT PERIOD	PRIOR PERIOD
<b>Income</b>	<b>65,014,044</b>	<b>79,863,123</b>
Trading Account Income	1,514,746	2,105,247
Derivative Financial Instruments	9,872,180	11,007,318
Foreign Exchange Gain	53,627,118	66,750,558
<b>Losses (-)</b>	<b>66,856,071</b>	<b>80,606,776</b>
Trading Account Losses	1,839,443	1,718,623
Derivative Financial Instruments	13,138,901	11,933,107
Foreign Exchange Losses	51,877,727	66,955,046
<b>Total</b>	<b>(1,842,027)</b>	<b>(743,653)</b>

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TL 5,093,268 thousands (31 December 2016: TL 3,963,481 thousands) of foreign exchange gains and TL 3,994,210 thousands (31 December 2016: TL 4,420,767 thousands) of foreign exchange losses are resulted from the exchange rate changes of derivative transactions.

The Bank 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 Bank applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of USD 500,000,000, maturity of 10 years and maturity date of 20 April 2021 which were priced at 6.375% originally and had a coupon rate of 6.25%, by designating interest rate swaps with the same face values and terms. 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 TAS 39.

In this respect; the Bank also applied fair value hedge accounting for its fixed-rate loans with a total principal of TL 1,876,938, USD 957,763,108 and EUR 225,212,078, for its bonds with a total face value of TL 855,000 thousands and USD 59,900,000 and fixed-rate coupons by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, losses of TL 51,347 thousands and TL 19,552 thousands (31 December 2016: a gain of TL 492 thousands and a loss of TL 14,515 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 income statement, respectively.

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 3,527 thousands (31 December 2016: a loss of TL 13,071 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 income statement.

The Bank also enters into interest rate and cross currency swap 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 Bank applied cash flow hedge accounting for its funds borrowed amounting to USD 63,861,622 and EUR 34,210,526, securitization borrowings amounting to USD 43,750,000 and EUR 104,794,733 and commitments amounting to USD 7,857,183 by designating cross currency swaps with the same face values and terms, and eurobonds with a total nominal value of USD 10,000,000, the collateralised borrowings amounting to USD 250,000,000, borrowings amounting to USD 650,000,000, securitizations amounting to USD 755,121,951 and EUR 90,000,000 and deposits amounting to TL 50,000 thousands, USD 955,000,000 and EUR 136,473,684 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, gains of TL 47,621 thousands and TL 93,010 thousands (31 December 2016: gains of TL 46,482 thousands and TL 39,553 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 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 USD 70,774,355 and EUR 150,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net loss of TL 918 thousands (31 December 2016: a net gain of TL 7,607 thousands) resulting from the related fair value calculations for the hedged bonds were accounted for under trading income/losses in the income statement.

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 USD 149,807,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net gain of TL 444 thousands (31 December 2016: a net gain of TL 863 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 1,052,590 sell and EUR 226,145,529 buy, RON 90,000,000 sell and EUR 19,447,206 buy, ZAR 46,663,945 sell and EUR 2,997,986 buy. Accordingly, in the current period, a net loss of TL 1,523 thousands (31 December 2016: a net loss of TL 1,526 thousands) resulting from currency derivative contracts were recognized under shareholder's equity.

## 5.4.5 OTHER OPERATING INCOME

The items under "other operating income" generally consists of collection or reversals of prior year provisions, banking services related costs recharged to customers and income on custody services.

In the current period, a part of non-performing receivables of the Bank amounting to TL 865,748 thousands (31 December 2016: TL 1,059,931 thousands) were sold for a consideration of TL 56,015 thousands (31 December 2016: TL 79,774 thousands). Considering the related provisions of TL 854,989 thousands (31 December 2016: TL 1,058,459 thousands) in the financial statements, a gain of TL 45,256 thousands (31 December 2016: TL 78,276 thousands) is recognized under "other operating income".

A part of written-off non-performing loans, lease receivables and factoring receivables of certain consolidated financial affiliates of the Bank amounting to TL 332,791 thousands (31 December 2016: TL 250,832 thousands) were sold for a total consideration of TL 30,288 thousands (31 December 2016: TL 50,062 thousands). A gain from these sales amounting to TL 21,918 thousands is recognized under "other operating

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income" (31 December 2016: a net loss of TL 251 thousands from other operating income of TL 1,086 thousands and other operating expenses of TL 1,337 thousands) considering the related provision of TL 324,421 thousands (31 December 2016: TL 200,519 thousands) had been provided against in the accompanying consolidated financial statements in prior periods. A revenue earned from subsequent collections of such receivables sold in prior periods, amounting to TL 507 thousands (31 December 2016: TL 89 thousands) is recognized in the income statement under "other operating income" in the current period.

## 5.4.6 PROVISION FOR LOSSES ON LOANS OR OTHER RECEIVABLES

	CURRENT PERIOD	PRIOR PERIOD
Specific Provisions for Loans and Other Receivables	1,782,034	2,717,101
Loans and receivables in Group III	564,991	558,362
Loans and receivables in Group IV	613,855	1,165,685
Loans and receivables in Group V	603,188	993,054
General Provisions	497,877	213,321
Provision for Possible Losses	860,000	100,000
Impairment Losses on Financial Assets	9,012	19
Financial assets at fair value through profit or loss	717	19
Financial assets available-for-sale	8,295	-
Impairment Losses on Associates, Affiliates and Investments Held-to-Maturity	-	-
Associates	-	-
Affiliates	-	-
Joint ventures (business partnership)	-	-
Investments held-to-maturity	-	-
Others	532,940	356,655
<b>Total</b>	<b>3,681,863</b>	<b>3,387,096</b>

## 5.4.7 OTHER OPERATING EXPENSES

	CURRENT PERIOD	PRIOR PERIOD
Personnel Costs	3,205,846	2,881,465
Reserve for Employee Termination Benefits	46,291	43,676
Defined Benefit Obligation	-	-
Impairment Losses on Tangible Assets	677	-
Depreciation Expenses of Tangible Assets	286,244	242,978
Impairment Losses on Intangible Assets	-	-
Impairment Losses on Goodwill	-	-
Amortisation Expenses of Intangible Assets	107,554	89,117
Decrease in Value of Equity Accounting Shares	-	-
Impairment Losses on Assets to be Disposed	1,707	3,571
Depreciation Expenses of Assets to be Disposed	-	8,831
Impairment Losses on Assets Held for Sale and Discontinued Assets	-	-
Other Operating Expenses	3,056,863	2,771,702
Operational lease related expenses	470,021	426,616
Repair and maintenance expenses	66,231	70,890
Advertisement expenses	202,213	191,219
Other expenses (*)	2,318,398	2,082,977
Loss on Sale of Assets	12,372	4,953
Others (**)(***)	906,202	986,095
<b>Total</b>	<b>7,623,756</b>	<b>7,032,388</b>

(\*) Includes lawsuit, execution and other legal expenses borne by the Bank of fees and commissions income recognized in prior years but reimbursed, in the amount of TL 30,715 thousands (31 December 2016: TL 56,209 thousands), as per the decision of the Turkish Competition Board or the related courts.

(\*\*) Includes saving-deposits-insurance-fund related expenses of TL 258,217 thousands (31 December 2016: TL 229,846 thousands) and insurance-business claim losses of TL 179,480 thousands (31 December 2016: TL 136,945 thousands) in the current period.

(\*\*\*) Includes repayments, by the Bank in the current period, of fees and commissions income recognised in prior years in the amount of TL 31,330 thousands (31 December 2016: TL 110,146 thousands) as per the decision of the Turkish Competition Board or the related courts.

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## 5.4.8 INFORMATION ON PROFIT/LOSS BEFORE TAXES FROM CONTINUED AND DISCONTINUED OPERATIONS

TL 15,686,570 thousands (31 December 2016: TL 12,255,733 thousands) of the profit before taxes is derived from net interest income and TL 3,860,413 thousands (31 December 2016: TL 3,275,690 thousands) from net fees and commissions income. The total operating expenses amounted to TL 7,623,756 thousands (31 December 2016: TL 7,032,388 thousands). The profit before taxes reached to TL 8,349,437 thousands (31 December 2016: TL 6,490,950 thousands) increasing by 28.6% (31 December 2016: 39.3%) as compared to the prior year.

## 5.4.9 INFORMATION ON PROVISION FOR TAXES FOR CONTINUED AND DISCONTINUED OPERATIONS

As of 31 December 2017, on a consolidated basis, the Bank recorded a current tax expense of TL 2,284,299 thousands (31 December 2016: TL 1,035,607 thousands) and a deferred tax income of TL 322,836 thousands (31 December 2016: a deferred tax expense of TL 307,584 thousands).

*Deferred tax benefit/charge on timing differences*

DEFERRED TAX (BENEFIT)/CHARGE ON TIMING DIFFERENCES	CURRENT PERIOD	PRIOR PERIOD
Increase in Tax Deductable Timing Differences (+)	(304,276)	(96,757)
Decrease in Tax Deductable Timing Differences (-)	72,557	256,784
Increase in Taxable Timing Differences (-)	103,916	171,135
Decrease in Taxable Timing Differences (+)	(195,033)	(23,578)
<b>Total</b>	<b>(322,836)</b>	<b>307,584</b>

*Deferred tax benefit/charge in the income statement arising on timing differences, tax losses and tax deductions and exemptions*

DEFERRED TAX (BENEFIT)/CHARGE ARISING ON TIMING DIFFERENCES, TAX LOSSES AND TAX DEDUCTIONS AND EXEMPTIONS	CURRENT PERIOD	PRIOR PERIOD
(Increase)/Decrease in Tax Deductable Timing Differences (net)	(238,055)	150,307
(Increase)/Decrease in Taxable Timing Differences (net)	(91,117)	147,557
(Increase)/Decrease in Tax Losses (net)	6,336	9,720
(Increase)/Decrease in Tax Deductions and Exemptions (net)	-	-
<b>Total</b>	<b>(322,836)</b>	<b>307,584</b>

## 5.4.10 NET OPERATING PROFIT/LOSS AFTER TAXES INCLUDING NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS

None.

## 5.4.II NET PROFIT/LOSS

### 5.4.II.1 ANY FURTHER EXPLANATION ON OPERATING RESULTS NEEDED FOR BETTER UNDERSTANDING OF BANK'S PERFORMANCE

None.

### 5.4.II.2 ANY CHANGES IN ESTIMATIONS THAT MIGHT HAVE A MATERIAL EFFECT ON CURRENT AND SUBSEQUENT PERIOD RESULTS

None.

### 5.4.II.3 MINORITY INTEREST'S PROFIT/LOSS

	CURRENT PERIOD	PRIOR PERIOD
Net Profit/(Loss) of Minority Interest	55,918	42,468



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## 5.4.12 COMPONENTS OF OTHER ITEMS IN INCOME STATEMENT

The items in others under "Fees and commissions received" and "Fees and commissions paid" in the consolidated income statement include mainly fees and commissions related with credit card transactions and other banking services.

## 5.5 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

### 5.5.1 ANY INCREASES ARISING FROM APPLICATION OF ACCOUNTING FOR FINANCIAL INSTRUMENTS IN CURRENT PERIOD

#### 5.5.1.1 INCREASES FROM VALUATION OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

None.

#### 5.5.1.2 INCREASES DUE TO CASH FLOW HEDGES

The Bank enters into swap contracts to convert variable interest rates on its borrowings to fixed interest rates for cash flow hedging purposes. After netting with the related deferred tax effect, an increase of TL 42,155 thousands (31 December 2016: TL 9,025 thousands) is presented in the shareholders' equity for such hedges assessed as effective.

#### 5.5.1.3 RECONCILIATION OF FOREIGN EXCHANGE DIFFERENCES AT BEGINNING AND END OF CURRENT PERIOD

As of 31 December 2017, an increase of TL 674,152 thousands (31 December 2016: TL 459,301 thousands) that was resulted from the foreign currency translation of consolidated foreign affiliates performances, is presented under translation differences in the shareholders' equity.

### 5.5.2 ANY DECREASES ARISING FROM APPLICATION OF ACCOUNTING FOR FINANCIAL INSTRUMENTS

#### 5.5.2.1 DECREASES FROM VALUATION OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

As of 31 December 2017, an increase of TL 256,534 thousands (31 December 2016: TL 47,864 thousands) resulted from the revaluation of financial assets available-for-sale at fair value after being netted with the related deferred tax liability effect and a loss of TL 30,723 thousands (31 December 2016: a gain of TL 214,415 thousands) that was transferred to the income statement from "securities value increase fund" are presented as the current period movements in securities value increase fund in the statement of changes in shareholders' equity.

#### 5.5.2.2 DECREASES DUE TO CASH FLOW HEDGES

None.

### 5.5.3 TRANSFERS TO LEGAL AND EXTRAORDINARY RESERVES

	CURRENT PERIOD	PRIOR PERIOD
Transfers to Legal Reserves from Prior Year Profits	115,719	43,229
Transfers to Extraordinary Reserves from Prior Year Profits	3,511,961	2,965,949

### 5.5.4 ISSUANCE OF SHARE CERTIFICATES

Please refer to Note 5.2.12.3.

### 5.5.5 EFFECTS OF PRIOR YEARS' CORRECTIONS TO BEGINNING BALANCES OF CURRENT PERIOD

None.

### 5.5.6 COMPENSATION OF PRIOR PERIOD LOSSES

None.

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## 5.6 CONSOLIDATED STATEMENT OF CASH FLOWS

### 5.6.1 DISCLOSURES FOR "OTHER" ITEMS AND "EFFECT OF CHANGE IN FOREIGN CURRENCY RATES CASH AND CASH EQUIVALENTS" IN STATEMENT OF CASH FLOWS

The net cash outflows arising from banking operations amount to TL 4,872,591 thousands (31 December 2016: a net cash inflows of TL 2,253,924 thousands). TL 13,152,134 thousands (31 December 2016: TL 3,358,704 thousands) of these net cash outflows is generated from the cash outflows resulted from the change in operating assets and liabilities and TL 8,279,543 thousands (31 December 2016: TL 5,612,628 thousands) from the cash inflows resulted from operating profit. The "net increase/decrease in other liabilities" under the changes in operating assets and liabilities is resulted from the changes in the funds obtained through repurchase agreements, miscellaneous payables, other external funding payables and taxes, duties and premiums payables and amounts to an increase of TL 1,190,368 thousands (31 December 2016: a decrease of TL 114,950 thousands). The net cash inflows from financing activities amount to TL 4,582,854 thousands (31 December 2016: a net cash outflows of TL 379,641 thousands).

The effect of changes in foreign exchange rates on cash and cash equivalents includes the foreign exchange differences resulted from the translations of cash and cash equivalents in foreign currencies into TL at the exchange rates prevailing at the beginning and end of the year, and amounts to TL 597,337 thousands (31 December 2016: TL 928,129 thousands).

### 5.6.2 CASH OUTFLOWS FROM ACQUISITION OF ASSOCIATES, SUBSIDIARIES AND JOINT-VENTURES

Please refer to Notes 5.1.8.1 and 5.1.9.2.

### 5.6.3 CASH INFLOWS FROM DISPOSAL OF ASSOCIATES, SUBSIDIARIES AND JOINT-VENTURES

None.

### 5.6.4 CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

	CURRENT PERIOD	PRIOR PERIOD
Cash on Hand	2,205,903	2,199,132
Cash in TL	1,357,697	1,313,085
Cash in Foreign Currency	848,206	886,047
Cash Equivalents	13,486,239	9,541,450
Others	13,486,239	9,541,450
<b>Total</b>	<b>15,692,142</b>	<b>11,740,582</b>

### 5.6.5 CASH AND CASH EQUIVALENTS AT END OF PERIOD

	CURRENT PERIOD	PRIOR PERIOD
Cash on Hand	2,847,903	2,205,903
Cash in TL	1,297,568	1,357,697
Cash in Foreign Currency	1,550,335	848,206
Cash Equivalents	12,104,609	13,486,239
Others	12,104,609	13,486,239
<b>Total</b>	<b>14,952,512</b>	<b>15,692,142</b>

### 5.6.6 RESTRICTED CASH AND CASH EQUIVALENTS DUE TO LEGAL REQUIREMENTS OR OTHER REASONS

The placements at foreign banks include blocked accounts amounting TL 8,944,602 thousands (31 December 2016: TL 7,557,761 thousands) of which TL 2,717,355 thousands (31 December 2016: TL 116,841 thousands) and TL 134,832 thousands (31 December 2016: TL 96,147 thousands) are kept at the central banks of Malta and Turkish Republic of Northern Cyprus, respectively as reserve deposits and TL 6,092,415 thousands (31 December 2016: TL 7,344,773 thousands) as collateral against funds borrowed at various banks.

Furthermore, there are restricted deposits at various domestic banks amounting TL 334,998 thousands (31 December 2016: TL 254,130 thousands) as required for insurance activities.

The blocked account at the Central Bank of Turkey with a principal of TL 19,280,068 thousands (31 December 2016: TL 13,027,376 thousands) is for the reserve deposits in foreign currency and gold against the Banks' liabilities in Turkish Lira, foreign currencies and gold. The Bank also keeps a collateral of EUR 668,000,000 at the Central Bank of Turkey for borrowing activities in TL money market.

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## 5.6.7 ADDITIONAL INFORMATION

### 5.6.7.1 RESTRICTIONS ON THE BANK'S POTENTIAL BORROWINGS

None.

### 5.6.7.2 CASH INFLOWS PRESENTING INCREASE IN BANKING ACTIVITY RELATED CAPACITY

None.

## 5.7 RELATED PARTY RISKS

### 5.7.1 TRANSACTIONS WITH PARENT BANK'S RISK GROUP:

#### 5.7.1.1 LOANS AND OTHER RECEIVABLES

##### CURRENT PERIOD

BANK'S RISK GROUP	ASSOCIATES, AFFILIATES AND JOINT-VENTURES		BANK'S DIRECT AND INDIRECT SHAREHOLDERS		OTHER COMPONENT IN RISK GROUP	
	CASH	NON-CASH	CASH	NON-CASH	CASH	NON-CASH
<b>Loans and Other Receivables</b>						
Balance at beginning of period	31,850	3,476	1,660,778	385,799	2,320,156	735,944
Balance at end of period	84,052	3,530	1,398,195	1,548,939	2,710,219	896,963
<b>Interest and Commission Income</b>	<b>4,148</b>	<b>16</b>	<b>5,109</b>	<b>93</b>	<b>178,284</b>	<b>3,981</b>

##### PRIOR PERIOD

BANK'S RISK GROUP	ASSOCIATES, AFFILIATES AND JOINT-VENTURES		BANK'S DIRECT AND INDIRECT SHAREHOLDERS		OTHER COMPONENT IN RISK GROUP	
	CASH	NON-CASH	CASH	NON-CASH	CASH	NON-CASH
<b>Loans and Other Receivables</b>						
Balance at beginning of period	33,129	3,616	57,550	827,462	2,184,276	472,865
Balance at end of period	31,850	3,476	1,660,778	385,799	2,320,156	735,944
<b>Interest and Commission Income</b>	<b>2,453</b>	<b>5</b>	<b>484</b>	<b>8</b>	<b>136,871</b>	<b>404</b>

#### 5.7.1.2 DEPOSITS

BANK'S RISK GROUP	ASSOCIATES, AFFILIATES AND JOINT-VENTURES		BANK'S DIRECT AND INDIRECT SHAREHOLDERS		OTHER COMPONENT IN RISK GROUP	
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD
<b>Deposits</b>						
Balance at beginning of period	46,726	31,511	545,105	337,764	554,648	552,778
Balance at end of period	97,361	46,726	375,171	545,105	409,424	554,648
<b>Interest Expenses</b>	<b>9,379</b>	<b>3,890</b>	<b>14,861</b>	<b>773</b>	<b>19,704</b>	<b>5,526</b>

#### 5.7.1.3 DERIVATIVE TRANSACTIONS

BANK'S RISK GROUP	ASSOCIATES, AFFILIATES AND JOINT-VENTURES		BANK'S DIRECT AND INDIRECT SHAREHOLDERS		OTHER COMPONENT IN RISK GROUP	
	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD	CURRENT PERIOD	PRIOR PERIOD
<b>Transactions at Fair Value Through Profit/(Loss)</b>						
Balance at beginning of period	13,344	12,675	13,797,354	16,403,422	843,120	-
Balance at end of period	7,239	13,344	39,433,377	13,797,354	792,918	843,120
<b>Total Profit/(Loss)</b>	<b>(63)</b>	<b>120</b>	<b>14,444</b>	<b>(403,644)</b>	<b>2,269</b>	<b>(4,582)</b>
<b>Transactions for Hedging</b>						
Balance at beginning of period	-	-	-	-	-	-
Balance at end of period	-	-	-	-	-	-
<b>Total Profit/(Loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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## 5.7.2 BANK'S RISK GROUP

### 5.7.2.1 RELATIONS WITH COMPANIES IN RISK GROUP OF/OR CONTROLLED BY THE BANK REGARDLESS OF NATURE OF CURRENT TRANSACTIONS

Transactions with the risk group, are held under arm's-length conditions; terms are set according to the market conditions and in compliance with the Banking Law. The Bank's policy is to keep the balances and transaction volumes with the risk group at reasonable levels preventing any high concentration risk on balance sheet.

### 5.7.2.2 CONCENTRATION OF TRANSACTION VOLUMES AND BALANCES WITH RISK GROUP AND PRICING POLICY

The cash loans of the risk group amounting TL 2,662,333 thousands (31 December 2016: TL 2,216,830 thousands) compose 1.16% (31 December 2016: 1.10%) of the Bank's total consolidated cash loans and 0.75% (31 December 2016: 0.71%) of the Bank's total consolidated assets. The bond purchased by the Bank and its consolidated financial affiliates from their risk group, amounted to TL 21,757 thousands (31 December 2016: none). The total loans and similar receivables amounting TL 4,192,466 thousands (31 December 2016: TL 4,012,784 thousands) compose 1.18% (31 December 2016: 1.29%) of the Bank's total consolidated assets. The non-cash loans of the risk group amounting TL 2,449,432 thousands (31 December 2016: TL 1,125,219 thousands) compose 4.36% (31 December 2016: 2.01%) of the Bank's total consolidated non-cash loans. The deposits of the risk group amounting TL 881,956 thousands (31 December 2016: TL 1,146,479 thousands) compose 0.44% (31 December 2016: 0.64%) of the Bank's total consolidated deposits. There are no funds borrowed by the Bank and its consolidated financial affiliates from their risk group (31 December 2016: none) of the Bank's total consolidated funds borrowed. The pricing in transactions with the risk group companies is set on an arms-length basis.

The credit card (POS) payables to the related parties, amounted to TL 97,932 thousands (31 December 2016: TL 65,017 thousands). A total rent income of TL 4,452 thousands (31 December 2016: TL 3,946 thousands) was recognized for the real estates rented to the related parties.

Operating expenses for TL 4,910 thousands as of 31 December 2017 (31 December 2016: TL 6,607 thousands) were incurred for the IT services rendered by the related parties. Other income of TL 4,003 thousands (31 December 2016: TL 2,556 thousands) for the IT services rendered and banking services fee income of TL 24,659 thousands (31 December 2016: TL 1,176 thousands) were recognized from the related parties.

There were no fixed-rate securities brokerage fee (31 December 2016: TL 434 thousands) received from the risk group.

Operating expenses of TL 391 thousands (31 December 2016: TL 4,377 thousands) for advertisement and broadcasting services, of TL 53,736 thousands (31 December 2016: TL 44,246 thousands) for financial leasing services, and of TL 16,288 thousands (31 December 2016: TL 11,727 thousands) for travelling services rendered by the related parties were recognized as expense.

The net payment provided or to be provided to the key management of the Bank and its consolidated financial affiliates amounts to TL 150,727 thousands as of 31 December 2017 (31 December 2016: TL 137,735 thousands) including compensations paid to key management personnel who left their position during the year.

### 5.7.2.3 OTHER MATTERS NOT REQUIRED TO BE DISCLOSED

None.

### 5.7.2.4 TRANSACTIONS ACCOUNTED FOR UNDER EQUITY METHOD

None.

### 5.7.2.5 ALL KIND OF AGREEMENTS SIGNED LIKE ASSET PURCHASES/SALES, SERVICE RENDERING, AGENCIES, LEASING, RESEARCH AND DEVELOPMENT, LICENCES, FUNDING, GUARANTEES, MANAGEMENT SERVICES

The Bank has agency contracts with Garanti Yatırım Menkul Kıymetler AŞ and Garanti Emeklilik ve Hayat AŞ. Accordingly, all the branches of the Bank serve as agencies to sell the insurance products to customers. Agency services for trading of securities on behalf of the Bank's customers are rendered by specialized branches (Investment Centers).

Purchase of equipments for internal use are partly arranged through financial leasing.

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## 5.8 DOMESTIC, FOREIGN AND OFF-SHORE BRANCHES OR EQUITY INVESTMENTS, AND FOREIGN REPRESENTATIVE OFFICES OF PARENT BANK

### 5.8.1 DOMESTIC AND FOREIGN BRANCHES AND REPRESENTATIVE OFFICES OF PARENT BANK

PARENT BANK					
	NUMBER OF BRANCHES	NUMBER OF EMPLOYEES	COUNTRY	TOTAL ASSETS	LEGAL CAPITAL
<b>Domestic Branches</b>	937	18,750			
<b>Foreign Representative Offices</b>	1	1	1- Germany		
	1	1	2- England		
	1	1	3- China		
<b>Foreign Branches</b>	1	14	1- Malta	38,057,395	-
	7	73	2- NCTR	2,391,963	15,520

### 5.8.2 OPENING OR CLOSING OF DOMESTIC AND FOREIGN BRANCHES AND REPRESENTATIVE OFFICES AND SIGNIFICANT CHANGES IN ORGANISATIONAL STRUCTURE OF PARENT BANK

In 2017, two domestic branches were opened and 25 branches were closed. In addition, the banking activities of the Luxembourg branch abroad were ceased.

### 5.8.3 INFORMATION ON CONSOLIDATED FINANCIAL SUBSIDIARIES OF PARENT BANK

GARANTI BANK INTERNATIONAL NV					
	NUMBER OF BRANCHES	NUMBER OF EMPLOYEES	COUNTRY	TOTAL ASSETS	LEGAL CAPITAL
<b>Foreign Representative Offices</b>	1	15	1- Turkey		
	1	-	2- Switzerland		
<b>Head office-the Netherlands</b>	1	210	1-The Netherlands	19,300,705	EUR 136,836,000
<b>Foreign Branches</b>	1	21	2- Germany	70,693	-

GARANTI BANK SA					
	NUMBER OF BRANCHES	NUMBER OF EMPLOYEES	COUNTRY	TOTAL ASSETS	LEGAL CAPITAL
<b>Romania Head Office and Branches</b>	78	989	Romania	10,963,206	RON 1,208,086,946

#### Other consolidated foreign financial subsidiaries

	NUMBER OF EMPLOYEES	COUNTRY	TOTAL ASSETS	LEGAL CAPITAL
Garanti Holding BV	-	the Netherlands	1,541,868	EUR 385,388,600
G Netherlands BV	-	the Netherlands	1,564,918	EUR 120,682,821
Motoractive IFN SA	75	Romania	798,100	RON 40,138,655
Ralfi IFN SA	188	Romania	593,204	RON 10,661,500

#### Consolidated domestic financial subsidiaries

	NUMBER OF EMPLOYEES	TOTAL ASSETS	LEGAL CAPITAL
Garanti Finansal Kiralama AŞ	143	5,440,877	350,000
Garanti Faktoring AŞ	156	3,451,880	79,500
Garanti Emeklilik ve Hayat AŞ	810	2,164,598	50,000
Garanti Yatırım Menkul Kıymetler AŞ	341	170,260	8,328
Garanti Portföy Yönetimi AŞ	44	80,928	25,000
Garanti Yatırım Ortaklığı AŞ	8	36,730	32,000

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## 5.9 MATTERS ARISING SUBSEQUENT TO THE BALANCE SHEET DATE

At the board of directors meeting held on 31 January 2018, the Bank decided to distribute TL 1,750,000 thousands of the net profit of the year 2017 as dividend to its shareholders at the annual general assembly for the approval of shareholders.

## 6 OTHER DISCLOSURES ON ACTIVITIES

### 6.1 INFORMATION ON INTERNATIONAL RISK RATINGS

#### 6.1.1 PARENT BANK'S INTERNATIONAL RISK RATINGS

##### MOODY'S (MARCH 2017)

Outlook	Negative
Long Term FC Deposit	Ba2
Long Term TL Deposit	Ba1
Short Term FC Deposit	Not prime
Short Term TL Deposit	Not prime
Basic Loan Assessment	ba2
Adjusted Loan Assessment	ba1
Long Term National Scale Rating (NSR)	Aa1.tr
Short Term NSR	TR-1

##### FITCH RATINGS (JUNE 2017)

Outlook	Stable
Long Term FC Outlook	BBB-
Short Term FC Outlook	F3
Long Term TL Outlook	BBB-
Short Term TL Outlook	F3
Financial Capacity	bb+
Support	2
National Scale Rating (NSR)	AAA(tur)
Long Term Outlook	Stable

##### JCR EURASIA RATINGS (APRIL 2017)

International FC Outlook	Stable
Long Term International FC	BBB
Short Term International FC	A-3
International TL Outlook	Stable
Long Term International TL	BBB+
Short Term International TL	A-2
National Outlook	Stable
Long Term Local Rating	AAA(Trk)
Short Term Local Rating	A-1+(Trk)
Independency from Shareholders	A
Support	1

##### STANDARD AND POORS (SEPTEMBER 2017)

Long Term FC ICR	BB
Long Term TL ICR	BB
Outlook	Negative
Stand-alone Credit Profile (SACP)	bb+

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## 6.1.2 INTERNATIONAL RISK RATINGS OF GARANTI BANK INTERNATIONAL NV, A CONSOLIDATED AFFILIATE

### MOODY'S (JUNE 2017) <sup>(\*)</sup>

Long Term FC Deposit	A3
Short Term FC Deposit	Prime-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Outlook	Negative
Görünüm	Negatif

<sup>(\*)</sup> Latest date in risk ratings or outlooks.

## 6.1.3 INTERNATIONAL RISK RATINGS OF GARANTI FAKTORING, A CONSOLIDATED AFFILIATE

### FITCH RATINGS (JUNE 2017) <sup>(\*)</sup>

#### Foreign Currency

Long Term	BBB-
Short Term	F3
Outlook	Stable

#### Turkish Lira

Long Term	BBB-
Short Term	F3
Outlook	Stable
National	AAA (tur)
Outlook	Stable
Support	2

<sup>(\*)</sup> Latest date in risk ratings or outlooks.

## 6.1.4 INTERNATIONAL RISK RATINGS OF GARANTI FINANSAL KIRALAMA, A CONSOLIDATED AFFILIATE

### FITCH RATINGS (JUNE 2017) <sup>(\*)</sup>

#### Foreign Currency

Long Term	BBB-
Short Term	F3
Outlook	Stable

#### Turkish Lira

Long Term	BBB-
Short Term	F3
Outlook	Stable
National	AAA (tur)
Outlook	Stable
Support	2

<sup>(\*)</sup> Latest date in risk ratings or outlooks.

### STANDARD AND POORS (SEPTEMBER 2017) <sup>(\*)</sup>

#### Foreign Currency

Long Term	BB
Short Term	B
Outlook	Negative

#### Turkish Lira

Long Term	BB
Short Term	B
Outlook	Negative

<sup>(\*)</sup> Latest date in risk ratings or outlooks.

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## 6.1.5 INTERNATIONAL RISK RATINGS OF GARANTI BANK SA, A CONSOLIDATED AFFILIATE

### FITCH RATINGS (MAY 2017) (\*)

Foreign Currency	
Long Term	BBB-
Short Term	F3
Financial Capacity	b+
Support	2
Outlook	Stable

(\*) Latest date in risk ratings or outlooks.

## 6.2 DIVIDENDS

As per the decision made at the annual general assembly of shareholders of the parent Bank on 30 March 2017, the distribution of the net profit of the year 2016, was as follows;

### 2016 PROFIT DISTRIBUTION TABLE

2016 Net Profit	5,070,549
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)

## 6.3 OTHER DISCLOSURES

None.

## 7 INDEPENDENT AUDITORS' REPORT

### 7.1 DISCLOSURE ON INDEPENDENT AUDITORS' REPORT

The consolidated financial statements of the Bank and its financial affiliates as of 31 December 2017, have been audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (the Turkish member of KPMG International Cooperative) and the independent auditors' report dated 31 January 2018, is presented before the accompanying consolidated financial statements.

### 7.2 DISCLOSURES AND FOOTNOTES PREPARED BY INDEPENDENT AUDITORS

None.



## APPENDIX A.I: REPORTING GUIDELINES FOR THE NON-FINANCIAL DISCLOSURES

This section is the guidelines applied for the indicators in scope of limited assurance as explained in the table below. The data reported for each indicator is for the year ended December 31, 2017. The reporting covers Garanti Bank's operations in Turkey, including Garanti Payment Systems, Garanti Mortgage and Garanti Technology, unless specifically mentioned in the relevant indicator definition. The operational control approach was chosen for the reporting scope.

INDICATOR	GUIDELINE NOTES
<b>Materiality Analysis</b>	Our Materiality Analysis is based on two key criteria. First one is desk studies to review the trends, sector reports, report of global banks, and advice by international professional organizations such as GRI and SASB; and the second one is a comprehensive stakeholder analysis by reaching all stakeholder groups via online questionnaires, focus group meetings and phone calls to get their opinions. AA1000SE Stakeholder Engagement Standard was used as a reference to conduct the stakeholder engagement process. Each relevant topic was evaluated through a four-step assessment called "Four Factor Impact Analysis". For details, please see Our Material Matters section on pages 36-39.
<b>Sustainability Governance</b>	Sustainability Governance at Garanti is mentioned in the Risk Management section on pages 103-141. Sustainability Governance refers to the policies and mechanisms in place for decision-making on economic, environmental and social impacts. Sustainability Governance is reported following the guidance in GRI G4 - 34, 35, 36, 37.
<b>Total Yearly Energy Consumption by Source</b>	Includes energy consumption from fossil fuel sources for heating, generators, leased vehicle fleet in commercial use, and purchased electricity by Garanti Bank's operations (Headquarters, service buildings, branches and ATMs) in Turkey. IPCC energy conversion factors are used to convert source data in cubic meters, litres and tonnes to MWh. Total Energy consumption is reported following the guidance in GRI G4-EN3 Energy consumption within the organization and can be found in Appendix A.4: Environmental Performance Data.
<b>Total Yearly Water Consumption by Source</b>	Includes total water consumption mainly coming from municipality by Garanti Bank's operations Turkey. Reported following the guidance in GRI G4-EN8 Total water withdrawal by source in the Appendix A.4: Environmental Performance Data.

**Total Yearly GHG Emissions in tCO<sub>2</sub>e reported under scope 1 and 2 of the GHG Protocol**

Includes GHG emissions (CO<sub>2</sub>, CH<sub>4</sub> and N<sub>2</sub>O and f-gases) from energy consumption from fossil fuel sources for heating, generators, leased vehicle fleet in commercial use and refrigerants for Scope 1, and purchased electricity by Garanti Bank's operations in Turkey (Headquarters, service buildings, branches and ATMs) for Scope 2. IPCC Fifth Assessment Report factors are used for global warming potentials and emission factors. Grid Emission Factor is calculated based on the most recent data available by TEİAŞ. GHG emissions are reported following the guidance in GRI G4-EN15 Direct greenhouse gas (GHG) emissions (Scope 1), GRI G4-EN16 Energy indirect greenhouse gas (GHG) emissions (Scope 2) and the GHG Protocol - Location-based and can be found in Appendix A: Environmental Performance Data.

**Total Yearly GHG emissions from business air travel - Scope 3 & Air Travel in Kilometres**

Scope 3 emissions related to business air travel by Garanti Bank employees is reported following the guidance in GRI G4-EN17 and the GHG Protocol. Average passenger DEFRA emission factors (without RF) are used for air travel emissions calculations. Flights are classified as Short Haul (less than 500 km), Medium Haul (between 500 km and 1,600 km), and Long Haul (over 1,600). Please see Appendix A: Environmental Performance Data.

**GHG Emissions Intensity in the reporting period**

Total Scope 1 and Scope 2 GHG emissions divided by total assets of the Bank as of calendar year end in billion TL terms. The total assets are based on the Bank's audited financial statements. Reported following the guidance in GRI G4-EN18 and can be found in Appendix A: Environmental Performance Data.

**Year-on-year Change in GHG Emissions Intensity**

The percent change in the GHG Emissions Intensity compared to the previous year's GHG emissions intensity. The total assets are based on the Bank's audited financial statements. Reported following the guidance in GRI G4-EN18 and can be found in Appendix A: Environmental Performance Data.

**Total Yearly Avoided Emissions due to operational renewable energy projects under loan from Garanti**

Emissions avoided by the electricity generation based on the operational capacity of solar, wind and hydropower plants during the reporting period are calculated. The projects Garanti has participated in financing which were operational in the reporting period are taken into consideration for the calculations. Grid Emission Factor is calculated based on the most recent data available by TEİAŞ. Please see Responsible and Sustainable Development Section, pages 96-102.

**Environmental & Social Impact Assessment Process related to projects financed by Garanti**

- Number of assessed projects in 2017
- Number of rejected projects in 2017
- Risk rating of the assessed projects in 2017
- Number of project site visits conducted in 2017

The Bank has an internal methodology based on international good practice for environmental and social risk assessment. Please see Risk Management section on page 134. Detailed information on the Environmental and Social Impact Assessment is available on Garanti Investor Relations website (<https://www.garantiinvestorrelations.com/en/sustainability/detay/Environmental-and-Social-Risk-Assessment/902/3733/0>)

### Renewable energy portfolio

- Amount of investments in renewable energy projects by type in the reporting period
- Installed capacity of renewable energy projects by type in the reporting period
- Garanti's market share of operational installed wind capacity in Turkey in the reporting period

The loan amounts committed and the installed capacity of renewable energy projects that were signed by Garanti in 2017.

For the market share of operational installed wind capacity calculations the total installed capacity of wind energy projects in Turkey are taken from the General Directorate of Energy Affairs website (<http://www.eigm.gov.tr/tr-TR/Sayfalar/Enerji-Yatirimlari>). Garanti's share in installed capacity in a project is calculated by multiplying Garanti's share in the committed loan amount with the total installed capacity of a project.

### Cardless Transactions from Garanti ATMs

- Total number of cardless transactions from Garanti ATMs in the reporting period
- Total volume of cardless transactions from Garanti ATMs in the reporting period

For the number and the total volume of the cardless transactions from Garanti ATMs, Garanti's Northern Cyprus Turkish Republic operations are also included within the scope of disclosure. For the volume calculations, real-time TL equivalents of the transactions in foreign currencies are taken into consideration and the total volume of the cardless transactions is disclosed in TL.

### Community Investments

- Total monetary amount of community investments in the reporting period

Community Investments refer to the total monetary amount contributed to programmes which create social impact and aligned with the bank's business strategy and the stakeholder's priorities. The programmes are based on a shared value principle by Garanti's internal 'Sponsorship and Corporate Responsibility Policy'. The total monetary amount contributed to these community investments in the reporting period is disclosed under this indicator. Please see the Responsible and Sustainable Development section, pages 96-102.

### Human Resources

- # of employees completed the Female Leadership trainings in 2017

Includes the Female Leadership Trainings developed in collaboration with UN Women, which was offered to women branch managers, regional managers, regional credit managers, SVPs, and managers; and Remarkable Women Training provided by McKinsey & Company, which was offered to regional credit managers, SVPs, and managers. For further details please see Investing in Human Capital section on page 92.

## APPENDIX A.2: RELEVANT TOPICS COVERED UNDER MATERIALITY ANALYSIS

- 🟢 Topics within the scope of responsible governance approach / within Garanti
- 🟡 Topics covered through products and services / outside Garanti

### Responsible and Sustainable Development (Page 96)

- 🟢🟢 Pioneering the development of sustainable banking <sup>1</sup>

### Our Material Matters (Page 36)

- 🟢🟢 Stakeholder dialogue <sup>2</sup>

### Corporate Governance and Risk Management (Page 103)

- 🟢🟢 Transparency and reporting
- 🟢 Good corporate governance
- 🟢 Integrated management of financial and non-financial <sup>3</sup> risk and crisis management
- 🟢 Preventing Money Laundering and Financing of Terrorism
- 🟢 Compliance
- 🟢🟢 Whistleblowing and reporting of breaches <sup>4</sup>
- 🟢 Audit
- 🟢 Board structure, election process, nomination, diversity, independency, transparency of the senior management remuneration
- 🟢🟢 Regaining trust in banking sector and reputation management
- 🟢 Preventing anti-competitive behavior
- 🟢 Tax policy

### Customer Experience (Page 54)

- 🟢 Being customer-focused <sup>5</sup> and increasing customer satisfaction
- 🟢 Financial health and supporting customers in making conscious financial decisions
- 🟢 Responsible lending <sup>6</sup> and supporting customers experiencing financial difficulty
- 🟢 Pricing policies <sup>7</sup>
- 🟢 Financial inclusiveness, accessibility and purchasing power
- 🟢 Responsible communication and marketing of products and services

*1 Sustainability management at a global leadership level and leading the sustainable development of the financial sector (including investment firms and pension funds)*

*2 Including development of products and services*

*3 Environmental, social and governance risks*

*4 Includes fight against corruption, bribery and any unethical behavior.*

*5 Includes meeting society's demand for loans*

*6 Preventing excessive debt etc.*

*7 Fair, profitable and transparent fees, products with good value for money*




**Digital Transformation (Page 76)**

	Customer privacy and information security
	Digital transformation and technological advancement
	Innovation management




**Responsible and Sustainable Development (Page 96)**

	Financial performance & direct and indirect impacts on economy
	Financial education and capacity development
	Community investment programs
	Increasing employment and supporting SMEs
	Responsible supply chain <sup>8</sup>




**Investing in Human Capital (Page 88)**

	Investing in employees <sup>9</sup>
	Equality and diversity in human resources
	Fair wages

**Responsible and Sustainable Development (Page 96)**

	Human rights
	Responsible products and services <sup>10</sup>
	Management of customer ESG risks <sup>11</sup>

**Responsible and Sustainable Development (Page 96)**

	Climate change and energy
	Environmental footprint of Garanti Bank <sup>12</sup>
	Water risks and opportunities

<sup>8</sup> Environmental, social and ethical standards in the supply chain

<sup>9</sup> Talent management, employee satisfaction, employee rights, work-life balance, OHS etc.

<sup>10</sup> Products and services which create environmental and social value

<sup>11</sup> ESG: Environmental, Social and Governance risks. Includes assessing ESG impacts of the project in loans.

<sup>12</sup> Carbon, waste and water management etc.

### APPENDIX A.3: SCOPE AND BOUNDARIES OF THE MATERIALITY ANALYSIS

MATERIAL ISSUE	INTERNAL AND EXTERNAL IMPACTS	RELEVANT SECTION	PAGE
Risk and Crisis Management	Garanti's ability to manage its financial and non-financial and customer-related risks and crises that is important for both the Bank and external stakeholders.	Corporate Governance and Risk Management	103
Transparency and Reporting	Transparent reporting informs all stakeholders about Garanti, and is important for both Garanti's reputation and all stakeholders.	Corporate Governance and Risk Management	103
Good Corporate Governance	Efficient, accountable, and responsible internal mechanisms are important for Garanti and its external stakeholders.	Corporate Governance and Risk Management	103
Digital Transformation	Digitalization of internal processes and services offered to customers has importance for customers and Garanti.	Digital Transformation	76
Being Customer Focused	The approach to prioritize customers and their needs has an impact on customers and Garanti's financials and reputation.	Customer Experience	54
Management of Customer ESG risks	This issue has an impact on Garanti and its customers according to their environmental, social and ethical risk levels and sizes.	Responsible and Sustainable Development	96
Pioneering the Development of Sustainable Banking	This points to Garanti's leadership in the sector and the transformation of the sector by Garanti, and has an impact on particularly Garanti and all sectoral stakeholders.	Responsible and Sustainable Development	96
Customer Privacy and Information Security	Customer information privacy is important for all customers. Security violations have financial and reputational impacts on Garanti.	Digital Transformation	76
Investing in Employees	Investing in employees and improving their engagement and well-being is important for Garanti's performance.	Investing in Human Capital	88
Climate Change	This comprises the effects of climate change which occur both through Garanti's own and its customers' activities.	Responsible and Sustainable Development	96
Compliance	This issue includes Garanti's compliance with banking and financial sector regulations and other legal regulations to which Garanti is subjected.	Corporate Governance and Risk Management	103
Financial Health and Supporting Customers in Making Conscious Financial Decisions	Customers' ability to take healthy financial decisions and make savings has an impact on Garanti and its customers.	Customer Experience	54

Stakeholder Dialogue	Stakeholder dialogue expresses Garanti's two-way communication and inclusion of these opinions into its decision-making mechanisms and processes, and is important for all stakeholders and Garanti.	Our Material Matters	36
Financial Performance and Direct and Indirect Impact on Economy	This has an impact on Garanti, and persons and institutions that Garanti attributes economic value.	Financial Performance	62

## APPENDIX A.4: ENVIRONMENTAL PERFORMANCE DATA

### Energy Consumption within the Organization

ENERGY SOURCE	TOTAL CONSUMPTION (2015)	TOTAL CONSUMPTION (2016)	TOTAL CONSUMPTION (2017)
Electricity (MWh)	115,693	116,502	114,479
Natural Gas for Heating (m <sup>3</sup> )	3,039,563	2,810,199	3,396,123
Natural Gas for Heating (MWh)	29,144	26,945	32,563
Diesel for Heating (liter)	199,668	167,372	151,656
Diesel for Heating (MWh)	1,965	1,646	1,492
Coal for Heating (ton)	180	117	102
Coal for Heating (MWh)	628	409	354
Diesel Consumption in Generators (liter)	183,860	163,237	142,857
Diesel Consumption in Generators (MWh)	1,809	1,606	1,405
Fuel Oil (liter)	25,475	7,703	28,306
Fuel Oil (MWh)	270	82	300
Diesel Consumption in Vehicle Fleet * (liter)	1,508,848	1,123,289	1,110,128
Diesel Consumption in Vehicle Fleet * (MWh)	14,846	11,052	10,922
Gasoline Consumption in Vehicle Fleet * (liter)	9,965	0	0
Gasoline Consumption in Vehicle Fleet * (MWh)	89	0	0
Total Energy Consumption (MWh)	164,443	158,243	161,515

\* only in commercial use

**GHG Emissions (tonnes of CO<sub>2</sub> equivalent)**

ENERGY SOURCE	SCOPE 1 (tCO <sub>2</sub> e)	SCOPE 2* (tCO <sub>2</sub> e)	SCOPE 3** (tCO <sub>2</sub> e)	TOTAL tCO <sub>2</sub> e (SCOPE 1 & 2)	GHG EMISSIONS INTENSITY*** (tCO <sub>2</sub> e/ TOTAL ASSETS)	% CHANGE IN GHG EMISSIONS INTENSITY
2017	11,835	58,628	2,494	70,463	198	-9%
2016	10,924	57,259	3,181	68,183	218	-20%
2015	11,763	63,874	3,571	75,637	271	-0.4%
2014	8,698	57,378	3,709	66,077	274	-22%
2013	9,307	68,459	3,701	77,765	351	-30%

**Water Consumption <sup>13</sup>**

	TOTAL CONSUMPTION (2015)	TOTAL CONSUMPTION (2016)	TOTAL CONSUMPTION (2017)
Water (1,000 m <sup>3</sup> )	270	264	287

**Waste Management <sup>14</sup>**

TYPE	TOTAL CONSUMPTION (2017)
Domestic (ton)	704
Hazardous (ton)	11
Recycle (ton)	709

**Paper Consumption**

	TOTAL CONSUMPTION (2015)	TOTAL CONSUMPTION (2016)	TOTAL CONSUMPTION (2017)
Paper (1,000 ton)	1.8	1.8	1.5

\* Location-based

\*\* Stated Scope 3 emissions are due to business flights. Total flight distance in 2017 is 23,681,881 km.

\*\*\* Scope 3 is not included in the intensity calculations.

<sup>13</sup> The water consumed by Garanti is provided by municipalities, which in Turkey source their water mainly from open river and reservoirs.

<sup>14</sup> Disclosure of waste indicators began in 2017.



## APPENDIX A.5: ENVIRONMENTAL & SOCIAL IMPACT ASSESSMENT PROCESS INDICATORS IN 2017

ASSESSMENT RESULT BREAKDOWN		NUMBER OF PROJECTS	LOAN LIMIT (USD, MILLION)
Category	Category A	3	531
	Category B	0	-
	Category C	0	-
Risk Rating	R1	1	436
	R2	2	95
	R3	0	-
	R4	0	-
Final Score	1	3	531
	2	0	-
	3	0	-

The number of rejected projects during the reporting period is zero.

## APPENDIX A.6: UNGC AND WEPs ANALYSIS ACCORDING TO GRI G4 CONTENT

### A. UN Global Compact Principles

UNGC REQUIREMENTS – ACTIVE LEVEL	GRI G4 DISCLOSURES	PAGE REFERENCES
High Level Commitment and Strategy	G4-1	Message from the CEO, page 11
Governance	G4-1, G4-34, G4-35, G4-36, G4-37, G4-38, G4-40	Message from the CEO, page 11; Corporate Governance & Risk Management, page 103
Stakeholder Engagement	G4-24; G4-25; G4-26; G4-27	Our Material Matters, page 36
Describe Practical Actions	G4 Disclosures on Management Approach (DMA)	GRI G4 Content Index
Disclose Results and Outcomes	GRI G4 Content Index	GRI G4 Content Index
UNGC FOUR ISSUE AREA	GRI G4 DISCLOSURES	PAGE REFERENCES
Human Rights	G4-HR1; G4-HR2; G4-HR9; G4-SO1; G4-SO2	GRI G4 Content Index; Investing in Human Capital, page 88; Responsible and Sustainable Investment, page 96
Labor	G4-10; G4-11; G4-EC5; G4-EC6; G4-HR4; G4-HR3; G4-LA1; G4-LA3; G4-LA4; G4-LA9; G4-LA11; G4-LA12; G4-LA13	GRI G4 Content Index; Investing in Human Capital, page 88
Environment	G4-EC2, G4-EN3, G4-EN4, G4-EN6, G4-EN7, G4-EN8, G4-EN15, G4-EN16, G4-EN17, G4-EN18, G4-EN19, G4-EN-20, G4-EN21, G4-EN27, G4-EN28, G4-EN29	Responsible and Sustainable Investment, page 96; Appendix A: Environmental Performance Data, page 189
Anti-Corruption	G4-56; G4-SO3; G4-SO4; G4-SO5	GRI G4 Content Index; Corporate Governance & Risk Management, page 103

### B. WEPs Reporting on Progress

WEPs	GRI G4 DISCLOSURES
Principle 1 – Leadership Promotes Gender Equality	G4-38; G4-40
Principle 2 – Equal Opportunity, Inclusion & Non-discrimination	G4-LA1; G4-LA12; G4-LA13; G4-EC5; G4-LA3; G4-HR3
Principle 3 – Health, Safety and Freedom from Violence	G4-HR3; G4-LA6
Principle 4 – Education and Training	G4-LA9; G4-LA11
Principle 5 – Enterprise Development, Supply Chain and Marketing Practices	G4-EC9-DMA
Principle 6 – Community Leadership and Engagement	G4-SO1
Principle 7 – Measure and publicly report on gender equality	G4-LA12- G4-LA13 DMA

## GRI G4 CONTENT INDEX FOR "IN ACORDANCE" - CORE

### GENERAL STANDARD DISCLOSURES

G4 GENERAL STANDARD DISCLOSURES	PAGE/ DIRECT LINK	OMISSIONS	EXTERNAL ASSURANCE
<b>STRATEGY AND ANALYSIS</b>			
G4-1	9-13		No
G4-2	9-13; 22-25; 32-35; 118-141		No
<b>ORGANIZATIONAL PROFILE</b>			
G4-3	T. Garanti Bankası A.Ş.		No
G4-4	14;15; 26-31; 40-43 <a href="https://www.garantiinvestorrelations.com/en/about-garanti/detay/Corporate-Profile/3/13/0">https://www.garantiinvestorrelations.com/en/about-garanti/detay/Corporate-Profile/3/13/0</a>		No
G4-5	Nispetiye Mah. Aytar Cad. No: 2, 34340 Levent/Istanbul/Turkey		No
G4-6	26; 27 <a href="https://www.garantiinvestorrelations.com/en/about-garanti/detay/Garantis-Integrated-Subsidiaries/18/27/0">https://www.garantiinvestorrelations.com/en/about-garanti/detay/Garantis-Integrated-Subsidiaries/18/27/0</a>		No
G4-7	14; 15; 26; 27 <a href="https://www.garantiinvestorrelations.com/en/about-garanti/detay/Shareholding-Structure/7/16/0">https://www.garantiinvestorrelations.com/en/about-garanti/detay/Shareholding-Structure/7/16/0</a>		No
G4-8	14; 15; 26-31; 48-52 <a href="https://www.garantiinvestorrelations.com/en/about-garanti/detay/Corporate-Profile/3/13/0">https://www.garantiinvestorrelations.com/en/about-garanti/detay/Corporate-Profile/3/13/0</a>		No
G4-9	20; 26-31; 48-52		No
G4-10	<a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0</a>		No
G4-11	Garanti Bank respects the constitutional right to become a union member and for collective bargaining. All employees are free to act of their own free will with respect to union membership.		No
G4-12	<a href="https://www.garantiinvestorrelations.com/en/images/pdf/GARANTI_SUSTAINABILITY_2015_web.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/GARANTI_SUSTAINABILITY_2015_web.pdf</a> p:101,102 <a href="https://www.garantiinvestorrelations.com/en/images/pdf/garanti_sustainability2016_en.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/garanti_sustainability2016_en.pdf</a> p: 127		No
G4-13	26; 27; 48; 49 <a href="https://www.garantiinvestorrelations.com/en/news/detay/Transfer-of-our-Banks-shares/112/5232/0">https://www.garantiinvestorrelations.com/en/news/detay/Transfer-of-our-Banks-shares/112/5232/0</a> <a href="https://www.garantiinvestorrelations.com/en/news/detay/Sale-of-the-shares-representing-the-share-capital-of-Commercial-Bank-GarantiBank--Moscow-AO/112/5064/5582">https://www.garantiinvestorrelations.com/en/news/detay/Sale-of-the-shares-representing-the-share-capital-of-Commercial-Bank-GarantiBank--Moscow-AO/112/5064/5582</a>		No
G4-14	136-141 <a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Environmental-and-Social-Risk-Assessment-Process/902/3733/4182">https://www.garantiinvestorrelations.com/en/sustainability/detay/Environmental-and-Social-Risk-Assessment-Process/902/3733/4182</a>		No
G4-15	<a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Supported-Initiatives/880/3744/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Supported-Initiatives/880/3744/0</a>		No

G4-16	<a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Supported-Initiatives/880/3744/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Supported-Initiatives/880/3744/0</a>	No
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>		
G4-17	2; 3	No
G4-18	36 – 38; 32-35; 188; 189	Yes
G4-19	36 – 38; 188; 189	Yes
G4-20	186-189	Yes
G4-21	186-189	Yes
G4-22	97 There had been a restatement on page 97 about 2016 avoided emissions. The reason for restatement is a change in methodology for avoided emissions calculation.	No
G4-23	194 There is not any change in the scope and aspect boundaries for non-financial information. However, the scope has changed regarding financial information due to the sale of %100 stake in Garanti Bank Moscow. <a href="https://www.garantiinvestorrelations.com/en/news/detay/Sale-of-the-shares-representing-the-share-capital-of-Commercial-Bank-GarantiBank--Moscow-AO/112/5064/5582">https://www.garantiinvestorrelations.com/en/news/detay/Sale-of-the-shares-representing-the-share-capital-of-Commercial-Bank-GarantiBank--Moscow-AO/112/5064/5582</a>	Yes
<b>STAKEHOLDER ENGAGEMENT</b>		
G4-24	36 - 38	Yes
G4-25	36 - 38	Yes
G4-26	36 – 39 <a href="https://www.garantiinvestorrelations.com/en/images/pdf/Sustainability_Report_2014.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/Sustainability_Report_2014.pdf</a> p.140-146	Yes
G4-27	39	Yes
<b>REPORT PROFILE</b>		
G4-28	2; 3	No
G4-29	01.01.2016-31.12.2016 <a href="https://www.garantiinvestorrelations.com/en/images/pdf/garanti_sustainability2016_en.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/garanti_sustainability2016_en.pdf</a>	No
G4-30	2; 3 Annual	No
G4-31	3	No
G4-32	2; 3; 16-18	No
G4-33	2; 3; 16-18;	No
<b>GOVERNANCE</b>		
G4-34	104-141; 147-166	No
G4-35	104-141; 147-166	Yes
G4-36	104-141; 147-166	Yes

G4-37	104-141; 147-166	Yes
G4-38	104-141; 147-166	Yes
G4-40	104-141; 147-166	Yes
<b>ETHICS AND INTEGRITY</b>		
G4-56	28; 29 <a href="https://www.garantiinvestorrelations.com/en/images/pdf/Garanti_Bank_Ethical_Principles.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/Garanti_Bank_Ethical_Principles.pdf</a>	No

#### SPECIFIC STANDARD DISCLOSURES

G4 INDICATORS	PAGE/ DIRECT LINK	OMISSIONS	EXTERNAL ASSURANCE
<b>ECONOMIC</b>			
<b>ECONOMIC PERFORMANCE</b>			
G4-DMA	62-74		No
G4-EC1	62, 74; 168-182		No
G4-EC2	<a href="https://www.garantiinvestorrelations.com/en/images/pdf/CDP-climate-change-2017.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/CDP-climate-change-2017.pdf</a>		No
G4-EC3	62-74		No
G4-EC4	Garanti Bank did not receive any financial assistance from government during the reporting period.		No
<b>MARKET PRESENCE</b>			
G4-DMA	88-94		No
G4-EC5	All Garanti Bank employees are paid above the minimum wage.		No
G4-EC6	The senior management including the CEO, EVPs and Coordinators is Turkish. By doing this the Bank is better able to understand and serve an increasingly wide range of customers across Turkey. In Garanti's overseas operations, local talent is also hired at various levels of the organizations.		No
<b>INDIRECT ECONOMIC IMPACTS</b>			
G4-DMA	96-102		No
G4-EC7	96-102; 191		No
G4-EC8	96-102; 191		No
<b>PROCUREMENT PRACTICES</b>			
G4-DMA	<a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Supply-Chain-Management/896/3761/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Supply-Chain-Management/896/3761/0</a>		No
G4-EC9	<a href="https://www.garantiinvestorrelations.com/en/images/pdf/GARANTI_SUSTAINABILITY_2015_web.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/GARANTI_SUSTAINABILITY_2015_web.pdf</a> p: 101,102 <a href="https://www.garantiinvestorrelations.com/en/images/pdf/garanti_sustainability2016_en.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/garanti_sustainability2016_en.pdf</a> p: 127		No

ENVIRONMENTAL			
ENERGY			
G4-DMA	<a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Environmental-Policy/891/3756/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Environmental-Policy/891/3756/0</a> <a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Environmental-Management-System/892/3757/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Environmental-Management-System/892/3757/0</a> <a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Corporate-Sustainability-Governance/871/3767/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Corporate-Sustainability-Governance/871/3767/0</a>	No	
G4-EN3	183; 189	Yes	
G4-EN4	183; 189	No	
G4-EN6	183; 189	No	
G4-EN 7	96-102	No	
WATER			
G4-DMA	<a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Water-Management/895/3760/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Water-Management/895/3760/0</a> <a href="https://www.garantiinvestorrelations.com/en/images/pdf/CDP-water-2017.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/CDP-water-2017.pdf</a>	No	
G4-EN 8	190 <a href="https://www.garantiinvestorrelations.com/en/images/pdf/CDP-water-2017.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/CDP-water-2017.pdf</a>	Yes	
EMISSIONS			
G4-DMA	96-102 <a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Climate-Change-Management/893/3758/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Climate-Change-Management/893/3758/0</a>	No	
G4-EN15	184; 190	Yes	
G4-EN16	184; 190	Yes	
G4-EN17	184; 190	Yes	
G4-EN18	184; 190	Yes	
G4-EN19	96-102	Yes	
G4-EN20		<p>Disclosure is not material because the Bank's business activities and operations do not generate significant emissions of these substances.</p>	No
G4-EN21		<p>Disclosure is not material because the Bank's business activities and operations do not generate significant emissions of these substances.</p>	No

EFFLUENTS AND WASTE		
G4-DMA	121	No
G4-EN23	190	No
PRODUCTS AND SERVICES		
G4-DMA	96-102	No
G4-EN27	96-102; 191	No
G4-EN28		This indicator is not material to the Bank since in the course of its operations it does not produce significant amounts of packaging materials.
COMPLIANCE		
G4-DMA	104-166	No
G4-EN29	There have not been any significant fines or incidents of noncompliance with environmental laws and regulations during the reporting period.	
SOCIAL		
LABOR PRACTICES AND DECENT WORK		
EMPLOYMENT		
G4-DMA	88-94	No
G4-LA1	<a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0</a>	No
G4-LA2	88-94	No
G4-LA3	<a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0</a>	No
LABOR/MANAGEMENT RELATIONS		
G4-DMA	88-94	No
G4-LA4	Garanti Bank makes every effort to avoid redundancies. Whenever restructuring and/or redeployment are unavoidable however, the Bank's processes and guidelines seek to minimize the impact on those who may be affected. Garanti Bank acts in accordance with related legal regulations.	
OCCUPATIONAL HEALTH AND SAFETY		
G4-DMA	93; 94	No
G4-LA5	93; 94	No
G4-LA6	94 <a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0</a>	No
G4-LA7	None of our employees are subject to a high risk of any serious diseases from the Bank's occupational activities.	

LEARNING AND DEVELOPMENT		
G4-DMA	88-94	No
G4-LA9	88-94 <a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0</a>	No
G4-LA10	88-94	No
G4-LA11	88-94	No
DIVERSITY AND EQUAL OPPORTUNITY		
G4-DMA	88-94	No
G4-LA12	88-94 <a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Social-Performance-Data/1157/6256/0</a>	No
EQUAL REMUNERATION FOR WOMEN AND MEN		
G4-DMA	88-94	No
G4-LA13	Garanti Bank's compensation system is totally gender-neutral and based entirely on performance. Salary variations result from relative experience levels of employees.	No
LABOR PRACTICES GRIEVANCE MECHANISMS		
G4-DMA	90; 91 <a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0</a>	No
G4-LA16	No complaints were made in the reporting period.	No
HUMAN RIGHTS		
INVESTMENT		
G4-DMA	<a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Declaration-of-Human-Rights/584/1866/2113">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Declaration-of-Human-Rights/584/1866/2113</a> <a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0</a>	No
G4-HR1	49; 54; 55; 96; 97; 191	No
G4-HR2	Female Leadership trainings are delivered for equal opportunity 92-93	Yes
NON-DISCRIMINATION		
G4-DMA	88-94 <a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0</a>	No
G4-HR3	There were no incidents of discriminaton reported in the reporting period.	No
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING		
G4-DMA	92 <a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0</a>	No



G4-HR4	Garanti Bank respects the constitutional right regarding unionization and collective labor contracts. All employees are free with respect to union membership and act of their own free will. During the reporting period, Garanti Bank had no dealings with any supplier who, to the Bank's knowledge, was in violation of their employees' union rights, which is to say of their employees' right to join or not to join a trade or labor union.	No
<b>HR ASSESSMENT</b>		
G4-DMA	<a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Declaration-of-Human-Rights/584/1866/2113">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Declaration-of-Human-Rights/584/1866/2113</a> <a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0</a>	No
G4-HR9	49; 54; 55; 96; 97; 191	No
<b>SOCIETY</b>		
<b>LOCAL COMMUNITIES</b>		
G4-DMA	101; 102 <a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0</a> <a href="https://www.garantiinvestorrelations.com/en/sustainability/detay/Environmental-and-Social-Risk-Assessment/902/3733/0">https://www.garantiinvestorrelations.com/en/sustainability/detay/Environmental-and-Social-Risk-Assessment/902/3733/0</a>	No
G4-SO1	49; 54; 55; 96; 97; 191	No
G4-SO2	49; 54; 55; 96; 97; 191	No
<b>ANTI-CORRUPTION</b>		
G4-DMA	44; 45; 85; 86; 159; 163; 164 <a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0</a>	No
G4-SO3	<a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0</a>	No
G4-SO4	<a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Code-of-Conduct/94/405/0</a>	No
G4-SO5	144-166	No
<b>ANTI-COMPETITIVE BEHAVIOR</b>		
G4-DMA	44; 45; 159	No
G4-SO7	<a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0</a>	No
<b>PRODUCT RESPONSIBILITY</b>		
<b>PRODUCT AND SERVICE LABELLING</b>		
G4-DMA	54-60	No
G4-PR3	49; 54; 55	No
G4-PR4	There were no incidents of significant non-compliance reported in the reporting period.	No

G4-PR5	54; 55	No
<b>MARKETING COMMUNICATIONS</b>		
G4-DMA	<a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0</a>	No
G4-PR6	<a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0</a>	No
G4-PR7	There were no incidents of significant non-compliance reported in the reporting period.	No
<b>CUSTOMER PRIVACY</b>		
G4-DMA	76-85	No
G4-PR8	There were no substantiated complaints regarding breaches of customer privacy and losses of customer data in the reporting period.	No
<b>COMPLIANCE</b>		
G4-DMA	104-166	No
G4-PR9	There were no incidents of significant non-compliance reported in the reporting period.	No
<b>FINANCIAL SERVICES SUPPLEMENT</b>		
<b>PRODUCT PORTFOLIO</b>		
G4-DMA	<a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0</a>	No
G4-FS6	48; 49 <a href="https://www.garantiinvestorrelations.com/en/images/pdf/brsa_consolidated_financial_statements_4Q17.pdf">https://www.garantiinvestorrelations.com/en/images/pdf/brsa_consolidated_financial_statements_4Q17.pdf</a>	No
G4-FS7	48; 49	No
G4-FS8	49; 96; 102; 191	No
<b>ACTIVE OWNERSHIP</b>		
G4-DMA	<a href="https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0">https://www.garantiinvestorrelations.com/en/corporate-governance/detay/Environmental-and-Social-Loan-Policies/853/3629/0</a>	No
G4-FS10	49; 54; 55; 96-102; 191	No
G4-FS11	49; 54; 55; 96-102; 191	No
<b>LOCAL COMMUNITIES</b>		
G4-DMA	54-60; 76-86	No
G4-FS13	76-77	Yes
G4-FS14	Cardless transactions options through ATMs and Community Investments for people with disabilities 54; 55; 76-77; 96-97; 100-102	Yes

# ORGANIZATIONAL CHANGES

The organizational changes made in 2017 (as of the end of 2017) is summarized below:

- Human Resources - Security organization has been restructured as a new department under the Human Resources and Support Services Executive Vice President and renamed as "Corporate Security Department". Hakan Demirkol has been appointed as "Senior Vice President".
- Domestic and Overseas Subsidiaries Coordination Department's functions have been transferred to related departments on the subject basis depending responsibility areas, and the department have been closed.
- Special Cases Collection Department's functions have been transferred to Wholesale Recovery Department and Special Cases Collection Department have been closed.
- Wholesale Recovery Department reporting to the Wholesale Risk Coordinator and Retail Collections Department reporting to the Retail Risk Coordinator under the Chief Credit Risk Officer have been transferred to Legal Services Executive Vice President and renamed "Legal Services Executive Vice President" as "Legal Services and Collection Executive Vice President".
- "Corporate and Commercial Credits Restructuring Department" reporting to Wholesale Risk Coordinator has been established. Atilla Sütgöl has been appointed as "Senior Vice President".
- The duties of Treasury Operations Department have been extended with providing support /advisory services as operational and administrative fund services to investment funds established/to be established by the Bank's local and foreign subsidiaries and affiliated companies, its main shareholder and third parties; and renamed as "Capital Markets and Treasury Operations Department".
- "Custody Branch" reporting to Corporate Banking and Treasury EVP has been transferred to "Capital Markets and Treasury Operations Department" under Technology, Operations, Central Marketing and Business Development EVP.
- Murat Tuncel, Capital Markets and Treasury Operations Department Director, has been also appointed as "Fund Manager" in addition to his current powers and responsibilities.
- "Credit Cards and Member Merchant Coordination Department" reporting to Finance and General Accounting Executive Vice President has been established in order to support activities and needs for bank cards, credits cards, payment systems and POS as well as to provide effective management in the bank. Mehmet Alpaslan Özbey, Executive Vice President of Garanti Ödeme Sistemleri A.Ş., has been appointed as Senior Vice President of "Credit Cards and Member Merchant Coordination Department" in addition to his current position.
- In order to support the Bank's strategies towards SME customers, to provide more effective evaluation and management of credit risks of SME customers, to improve the credit policies and strategies and the automatic (central) credit evaluation systems of SME customers, "SME Loans Risk Strategies Department" has been established reporting to Retail Risk Coordinator and within this scope Retail Loans Risk Strategies Department's related functions have been transferred to SME Loans Risk Strategies Department.
- Gökhan Erün, Deputy General Manager of the Bank and Executive Vice President responsible for Corporate Banking and Treasury, has left the duties of our bank as of 15 January 2018. Ebru Dildar Edin, currently Executive Vice President responsible for Project Finance, will continue to her duties as Executive Vice President, responsible for Corporate and Investment Banking following the completion of the necessary legal procedures.

# SUPPORT SERVICES PROVIDERS

## SERVICE PROVIDERS

## SERVICE DETAILS

AKTİF İLETİ VE KURYE HİZMETLERİ A.Ş.	Credit/debit card delivery
ARVATO TELEKOMÜNİKASYON HİZMETLERİ A.Ş.	Transferring customer requests such as credit card marketing/limit increase to the bank, promotion and marketing of individual products and services via call center
ATOS BİLİŞİM DANIŞMANLIK VE MÜŞTERİ HİZM. SAN. TİC. A.Ş.	Credit card sales, business place verification, credit card limit increase, address update and similar other calls via the Call Center
AUSTURIA CARD TURKEY KART OPERASYONLARI A.Ş.	Card printing and personalization services
BBS DANIŞMANLIK GAYRİMENKUL VE EĞİTİM A.Ş.	Carrying out pledging procedures at the land registry offices
BİLGE ADAM BİLGİSAYAR VE EĞİTİM HİZMETLERİ SAN. TİC. A.Ş.	Call center, declaration of liability and reminder calls services
BRINK'S GÜVENLİK HİZMETLERİ A.Ş.	Delivery of cash, commercial papers, precious metals and other precious assets within the scope of Law No. 5188
CMC İLETİŞİM VE ÇAĞRI MERKEZİ HİZMETLERİ A.Ş.	Card sales via the Call Center, declaration of liability and reminder calls services
COLLECTÜRK ALACAK YÖNETİMİ VE DANIŞMANLIK A.Ş.	Call center, declaration of liability and reminder calls services
CRİF ALACAK YÖNETİMİ VE DANIŞMANLIK HİZM. A.Ş.	Call center, declaration of liability and reminder calls services
DER POS ÖDEME SIST. VE PAZ. TİC. LTD. ŞTİ.	Merchant acquisition and marketing of retail products including retail loans
DOKSANALTI İNTERNET DANIŞMANLIK HİZMETLERİ VE TİC. LTD. ŞTİ.	Online marketing of mortgage products
EN UYGUN COM İNTERNET BİLGİ HİZMETLERİ TEKNOLOJİ VE TİCARET A.Ş.	Online marketing of mortgage products
FONOKLİK İLETİŞİM HİZMETLERİ VE TİC A.Ş.	Online marketing of credit cards
FU GAYRİMENKUL YATIRIM DANIŞMANLIK A.Ş.	Pledge formalities

GARANTİ KONUT FİNANSMANI DANIŞMANLIK HİZMETLERİ A.Ş.	Marketing and consulting services in relation to mortgage products
GARANTİ ÖDEME SİSTEMLERİ A.Ş.	Marketing, promotion, product development, consulting and marketing of payment systems, primarily debit card and credit card, additionally marketing of retail products including retail loans
GLOBAL BİLGİ PAZARLAMA DANIŞMA VE ÇAĞRI SERVİSİ HİZM. A.Ş.	Call center/declaration of liability/reminder calls
GÜZEL SANATLAR ÇEK BASIM LİMİTED ŞİRKETİ	Cheque printing service
HANGİSİ İNTERNET VE BİLGİ HİZMETLERİ A.Ş.	Online marketing of mortgage, retail and automobile loans products
IBM GLOBAL SERVICES İŞ VE TEKNOLOJİ HİZMETLERİ VE TİC. LTD. ŞTİ.	Disaster recovery center back-up service
INGENICO ÖDEME SİSTEM ÇÖZÜMLERİ A.Ş.	POS software development and upgrading services
IRON MOUNTAIN ARŞİVLEME HİZM. A.Ş.	Archive services
KAYRA GRUP PAZARLAMA DANIŞMANLIK VE DESTEK HİZMETLERİ TİC. LTD. ŞTİ.	Merchant acquisition, marketing of retail products, document delivery to the Bank, promoting retail products and services and directing customers to related channels
KEREM ÇAĞRI MERKEZİ VE MÜŞTERİ HİZMETLERİ LTD. ŞTİ.	Call center/declaration of liability/reminder calls.
KONUT KREDİSİ COM TR DANIŞMANLIK A.Ş.	Online marketing of mortgage, retail and automobile loans products
KOZA GÜVENLİK HİZMETLERİ SAN. TİC. LTD. ŞTİ.	Private Security Services within the scope of Law No. 5188
KURYE NET MOTORLU KURyecİLİK VE DAĞITIM HİZMETLERİ A.Ş.	Credit/debit card delivery
LOOMİS GÜVENLİK HİZMETLERİ A.Ş.	Cash, valuable papers and gold delivery within the scope of Law No. 5188
MATRİKS BİLGİ D. HİZ. A.Ş.	Software/software maintenance update services
MT BİLGİ TEKNOLOJİLERİ VE DIŞ TİCARET A.Ş. (KARBİL YAZILIM VE BİLİŞİM TEKNOLOJİLERİ TİCARET LTD. ŞTİ.)	POS (with cash register) software development and upgrading services
PROCAT DANIŞMANLIK YAZILIM TELEKOMÜNİKASYON PAZARLAMA TİCARET A.Ş.	Help desk call service for supporting Internet Banking Customers
SECURITAS GÜVENLİK HİZMETLERİ A.Ş.	Private Security Services within the scope of Law No. 5188

SESTEK SES VE İLETİŞİM BİLGİSAYAR TEKNOLOJİLERİ SAN. VE TİC. A.Ş.	Forwarding customer requests like Call Center/credit card marketing/credit card limit increase to the Bank, promoting and marketing retail products and services
START KREDİ FİNANSAL DANIŞMANLIK EMLAK İNŞAAT TAŞIMACILIK GIDA TURİZM TEKSTİL KUYUMCULUK VE TİC. LTD. ŞTİ.	Online marketing of mortgage products
TEKNOSER BİLGİSAYAR TEKNİK HİZMETLER SANAYİ VE DIŞ TİC. A.Ş.	Forwarding customer requests like call center/credit card marketing/credit card limit increase to the Bank, promoting and marketing retail products and services
ELEPERFORMANCE (METİS BİLGİSAYAR SİSTEMLERİ SANAYİ VE TİCARET A.Ş.)	Informing and demand obtaining calls for merchants via the Call Center
TEMPO ÇAĞRI MERKEZİ VE İŞ SÜREÇLERİ DIŞ KAYNAK HİZ. TİC. A.Ş.	Call center/declaration of liability/reminder calls
TNT İNTERNATİONAL EXPRESS TAŞIMACILIK TİCARET LTD. ŞTİ.	Transporting documents for export transactions (letter of credit and documentary collections), contractual and non-contractual cards and the like to abroad
TULU YAPI MÜŞAVİRLİK SANAYİ VE TİCARET A.Ş.	Pledging formalities at the land registry offices service
VERİFONE ELEKTRONİK VE DANIŞMANLIK LTD. ŞTİ.	POS software development and upgrading services
VERİSOFT BİLGİ İŞLEM TİCARET VE SANAYİ ANONİM ŞİRKETİ	POS (with cash register) software development and upgrading services
VERKATA LLC	Online marketing of mortgage products
WEBHELP ÇAĞRI MERKEZİ VE MÜŞTERİ HİZMETLERİ A.Ş.	Card sales, recovery, debt notification and retention calls via the Call Center, data entrance and filing of the requests received by the customers and informing the customers regarding the evaluation results of requests, promoting and marketing retail products and services
WIN BİLGİ İLETİŞİM HİZMETLERİ ANONİM ŞİRKETİ	Call center/declaration of liability reminder calls
YÖN İNSAN KAYNAKLARI DESTEK HİZ. TİC. LTD. ŞTİ.	Call center, executive assistantship and data entrance service
ZİNGAT GAYRİMENKUL BİLGİ SİSTEMLERİ A.Ş.	Online marketing of mortgage products

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## WEBSITE

[www.garanti.com.tr](http://www.garanti.com.tr)

## TRADE REGISTRY NO

159422

## DOMESTIC BRANCHES

Garanti Bank has 937 domestic branches in 81 cities as of 2017 year end. Information on domestic branches is available on the Bank's website.

## INFORMATION ON SOCIAL MEDIA

Garanti Bank actively utilizes all interaction channels and furthermore offers services via social media platforms. You may follow Garanti on Facebook, Twitter, Instagram, Google Plus, YouTube and LinkedIn.

[www.facebook.com/Garanti](http://www.facebook.com/Garanti)  
[www.twitter.com/garanti](http://www.twitter.com/garanti)  
<http://instagram.com/garantibankasi>  
<https://plus.google.com/+garanti>  
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[www.youtube.com/garanti](http://www.youtube.com/garanti)  
[www.twitter.com/garantiyesor](http://www.twitter.com/garantiyesor)  
<https://tr.foursquare.com/garanti>

## OVERSEAS BRANCHES

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[www.sustainova.com.tr](http://www.sustainova.com.tr)

## CONTENT MANAGEMENT



[www.data-iletisim.com](http://www.data-iletisim.com)

## DESIGN & PRODUCTION

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