

GarantiBank International N.V.

Half Year Report 2014

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Interim Financial Statements
as of and for the six month period ended 30 June 2014

Balance sheet as at 30 June 2014

(before profit appropriation)

	30 June 2014		31 December 2013	
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Assets				
Cash		167,676		488,696
Banks		779,813		912,734
Loans and advances		2,542,929		2,313,097
Interest-bearing securities		729,372		707,418
Participating interests		250		250
Property and equipment		24,364		22,914
Other assets		8,352		8,897
Prepayments and accrued income		119,442		211,911
		<hr/>		<hr/>
Total assets		4,372,198		4,665,917
		<hr/>		<hr/>
Liabilities				
Banks		586,999		737,262
Funds entrusted		3,145,800		3,303,065
Other liabilities		6,613		6,060
Accruals and deferred income		83,045		100,416
Provisions		189		189
		<hr/>		<hr/>
		3,822,646		4,146,992
		<hr/>		<hr/>
Subordinated liabilities		30,000		30,000
		<hr/>		<hr/>
Paid-in and called-up capital	136,836		136,836	
Other reserves	352,089		293,610	
Net profit	30,627		58,479	
	<hr/>		<hr/>	
Shareholders' equity		519,552		488,925
		<hr/>		<hr/>
Total liabilities and shareholders' equity		4,372,198		4,665,917
		<hr/>		<hr/>
Off-balance sheet liabilities		498,589		385,014
		<hr/>		<hr/>

Profit and loss account for the six month period ended 30 June 2014

	First Half Year 2014		First Half Year 2013	
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Interest income	100,581		115,019	
Interest expense	58,803		56,633	
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Net interest		41,778		58,386
Commission income	20,121		22,535	
Commission expense	1,067		1,112	
	<hr/>		<hr/>	
Net commission		19,054		21,423
Result on financial transactions		3,469		3,904
		<hr/>		<hr/>
Total income		64,301		83,713
Administrative expenses:				
• Staff costs	13,462		13,437	
• Other administrative expenses	8,533		4,990	
	<hr/>		<hr/>	
		21,995		18,427
Depreciation		996		715
Value adjustments to receivables		(807)		(4,410)
		<hr/>		<hr/>
Total expenses		22,184		14,732
		<hr/>		<hr/>
Operating result before tax		42,117		68,981
Tax on result on ordinary activities		11,490		15,846
		<hr/>		<hr/>
Net result after tax		30,627		53,135
		<hr/> <hr/>		<hr/> <hr/>

Statement of changes in Shareholder's equity as at 30 June 2014

EUR 1,000	Paid-in and called-up capital	Other reserves	Revaluation reserves	Net profit	Shareholders' equity
Position as at 31 December 2013	136,836	293,610	-	58,479	488,925
Appropriation of profit previous year	-	58,479	-	(58,479)	-
Result after tax	-	-	-	30,627	30,627
Position as at 30 June 2014	<u>136,836</u>	<u>352,089</u>	<u>-</u>	<u>30,627</u>	<u>519,552</u>
Position as at 31 December 2012	136,836	239,045	-	54,565	430,446
Change in accounting policies	-	315	-	(315)	-
Position as at 1 January 2013	136,836	239,360	-	54,250	430,446
Appropriation of profit previous year	-	54,250	-	(54,250)	-
Result after tax	-	-	-	53,135	53,135
Position as at 30 June 2013	<u>136,836</u>	<u>293,610</u>	<u>-</u>	<u>53,135</u>	<u>483,581</u>

Cash flow statement for the six month period ended 30 June 2014

	First Half Year 2014 EUR 1,000	First Half Year 2013* EUR 1,000
Net cash flow from operational activities		
Net profit	30,627	53,135
Adjustments for depreciation	996	715
Adjustments for value adjustments to receivables	(751)	(4,371)
Adjustments for exchange rate differences on investment portfolio	(869)	(820)
Adjustments for amortization of premiums and discounts on investment portfolio	108	32
Adjustments for provisions relating to deferred tax	–	(716)
Net cash flow from operating profit	30,111	47,975
Changes in:		
• Due from banks, excluding due from banks demand and value adjustments to receivables	142,214	(176,865)
• Loans and advances, excluding value adjustments to receivables	(229,081)	(58,623)
• Other securities portfolio	(58,635)	(314,752)
• Trading portfolio	–	457
• Other assets	545	1,093
• Prepayments and accrued income	92,469	14,086
• Due to banks, excluding due to banks on demand	(157,686)	(125,220)
• Funds entrusted	(157,265)	(22,209)
• Other liabilities	553	2,156
• Accruals and deferred income	(17,371)	27,380
	(354,146)	604,522
Net cash flow from investment activities		
Investments in:		
• Property and equipment	(2,446)	(1,723)
Divestments in:		
• Investment portfolio due to sales, excluding value adjustments to receivables	24,511	448,254
• Investment portfolio due to redemptions, excluding value adjustments to receivables	12,931	33,218
	34,996	479,749
Net cash flow from financing activities	–	–
Net cash flow	(319,150)	(124,773)

	30 June 2014	30 June 2013
	EUR 1,000	EUR 1,000
Cash and cash equivalents as at 1 January	511,232	514,206
Cash and cash equivalents as at 30 June	192,082	389,433
	<hr/>	<hr/>
Net cash flow	(319,150)	(124,773)
	<hr/> <hr/>	<hr/> <hr/>

Specification of cash and cash equivalents

	30 June 2014	30 June 2013
	EUR 1,000	EUR 1,000
Cash	167,676	335,901
Due to/from banks on demand	24,406	53,532
	<hr/>	<hr/>
	192,082	389,433
	<hr/> <hr/>	<hr/> <hr/>

* Adjusted for reasons of comparison

Selected notes to the interim financial statements

1. Overview of GarantiBank International N.V.

General

GarantiBank International N.V. (hereafter: 'GBI or 'the Bank') has its statutory seat in Amsterdam, The Netherlands.

The financial information of GBI is included in the financial statements of Türkiye Garanti Bankasi A.Ş., incorporated in Turkey. GBI works in close cooperation with its 100 percent shareholder Türkiye Garanti Bankasi A.Ş.

GBI is mainly active in international trade finance and corporate lending, as well as in retail banking, treasury and private banking.

Basis of preparation

The half-year figures have been prepared on the same basis as the 2013 financial statements and in conformity with Financial Reporting Standard 394 governing interim financial reporting of the Council for Annual Reporting (Raad voor de Jaarverslaggeving - RJ). The 2013 full year financial statements of GBI are compiled in conformity with the provisions as included in Part 9, Book 2 of the Netherlands Civil Code, as well as the Guidelines of the Council for Annual Reporting. This half-year report does not contain all the information and disclosures required for the full-year financial statements and should therefore be read in conjunction with the annual financial statements of GBI as at 31 December 2013.

All amounts are stated in thousands of euro's, unless otherwise indicated.

Principles for consolidation

Subsidiaries, i.e. all companies and other entities (including special purpose entities) in respect of which GBI has the power to determine the financial and operating policies, whether directly or indirectly, are consolidated. This is the case if more than half of the voting rights may be exercised, or if GBI has control in any other manner. Subsidiaries are fully consolidated from the date on which control is transferred to GBI. They are de-consolidated from the date control ceases.

For the year 2013 and for the six-month period ended 30 June 2014 there were no subsidiaries that met the abovementioned requirements for consolidation. The participating interests are not consolidated, but included on the balance sheet at their net asset value because they are not material to the balance sheet and profit and loss account of the Bank.

2. Interest-bearing securities

Included under this item are debt securities with a fixed or floating interest rate.

The breakdown of the interest-bearing securities by portfolio is as follows:

	30 June 2014	31 Dec 2013
• Investment portfolio	97,170	133,851
• Other securities portfolio	632,202	573,567
	<u>729,372</u>	<u>707,418</u>

3. Interest income

This includes interest income arising from the lending activities and related transactions as well as commissions and other income, which have an interest characteristic.

Interest income furthermore includes positive results on the sale of interest-bearing securities belonging to the Investment portfolio and Other securities portfolio. If, on balance, losses on the sale of interest-bearing securities belonging to the Investment portfolio and Other securities portfolio would arise, the losses are charged to 'Interest expense'.

This item comprises interest and similar income from:

	First Half Year 2014	First Half Year 2013
• Banks	10,121	14,625
• Loans and advances	57,360	48,417
• Debt securities including fixed-income securities	32,957	51,977
• Others	143	–
	<u>100,581</u>	<u>115,019</u>

The decrease in interest income from debt securities is mainly due to a decrease in results on sales from the Investment portfolio and the Other securities portfolio. In the first half of 2014 the result on sales from the Investment portfolio and the Other securities portfolio amounted to EUR 18.0 million (First half year 2013: EUR 37.1 million).

4. Non-performing loans and NPL ratio

A loan is recognised as non-performing if there is objective evidence of impairment. This evidence could arise from, but is not limited to, the following events:

- It is probable that the borrower will enter bankruptcy or other financial reorganization.
- The debtor has payment defaults against third parties; customers, banks, employees, etc.
- The debtor has been in arrears for at least 90 days with regard to repayment of principal and/or interest.
- Observable data indicates that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.
- A breach of contract, such as a default or delinquency in interest or principal payments
- Significant financial difficulty of the issuer or obligor.
- The disappearance of an active market for that financial asset because of financial difficulties.

The NPL ratio is calculated as follows:

	30 June 2014	31 Dec 2013
Banks	779,813	912,734
Loans and advances	2,542,929	2,313,097
Provisions	37,116	45,332
	<hr/>	<hr/>
Gross loans	3,359,858	3,271,163
	<hr/>	<hr/>
Non-performing loans (after deduction of financial collateral)	80,016	85,899
NPL ratio	2.38%	2.63%

The changes in the provisions were as follows:

Position as at 1 January	45,332	31,542
Additions	8,545	20,809
Write-offs	(7,685)	(437)
Releases	(9,296)	(5,383)
Exchange rate differences	220	(1,199)
	<hr/>	<hr/>
Position as at period end	37,116	45,332

5. Derivatives

Derivatives are financial instruments taking the form of contracts whose value depends on one or more underlying assets, reference prices or indices. Examples of derivatives are forward exchange contracts, swaps, options and forward rate agreements. Transactions in derivatives are contracted primarily by GBI to hedge interest rate risks and foreign exchange risks on GBI's own positions and to hedge positions following from derivatives transactions with clients.

Hedge accounting

GBI applies cost price hedge accounting for its hedging derivatives. For hedge relationships that are ineffective a loss is recorded in the profit and loss account under Result on financial transactions when the fair value of the derivative is lower than its cost price. During the first half of 2014, hedge effectiveness was achieved for majority of the accounting hedges. The impact of ineffectiveness of hedging derivatives included under Result on financial transactions is EUR 11 thousand negative (First half year 2013: nil).

The fair value of the hedging derivatives can be broken down as follows:

	Notional amount EUR 1,000	Fair value EUR 1,000
As at 30 June 2014:		
Interest rate contracts	536,625	(5,110)
Currency contracts	4,245,500	44,295
	<hr/>	<hr/>
	4,782,125	39,185
	<hr/>	<hr/>
As at 31 December 2013:		
Interest rate contracts	440,802	(4,625)
Currency contracts	4,443,626	135,490
	<hr/>	<hr/>
	4,884,428	130,865
	<hr/>	<hr/>

Other derivatives

Derivatives not held for hedging the bank's own risks are measured at fair value with changes in fair value recorded in the profit and loss account. These contracts are included in the line items Options under Currency contracts in the table below and in the line items Swaps and Options under Other contracts in the table below.

Derivative exposures

Derivatives transactions with professional market participants are subject to the Credit Support Annex (CSA) of the International Swaps and Derivatives Association (ISDA) derivatives agreements. Therefore the Bank could be in a position to provide or require additional collateral

as a result of fluctuations in the market value of derivatives. For derivatives transactions with clients the Bank is not obliged to provide collateral, but it is entitled to receive collateral from clients, hence there is no potential liquidity risk for the Bank.

The degree to which GBI is active in the derivatives markets or market segments is shown in the following table that displays the credit risk exposures of the outstanding derivatives in notional amounts. However, the notional amounts do not give an indication of the size of the cash flows and the market risk or credit risk attached to derivatives transactions.

The market risk arises from movements in variables determining the value of derivatives, such as interest rates and quoted prices. The positive replacement value is the loss that would arise if a counterparty were to default. However this exposure is to a large extent mitigated by the fact that collateral was received based on the CSA of the ISDA derivatives agreements. In calculating the positive replacement value shown in the following table, netting agreements have been taken into consideration.

As at 30 June 2014:		Notional amounts <= 1 year EUR 1,000	Notional amounts >1<= 5 years EUR 1,000	Total EUR 1,000	Positive replacement value EUR 1,000
Interest rate contracts					
OTC	Swaps	30,000	506,625	536,625	39
Currency contracts					
OTC	Swaps	3,982,115	–	3,982,115	76,177
	Forwards	288,150	2,395	290,545	10,940
	Options	535,772	40,000	575,772	2,643
Other contracts					
OTC	Swaps	–	75,136	75,136	1,467
	Options	5,726	–	5,726	323
		4,841,763	624,156	5,465,919	91,589

As at 31 December 2013:

Interest rate contracts					
OTC	Swaps	126,018	314,784	440,802	844
Currency contracts					
OTC	Swaps	4,333,771	–	4,333,771	166,224
	Forwards	146,129	2,980	149,109	2,046
	Options	415,858	–	415,858	15,122
Other contracts					
OTC	Swaps	–	72,585	72,585	1,197
	Options	61	–	61	8
		5,021,837	390,349	5,412,186	185,441

6. Liquidity risk

The following table provides a maturity analysis of assets and liabilities according to their contractual remaining maturity:

	On demand	<= 3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Provisions	Total
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Assets							
Cash	167,676	–	–	–	–	–	167,676
Banks	37,404	375,386	346,766	20,257	–	–	779,813
Loans and advances	267,383	1,156,228	596,001	520,317	40,116	(37,116)	2,542,929
Interest-bearing							
securities	–	–	15,984	163,158	550,230	–	729,372
Participating interests	250	–	–	–	–	–	250
Property and equipment	–	–	–	–	24,364	–	24,364
Other assets	401	–	–	–	7,951	–	8,352
Prepayments and accrued income	119,442	–	–	–	–	–	119,442
Total assets							
30 June 2014	592,556	1,531,614	958,751	703,732	622,661	(37,116)	4,372,198
Liabilities							
Banks	12,998	466,991	107,010	–	–	–	586,999
Funds entrusted *	1,545,483	480,113	657,929	460,838	1,437	–	3,145,800
<i>Savings accounts</i>	1,192,167	306,021	595,477	416,366	1,347	–	2,511,378
<i>Other funds entrusted</i>	353,316	174,092	62,452	44,472	90	–	634,422
Other liabilities	6,453	–	–	–	160	–	6,613
Accruals and deferred income	83,045	–	–	–	–	–	83,045
Provisions	–	–	–	–	189	–	189
Subordinated liabilities	–	–	–	–	30,000	–	30,000
Shareholders' equity	–	–	–	–	519,552	–	519,552
Total liabilities							
30 June 2014	1,647,979	947,104	764,939	460,838	551,338	–	4,372,198
Net liquidity							
30 June 2014	(1,055,423)	584,510	193,812	242,894	71,323	(37,116)	–

	On demand	<= 3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Provisions	Total
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Total assets							
31 December 2013	990,695	1,385,431	982,060	828,970	524,093	(45,332)	4,665,917
Total liabilities							
31 December 2013	1,685,816	1,046,392	913,768	499,483	520,458	–	4,665,917
Net liquidity							
31 December 2013	(695,121)	339,039	68,292	329,487	3,635	(45,332)	–

* This includes on demand retail funding which has on average a longer-term characteristic.

7. Capital adequacy

The standards applied by the Dutch Central Bank (DNB) for the principal capital ratios are based on the capital adequacy guidelines of the European Union and the Basel Committee for Banking Supervision.

In accordance with the Basel II Capital Accord, the Bank is using the Internal Rating Based Foundation (F-IRB) approach to calculate the regulatory capital ratios.

These ratios compare GBI's total capital and Tier 1 capital with the required pillar I capital for credit risk (based on the total of risk-weighted assets and off-balance sheet items), the market risk associated with the trading portfolios and the operational risk.

The following table analyses actual capital in accordance with international BIS requirements:

	30 June 2014*	31 Dec 2013*
Total Risk Weighted Assets	2,741,144	2,620,875
The required pillar I capital can be broken down as follows:		
Credit risk	204,442	194,702
Market risk	–	118
Operational risk	14,850	14,850
Total required pillar I capital	219,292	209,670
The actual capital can be broken down as follows:		
Tier 1 capital	507,845	482,166
Tier 2 capital	25,198	26,330
Total capital	533,043	508,496
BIS ratio	19.45%	19.40%
Tier 1 ratio	18.53%	18.40%

* The capital adequacy figures of 30 June 2014 are based on CRD IV whereas the figures of 31 December 2013 are based on CRD III.

8. Group related balances

Group related balances include the balances with the 100 percent shareholder Türkiye Garanti Bankasi A.Ş. (GBI's parent company), its major shareholders Doğu Holding A.Ş. and Banco Bilbao Vizcaya Argentaria S.A. (which together have a controlling interest over Türkiye Garanti Bankasi A.Ş.), all its subsidiaries and the Supervisory and Managing Board of Directors of GBI. During the course of the business, GBI has made placements with, granted loans to and also received deposits from these parties at commercial terms.

Outstanding balances

GBI has the following outstanding group related balances:

	As at 30 June 2014		As at 31 December 2013	
	Parent company EUR 1,000	Other EUR 1,000	Parent company EUR 1,000	Other EUR 1,000
Assets				
Banks	35,665	49,734	22,968	142,570
Loans and advances	–	92,780	–	88,663
Interest-bearing securities	9,929	–	14,294	–
Total assets	45,594	142,514	37,262	231,233
Liabilities				
Banks	7,208	26,574	3,446	22,432
Funds entrusted	–	5,222	–	1,502
Subordinated liabilities	30,000	–	30,000	–
Total liabilities	37,208	31,796	33,446	23,934

Amsterdam, 15 August 2014

Board of Managing Directors:

Mr. B. Ateş
Mr. M.P. Padberg

Board of Supervisory Directors:

Mr. S. Sözen (Chairman)
Mr. P.R.H.M. van der Linden
Mr. M.P. Galatas Sanchez-Harguindey
Mr. B.J.M.A. Meesters
Mr. W.F.C. Cramer

Review report

To: the Board of Managing Directors of GarantiBank International N.V.

Introduction

We have reviewed the accompanying interim financial information as at 30 June 2014 of GarantiBank International N.V. ('the Company'), Amsterdam, which comprises the balance sheet as at 30 June 2014, the profit and loss account for the 6 month period ended at 30 June 2014, and the notes. The Board of Managing Directors of the Company is responsible for the preparation and presentation of this interim financial information in accordance with the Dutch Guideline for Annual Reporting 394 on Interim Reports. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at 30 June 2014 is not prepared, in all material respects, in accordance with the Dutch Guideline for Annual Reporting 394 on Interim Reports.

Amstelveen, 15 August 2014

KPMG Accountants N.V.

N.C. Paping RA

Key figures

EUR 1,000

	H1 2014	H1 2013	2013	2012	2011	2010
Total assets	4,372,198	4,391,954	4,665,917	4,575,269	4,175,415	3,549,322
Banks (assets)	779,813	1,057,553	912,734	919,449	948,042	1,109,343
Loans and advances	2,542,929	2,388,989	2,313,097	2,325,995	1,854,225	1,408,250
Banks (liabilities)	586,999	410,995	737,262	654,056	781,381	596,972
Funds entrusted	3,145,800	3,355,670	3,303,065	3,360,469	2,744,420	2,469,198
Subordinated liabilities	30,000	30,000	30,000	30,000	46,408	45,690
Shareholders' equity (including result after tax)	519,552	483,581	488,925	430,446	376,196	327,050
Operating result before tax and value adjustments	42,117	64,571	91,555	83,108	64,174	80,318
Result after tax and value adjustments	<u>30,627</u>	<u>53,135</u>	<u>58,479</u>	<u>54,250</u>	<u>51,230</u>	<u>49,705</u>
Foreign branches and representative offices	4	4	4	4	4	4
Capital adequacy ratio %	19.45	19.98	19.40	19.30	19.06	16.03
Cost to income ratio % *	36	23	29	31	34	29
Return on average equity **	12.53	24.69	13.59	14.42	15.71	17.91
Return on average assets	1.36	2.37	1.27	1.24	1.33	1.38
Total average number of employees ***	230	223	225	218	209	413

* Cost to income ratio is calculated using total expenses and total income. Value adjustments to tangible fixed assets and value adjustments to receivables are excluded

** Return on average equity is calculated using average shareholders' equity excluding result after tax

*** 2010 includes GBI's former Romania branch which was sold in 2010