



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## U.S.\$750,000,000 Global Medium Term Note Programme

Under this U.S.\$750,000,000 Global Medium Term Note Programme (the “Programme”), Türkiye Sınai Kalkınma Bankası A.Ş., a banking institution organised as a public joint stock company under the laws of Turkey and registered with the İstanbul Trade Registry under number 42527 (the “Bank” or the “Issuer”), may from time to time issue notes (the “Notes”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively “Bearer Notes” and “Registered Notes”). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$750,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to: (a) one or more of the Dealers specified under “Overview of the Programme” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “Dealer” and together the “Dealers”), which appointment may be for a specific issue or on an ongoing basis, and/or (b) one or more investors purchasing Notes directly from the Issuer. References in this Base Prospectus to the “relevant Dealer” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

**An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks, see “Risk Factors”.**

This Base Prospectus has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC as amended (including the amendments made by Directive 2010/73/EU (the “Prospectus Directive”). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (“EU”) law pursuant to the Prospectus Directive. Such approval relates only to Notes that are to be admitted to trading on the regulated market (the “Main Securities Market”) of the Irish Stock Exchange plc (the “Irish Stock Exchange”) or on another regulated market for the purposes of Directive 2004/39/EC (“MiFID”) and/or that are to be offered to the public in any member state of the European Economic Area (a “Member State”). Application will be made to the Irish Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to its official list (the “Official List”) and trading on the Main Securities Market. References in this Base Prospectus to the Notes being “listed” (and all related references) shall mean that, unless otherwise specified in the applicable Final Terms, the Notes have been admitted to the Official List and trading on the Main Securities Market.

Application has been made to the Capital Markets Board of Turkey (the “CMB”), in its capacity as competent authority under Law No. 6362 (the “Capital Markets Law”) of the Republic of Turkey (“Turkey”) relating to capital markets, for the issuance and sale of Notes by the Issuer outside of Turkey. No Tranche (as defined in “Terms and Conditions of the Notes”) of the Notes can be sold before the necessary approvals and the tranche issuance certificate (*tertip ihraç belgesi*) are obtained from the CMB. The CMB approval relating to the issuance of Notes based upon which any offering of the Notes will be conducted was obtained on 16 November 2015, and the approved tranche issuance certificate will be obtained from the CMB before any sale and issuance of the Notes.

Under current Turkish tax law, withholding tax may apply to payments of interest on the Notes. See “Taxation – Certain Turkish Tax Considerations”.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under “Terms and Conditions of the Notes”) of Notes will be set out in a final terms document (the “Final Terms”) which, with respect to Notes to be listed on the Irish Stock Exchange, will be filed with the Central Bank of Ireland and the Irish Stock Exchange. Copies of such Final Terms will also be published on the Issuer’s website at <http://www.tskb.com.tr>.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. See “Form of the Notes” for a description of the manner in which Notes will be issued. The Notes are subject to certain restrictions on transfer (see “Subscription and Sale and Transfer and Selling Restrictions”).

The Programme has been rated BBB- (for long-term issuances) and F3 (for short-term issuances) by Fitch Ratings Ltd. (“Fitch”) and Notes issued under the Programme are expected to be rated Baa3 (for long-term issuances) and P-3 (for short-term issuances) by Moody’s Investors Service Limited (“Moody’s”, and together with Fitch, the “Rating Agencies”). The Issuer has also been rated by the Rating Agencies, as set out on page 171 of this Base Prospectus. Each of the Rating Agencies is established in the EU and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”). As such each of the Rating Agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority (“ESMA”) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Notes may either be rated (including by either of the Rating Agencies) or unrated. Where a Tranche of Notes is so rated (other than unsolicited ratings), such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Programme by Fitch or Moody’s, as the case may be. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

### Arrangers

**Citigroup**

**Commerzbank**

### Dealers

**BNP PARIBAS**

**Citigroup**

**Commerzbank**

**Credit Suisse**

**HSBC**

**ING**

**Société Générale Corporate & Investment Banking**

**Standard Chartered Bank**

**UniCredit Bank**

**This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive. This document does not constitute a prospectus for the purpose of Section 12(a)(2) of, or any other provision of or rule under, the Securities Act.**

**The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.**

**This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Base Prospectus shall be read and construed on the basis that such documents are incorporated in, and form part of, this Base Prospectus.**

**To the fullest extent permitted by law, none of the Dealers accept any responsibility for the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme or for any statement made, or purported to be made, by a Dealer or on its behalf in connection with the Programme. Each Dealer accordingly disclaims all and any liability that it might otherwise have (whether in tort, contract or otherwise) in respect of the accuracy or completeness of any such information or statements.**

**No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.**

**Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should determine for itself the relevance of the information contained or incorporated in this Base Prospectus and make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer based upon such investigation as it deems necessary. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.**

**Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.**

**The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular,**

no action has been taken by the Issuer which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither (i) this Base Prospectus nor (ii) any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in Turkey, the United States, the European Economic Area (including the United Kingdom), Japan, the Kingdom of Bahrain, Hong Kong, Switzerland, Singapore and Thailand (see “*Subscription and Sale and Transfer and Selling Restrictions*”).

This Base Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) must be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer of Notes in that Relevant Member State of Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the “SEC”) or any other securities commission or other regulatory authority in the United States and, other than the approvals of the CMB, the Banking Regulation and Supervision Agency (the “BRSA”) and the Central Bank of Ireland described herein, have not been approved or disapproved by any other securities commission or other regulatory authority in Turkey or any other jurisdiction, nor have the foregoing authorities (other than the Central Bank of Ireland to the extent described herein) approved this Base Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary might be unlawful.

None of the Dealers or the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or to review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Issuer has obtained the CMB approval (dated 16 November 2015 and numbered 29833736-105.03.01-E.12263 (the "CMB Approval") and the BRSA approval (dated 27 October 2015 and numbered 32521522-101.01[10]-E.15270) (the "BRSA Approval" and, together with the CMB Approval, the "Programme Approvals") required for the issuance of Notes under the Programme. In addition to the Programme Approvals, an approved tranche issuance certificate (*tertip ihraç belgesi*) in respect of each Tranche of Notes is also required to be obtained by the Issuer from the CMB prior to the issue date of such Tranche of Notes. The Issuer shall maintain or obtain (as applicable) all authorisations and approvals of the CMB necessary for the offer, sale and issue of Notes under the Programme. Consequently, the scope of the above-mentioned Programme Approvals may be amended and/or new approvals from the CMB and/or the BRSA may be obtained from time to time. Pursuant to the Programme Approvals, the offer, sale and issue of Notes under the Programme has been authorised and approved in accordance with Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, "Decree 32"), the Banking Law No. 5411 (the "Banking Law") and its related legislation, the Capital Markets Law and Communiqué II-31.1 on Debt Instruments (the "Communiqué on Debt Instruments") or its related regulation.

In addition, the Notes may only be offered or sold outside of Turkey in accordance with the Programme Approvals. Under the CMB Approval, the CMB has authorised the offering, sale and issue of any Notes on the condition that no sale or offering of Notes may be made by way of public offering or private placement in Turkey. Notwithstanding the foregoing, pursuant to the BRSA decisions dated 6 May 2010 No. 3665 and dated 30 September 2010 No. 3875 and in accordance with Decree 32, residents of Turkey: (a) may purchase or sell Notes denominated in a currency other than Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis in the secondary markets only; and (b) may purchase or sell Notes denominated in Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis in both the primary and secondary markets. Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes offshore on an unsolicited (reverse inquiry) basis; *provided* that such purchase or sale is made through licensed banks or licensed brokerage institutions authorised pursuant to BRSA and/or CMB regulations and the purchase price is transferred through licensed banks authorised under BRSA regulations. As such, Turkish residents

should use licensed banks or licensed brokerage institutions while purchasing Notes and should transfer the purchase price through licensed banks authorised under BRSA regulations. Monies paid for the purchases of Notes are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund of Turkey (*Tasarruf Mevduatı Sigorta Fonu*) (the “SDIF”).

In accordance with the Communiqué on Debt Instruments, the Notes are required under Turkish law to be issued in an electronically registered form in the Central Registry Agency (*Merkezi Kayıt Kuruluşu*) (the “CRA”) and the interests therein recorded in the CRA; however, upon the Issuer’s request, the CMB may resolve to exempt the Notes from this requirement if the Notes are to be issued outside of Turkey. Further to the Issuer’s submission of an exemption request to the CMB, such exemption has been granted by the CMB to the Issuer in the CMB Approval. As a result, this requirement will not be applicable to the Notes issued pursuant to the CMB Approval. Notwithstanding such exemption, the Issuer is required to notify the CRA within three Turkish business days from the Issue Date of a Tranche of the amount, issue date, ISIN code, interest commencement date, maturity date, interest rate, name of the custodian, currency of the Notes and the country of issuance.

### CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be forward-looking statements. Forward-looking statements include statements concerning the Issuer’s plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this Base Prospectus, the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “aims”, “seeks”, “may”, “will”, “should” and any similar expressions generally identify forward-looking statements. Forward-looking statements appear in a number of places throughout this Base Prospectus, including (without limitation) under “*Risk Factors*,” “*Use of Proceeds*,” “*Operating and Financial Review*” and “*Business of the Group*” and include, but are not limited to, statements regarding:

- strategy and objectives;
- trends affecting the Group’s results of operations and financial condition;
- asset portfolios;
- loan loss reserves;
- capital spending;
- legal proceedings; and
- the Group’s potential exposure to market risk and other risk factors.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements.

The Issuer has identified certain of the material risks inherent in these forward-looking statements and these are set out under “*Risk Factors*”.

The Issuer has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable as of the date of this Base Prospectus, if one or more of the risks or uncertainties materialize, including those identified below or which the Issuer has otherwise identified in this Base Prospectus, or if any of the Issuer’s

underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operation may vary from those expected, estimated or predicted.

There may be other risks, including some risks of which the Issuer is unaware, that could adversely affect the Group's results or the accuracy of forward-looking statements in this Base Prospectus. Therefore, potential investors should not consider the factors discussed under "*Risk Factors*" to be a complete discussion of all potential risks or uncertainties of investing in the Notes.

Potential investors should not place undue reliance upon any forward-looking statements. Any forward-looking statements contained in this Base Prospectus speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward-looking statement is based.

## STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

## U.S. INFORMATION

This Base Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs and Institutional Accredited Investors (each as defined under "*Form of the Notes*") for informational use solely in connection with the consideration of the purchase of certain Notes issued under the Programme. Its use for any other purpose in the United States or by any U.S. person is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted by the Issuer or a Dealer.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder.

The Notes may be offered or sold within the United States or to, or for the account or benefit of U.S. persons, as defined in Regulation S under the Securities Act ("U.S. person"), only to QIBs or to Institutional Accredited Investors, in either case in registered form and in transactions exempt from

registration under the Securities Act in reliance on Rule 144A under the Securities Act (“Rule 144A”) or any other applicable exemption. Each purchaser of Registered Notes that is a U.S. person or is in the United States is hereby notified that the offer and sale of any Notes to it may be being made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A or under Section 4(a)(2) of the Securities Act.

Purchasers of Definitive IAI Registered Notes will be required to execute and deliver an IAI Investment Letter (as defined under “*Subscription and Sale and Transfer and Selling Restrictions*”). Each purchaser or holder of Notes will be deemed, by its acceptance or purchase of any such Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “*Subscription and Sale and Transfer and Selling Restrictions*”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “*Form of the Notes*”.

The SEC has issued a public notice indicating that an order exempting the Bank from all provisions of the Investment Company Act of 1940, as amended (the “ICA”), in connection with the offer and sale of the Bank’s debt securities in the United States, will be issued unless the SEC orders a public hearing upon the request of interested persons, if any. Any such hearing request must be received by the SEC by 2 May 2016. Upon issue of the order by the SEC, the Bank will be exempt from application of the ICA and therefore not be required to rely upon a specific ICA exemption, such as Section 3(c)(7) of the ICA.

## AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in a deed poll dated 2 April 2015 (the “Deed Poll”) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes to be transferred remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

The Bank maintains its books and prepares its statutory financial statements in Turkish Lira in accordance with the prevailing accounting principles and standards set out as per Articles 37 and 38 of the Banking Law No. 5411 and other regulations, circulars, communiqués and pronouncements in respect of accounting and financial reporting principles announced by the BRSA (collectively, the “BRSA Principles”) and, to the extent they do not conflict with the BRSA Principles, Turkish Auditing Standards published by the Public Oversight, Accounting and Auditing Standards Authority (the “POA”).

The Group’s consolidated and the Bank’s unconsolidated annual statutory financial statements as of and for the years ended 31 December 2013 (the “2013 BRSA Financial Statements”), 31 December 2014 (the “2014 BRSA Financial Statements”) and 31 December 2015 (the “2015 BRSA Financial Statements”) and, together with the 2013 BRSA Financial Statements and the 2014 BRSA Financial Statements, the “BRSA Financial Statements”) have each been prepared and presented in accordance with BRSA Principles. It is important to note that the consolidated BRSA Financial Statements are prepared with inclusion of only financial

subsidiaries whereas other equity participations are included as noted in the following paragraph. When referenced with respect to a particular financial period, BRSA Financial Statements shall be understood to refer to that particular financial period only.

The BRSA Financial Statements are prepared on a historical cost basis except for: (a) financial assets at fair value through profit or loss (including financial liabilities held for trading), financial assets available-for-sale, derivative financial instruments and equity participations quoted on the stock exchanges, which are presented on a fair value basis if reliable measures are available, and (b) loans, investments categorised as held-to-maturity and other financial assets, which are presented at amortised cost.

The 2013 BRSA Financial Statements and the 2014 BRSA Financial Statements have been audited in accordance with the “Regulation Regarding the Authorisation and Activities of Institutions that will Perform Independent Audit at Banks” as published in the Official Gazette No. 26333 on 1 November 2006 and International Standards on Auditing and the 2015 BRSA Financial Statements have been audited in accordance with the “Regulation on Independent Audit of Banks” as published in the Official Gazette No. 29314 on 2 April 2015 and Independent Standards on Auditing, which is a component of the Turkish Accounting Standards (“TAS”) as published by the POA, in each case by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International Cooperative, a Swiss entity) (“KPMG”). See KPMG’s reports included with the BRSA Financial Statements incorporated by reference into this Base Prospectus. According to BRSA regulations the Bank was required to rotate its external auditors. As a result, KPMG was appointed as the Bank’s external auditors as of 1 January 2010.

Unless otherwise indicated, the financial information presented herein is based upon the BRSA Financial Statements and has been extracted from the BRSA Financial Statements without material adjustment. The BRSA Financial Statements, all of which are in English, were prepared as convenience translations of the Turkish language BRSA Financial Statements (which translations the Bank confirms were direct and accurate). The English language BRSA Financial Statements were not prepared for the purpose of their inclusion in this Base Prospectus.

While neither the Bank nor the Group is required by law to prepare its accounts under any accounting standards other than BRSA Principles, including under International Financial Reporting Standards (“IFRS”), the Bank’s management has elected to publish for the Group audited annual consolidated and unaudited semi-annual consolidated financial statements that have been prepared in accordance with IFRS, with the most recent such financial statements being the Group’s unaudited IFRS financial statements as of and for the six month period ended 30 June 2015. IFRS financial statements are not used for any regulatory purposes and the Bank’s management uses the BRSA Financial Statements and related BRSA Principles for the management of the Bank and communications with investors. The Issuer’s IFRS financial statements do not constitute a part of, and are not incorporated by reference into, this Base Prospectus.

Certain figures included in, or incorporated by reference into, this Base Prospectus have been subject to rounding adjustments (e.g., certain U.S. Dollar amounts have been rounded to the nearest million). Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Unless otherwise indicated, the sources for statements and data concerning the Bank and its business are based upon best estimates and assumptions of the Bank’s management. The Bank’s management believes that these assumptions are reasonable and that its estimates have been prepared with due care. The data concerning the Bank included herein, whether based upon external sources or based upon the Bank’s internal research, constitute the best current estimates of the information described.

The contents of any website referenced herein do not form part of (and are not incorporated into) this Base Prospectus.



## **Non-GAAP Measures of Financial Performance**

To supplement the Group's consolidated financial statements presented in accordance with BRSA Principles, the Group uses certain ratios and measures included in this Base Prospectus that would be considered non-GAAP financial measures as these measures are not defined under IFRS or BRSA Principles. A body of generally accepted accounting principles such as IFRS or BRSA Principles is commonly referred to as "GAAP." A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but that excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. These non-GAAP financial measures are not a substitute for GAAP measures, for which management has responsibility.

For the Group, these non-GAAP measures include (without limitation): ratio of non-performing loans to total loans, non-performing loan ratio for corporate loans, non-performing loan ratio for other/SMEs and miscellaneous receivables, compound annual growth rate, net interest margin, cost-to-income ratio, free capital ratio, liquid asset ratio, return on average total assets, return on average shareholders' equity excluding minority interest, average total assets, average shareholders' equity, regulatory capital adequacy ratio, cost to average total assets, Tier I ratio, coverage ratio and return on its average equity. Refer to the "*Summary Financial and Other Information*," "*Operating and Financial Review*" and "*Business of the Group*" sections of this Base Prospectus for an additional discussion of the specific adjustments applied in reconciliation to the directly comparable GAAP measures.

The non-GAAP measures included in this Base Prospectus are not in accordance with or an alternative to measures prepared in accordance with BRSA Principles and may be different from similarly titled measures reported by other companies. The Bank's management believes that this information, along with comparable measures under BRSA Principles, is useful to investors because it provides a basis for measuring the organic operating performance in the years presented. These measures are used in internal management of the Group, along with the most directly comparable financial measures under BRSA Principles, in evaluating the Group's operating performance. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with BRSA Principles. Non-GAAP financial measures as reported by the Group may not be comparable to similarly titled amounts reported by other companies.

The Bank's management believes that these non-GAAP measures, when considered in conjunction with measures under BRSA Principles, enhance investors' and management's overall understanding of the Group's financial performance. In addition, because the Group has historically reported certain non-GAAP results to investors, the Bank's management believes that the inclusion of non-GAAP measures provides consistency in the Group's financial reporting.

## **Currency Presentation and Exchange Rates**

In this Base Prospectus, all references to:

- "Turkish Lira" and "TL" refer to the lawful currency for the time being of the Republic of Turkey;
- "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;
- "U.S. Dollars", "U.S.\$" and "\$" refer to United States dollars; and
- "Sterling" and "£" refer to pounds sterling.

No representation is made that the Turkish Lira or Dollar amounts in this Base Prospectus could have been or could be converted into Dollars and Turkish Lira, as the case may be, at any particular rate or at all. For a discussion of the effects on the Group of fluctuating exchange rates, see “*Risk Factors – Risks Related to the Group’s Business – Foreign Exchange and Currency Risk*” and “*Operating and Financial Review*”.

### **Certain Defined Terms, Conventions and Other Considerations in Relation to the Presentation of Information in this Base Prospectus**

Capitalised terms which are used but not defined in any particular section of this Base Prospectus have the meaning attributed thereto in “*Terms and Conditions of the Notes*” or any other section of this Base Prospectus.

In this Base Prospectus, “Bank” means Türkiye Sınai Kalkınma Bankası A.Ş. on a standalone basis and “Group” means the Bank and its subsidiaries (and, with respect to consolidated accounting information, its consolidated entities).

In this Base Prospectus, any reference to Euroclear and/or Clearstream, Luxembourg and/or DTC (each as defined under “*Form of the Notes*”) shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Fiscal Agent.

In this Base Prospectus, all average balance sheet amounts are calculated as the average of the opening and closing balances for the applicable period except to the extent specifically set forth herein.

All of the information contained in this Base Prospectus concerning the Turkish market and the Issuer’s competitors has been obtained (and extracted without material adjustment) from publicly available information. Certain information under the heading “*Book-Entry Clearance Systems*” has been extracted from information provided by the clearing systems referred to therein. Where third-party information has been used in this Base Prospectus, the source of such information has been identified. The Issuer confirms that all such information has been accurately reproduced and, so far as it is aware and is able to ascertain from the relevant published information, no facts have been omitted which would render the reproduced information inaccurate or misleading. Without prejudice to the generality of the foregoing statement, third-party information in this Base Prospectus, while believed to be reliable, has not been independently verified by the Issuer or any other party.

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. In particular, but without limitation, the titles of Turkish legislation and the names of Turkish institutions referenced herein have been translated from Turkish into English. The translation of these titles and names are direct and accurate.

All data relating to the Turkish banking sector in this Base Prospectus have been obtained from the BRSA’s website at [www.bddk.org.tr](http://www.bddk.org.tr), the Banks Association of Turkey’s website at [www.tbb.org.tr](http://www.tbb.org.tr) or the website of the Interbank Card Centre (*Bankalararası Kart Merkezi*), and all data relating to the Turkish economy, including statistical data, has been obtained from the website of the Turkish Statistical Institute (*Türkiye İstatistik Kurumu*) (“*TurkStat*”) at [www.turkstat.gov.tr](http://www.turkstat.gov.tr), the website of the Central Bank of Turkey (*Türkiye Cumhuriyet Merkez Bankası*) (the “Central Bank”) at [www.tcmb.gov.tr](http://www.tcmb.gov.tr), the Turkish Treasury’s website at [www.hazine.gov.tr](http://www.hazine.gov.tr) or the European Banking Federation’s website at [www.ebf.fbe.eu](http://www.ebf.fbe.eu). Such data has been extracted from such websites without material adjustment, but may not appear in the exact same form on such websites or elsewhere. Such websites do not, and should not be deemed to constitute a part of, or be incorporated into, this Base Prospectus.

In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Where information has been sourced from a third party, such publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed.

Information regarding the Issuer's shareholders (including ownership levels and agreements) in this Base Prospectus has been based upon public filings and announcements by such shareholders.

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## RISK FACTORS

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of future events of which the Issuer does not have knowledge as of the date of this Base Prospectus. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Notes.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

### **Risks Related to the Group's Business**

#### **Counterparty Credit Risk – The Group is subject to credit risk in relation to its borrowers and other counterparties**

The Group is subject to inherent risks concerning the credit quality of borrowers and other counterparties, which has affected and is expected to continue to affect the value of the Group's assets, particularly if economic conditions in Turkey deteriorate. In addition, changes in the credit quality of the Group's customers and counterparties arising from systemic risks in the Turkish and global financial systems can negatively affect the value of the Group's assets. Such risks could also result in increased unemployment, reduced corporate liquidity and profitability, increased corporate insolvencies and the inability of borrowers to service their debt, all of which negatively affect the Turkish banking sector, including the Group. The Group's exposure to credit risk could lead to a material adverse effect on the Group's business, financial condition and/or results of operations.

Although the Group has put in place policies and procedures to monitor and assess credit risk, taking into account the payment ability and cash generating ability of the borrower in extending credit, the Group might not correctly assess the creditworthiness of its credit applicants. As the Bank does not offer certain services (such as cash management, credit cards and point-of-sale machines), the Group's access to information regarding its borrowers and potential borrowers is limited compared to its commercial bank competitors, who are able to monitor the operating activities of their customers on a daily basis. In order to access information, the Bank gathers information from its intelligence department and its loan monitoring department, monitors information made available by the Central Bank and benefits from the experience of its management. As a result of such limited access, the Bank's ability to establish a potential borrower's creditworthiness might be impaired.

In addition, as the Group's loan portfolio has grown substantially, particularly since the instability caused by the global financial crisis has decreased, the Group has extended credit both to new customers, many of whom may have more limited credit histories, and existing customers. Although such new loans are subject to the Group's credit review and monitoring practices, they might be subject to higher credit risks compared to borrowers with whom the Group has greater experience. Furthermore, the Group's exposures to certain borrowers (particularly for loans for energy projects) are large and the Group is likely to continue making such large loans where such an investment is determined by the Group to be a credit-worthy transaction. The Group is aiming to diversify its loan portfolio and might focus on public private partnerships ("PPP") projects

in health and education sectors. Uncertainty regarding counterparties active in these sectors and the sectors themselves due to the Group's lack of expertise in these sectors (as compared to the Group's expertise in the energy sector) could result in the Group's lending to uncreditworthy counterparties. See "*Risk Management – Credit Risk*".

The ratio of non-performing loans to total cash loans in the Turkish banking sector was 2.8 per cent. as of 31 December 2013, 2.9 per cent. as of 31 December 2014 and 3.1 per cent. as of 31 December 2015 (with respect to the Group, 0.4 per cent., 0.2 per cent. and 0.4 per cent., respectively), with the Turkish banking sector's statistics being as reported in the BRSA's monthly statistical bulletin. Although the Group's non-performing loan ratio has been low in recent financial periods, this ratio might increase in future financial periods, especially as the Group begins lending to sectors in which it has less experience. For information on the Group's non-performing loans, see "*Operating and Financial Review*".

**Reliance upon Government Guarantee – The Bank obtains significant funding through loans guaranteed by the Turkish government, any change in the practices or creditworthiness of which could materially negatively impact the Bank and its funding from development financial institutions (“DFIs”)**

A significant portion of the Group's obligations are guaranteed by the Turkish Treasury (74.9 per cent. of its long-term loans including issuances of debt securities and 87.8 per cent. excluding issuances of debt securities) as of 31 December 2015, including all of its loans from the World Bank, which can only lend to companies that are beneficiaries of a sovereign guarantee. The Turkish government publishes an annual aggregate limit for government guarantees (U.S.\$4 billion for 2016) and allocates such amount among the Bank and the state banks (such as Türkiye Vakıflar Bankası T.A.O. (“Vakıfbank”), Türkiye Halk Bankası A.Ş. (“Halkbank”) and T.C. Ziraat Bankası A.Ş. (“Ziraat”)) and state-owned public enterprises that can benefit from World Bank and other similar guaranteed financing. As a result of providing this support, the Turkish Treasury appoints a representative to the Bank's Board of Directors. Should the Turkish government cease to provide such guarantees, or become less creditworthy, then the Bank's ability to raise funding from the World Bank and other creditors that require such a guarantee could be significantly negatively affected.

See also "*Risks Related to the Notes – Effective Subordination*" for a description of the priority that claims of the Turkish Treasury would have over claims under the Notes in case of the bankruptcy of the Bank.

**Reliance upon DFIs – The Group relies to a significant extent on DFIs for financing, which exposes the Group to significant risk should such funding cease to be available**

As a result of the long-standing relationships that the Bank has sustained since its establishment, the Bank's primary source of funding comes from DFIs. As of 31 December 2015, 77.1 per cent. (86.2 per cent. as of 31 December 2014) of the Group's foreign currency-denominated borrowing and 75.8 per cent. (84.4 per cent. as of 31 December 2014) of the Group's total borrowing was sourced from DFIs and the remaining amount was sourced from syndicated loans, bilateral loans, issuances of debt securities and money market as well as repurchase (“repo”) transactions. To date, the Bank has been successful in extending, at a relatively low cost, the maturity profile of its funding base, even during times of volatility in international markets, although this might not continue in the future. Should the Group's relationship with the World Bank and/or one or more of its other DFI partners deteriorate or be reduced or discontinued for any reason, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

**Control by İşbank – The Bank is controlled by İşbank, whose interests might not be aligned with the interests of the investors in the Notes**

Türkiye İş Bankası A.Ş. (“İşbank” and, together with its subsidiaries, “İşbank Group”) held a 50.33 per cent. interest in the Bank's common shares (with 40.85 per cent. of shares held directly by İşbank and 5.80 per

cent., 1.90 per cent., 0.89 per cent. and 0.89 per cent., respectively, of shares being held by its subsidiaries CamiŖ Yatırım, Milli Reasürans Türk A.Ŗ. (“Milli Reasürans”), Anadolu Anonim Türk Sigorta Ŗirketi (“Anadolu Sigorta”) and Anadolu Hayat Emeklilik A.Ŗ. (“Anadolu Hayat Emeklilik”) as of 31 December 2015. As a result, İŖbank has the voting power to influence the Bank’s strategy and business significantly, including through its power to elect a majority of the Bank’s Board of Directors and to determine the outcome of almost all matters to be decided by a vote of the Bank’s shareholders. The interests of İŖbank might differ from those of the investors in the Notes and İŖbank might cause the Bank to take or refrain from taking certain actions (e.g. declaring dividends or entering into corporate transactions) that might adversely affect the Noteholders’ investment in the Notes. See “*Ownership*”.

In addition, if İŖbank were to sell (and/or cause any of its subsidiaries to sell) some or all of its shares in the Bank (whether in a secondary offering or a block sale to a strategic buyer), then the Bank might become controlled by a new party with different interests than İŖbank. As the Conditions do not include an Event of Default or put option relating to a change in control of the Bank, investors in the Notes will not be entitled to have their Notes repaid as a result of any such change in control.

### **Competition in the Turkish Banking Sector – The Group faces intense competition in the Turkish banking sector**

The Turkish banking sector is highly competitive and dominated by a small number of banks. As of 31 December 2015, there were 52 banks (including domestic and foreign banks, including participation banks, but excluding the Central Bank) licensed to operate in Turkey, with the top five banks (one of which is a state-controlled bank and none of which are participation banks) holding 53.8 per cent. of the Turkish banking sector’s total loan portfolio and 54.6 per cent. of the Turkish banking sector’s total assets, according to the Turkish Banks Association. The Bank offers pricing comparable to that of its competitors on financings but offers limited products compared to its commercial bank competitors. As a result, the Group could lose customers, be forced to reduce its margins or be forced to look for more expensive funding sources, among other things. This, in turn, could negatively affect the Group’s profitability.

In addition to competition from private banks, the Group faces competition from state-controlled financial institutions, such as Ziraat, Vakıfbank and Halkbank. Such government-controlled financial institutions historically focused on government and government-related projects but are increasingly focusing on the private sector, leading to increased competition and pressure on margins. In particular, such government-controlled institutions might have access to low cost deposits (on which such institutions pay low or no interest) through “State Economic Enterprises” owned or administered by the Turkish government, which could result in a lower cost of funds that cannot be duplicated by private sector banks such as the Bank. Such actions by government-controlled financial institutions, in addition to ongoing competitive pressures from private financial institutions have caused net interest margins to decline across the Turkish banking market and such downward pressure is expected to continue in at least the short term.

Foreign financial institutions have shown a strong interest in competing in the banking sector in Turkey. HSBC Bank plc, UniCredito Italiano, Industrial and Commercial Bank of China, Qatar National Bank, Commercial Bank of Qatar, BBVA, BNP Paribas, Citigroup, ING, Sberbank, Bank Hapoalim, Bank Audi sal, Burgan Bank, Bank of Tokyo-Mitsubishi UFJ and Intesa SanPaolo S.p.A. are among the many non-Turkish financial institutions that have purchased or made investments in Turkish banks or opened their own Turkish offices; however, some of such institutions have (or might) put some or all of their investments in Turkish banks up for sale as a result of their own financial circumstances. The Bank’s management believes that further entries into the sector by foreign competitors, either directly or in collaboration with existing Turkish banks, could increase competition in the market. Similarly, the expansion of foreign banks’ presence in Turkey, in addition to direct investment, might lead to further competitive pressures.

While the Bank emphasises diversification of its borrowings and adapts its lending strategy in line with the competitive environment in order to make the Bank more efficient in loan allocation and enhance its ability to market different products in a competitive manner, the Group might not be able to offset domestic and foreign competitive pressures in certain sectors.

In addition, Turkish banks traditionally have tended to hold a significant proportion of their assets in Turkish government securities. From 2008 to mid-2013, interest rates in Turkey declined substantially from 25.0 per cent. to 5.0 per cent., which made holding government bonds a less profitable strategy, resulting in banks shifting funds towards loans to customers and other higher-yielding assets. While interest rates increased significantly from May 2014 due to the Central Bank's actions described elsewhere herein, the Bank's management expects that its competitors' increasing focus on loans to customers will continue. Interest rates decreased during the second half of 2014, and the banking sector continued its shift from purchasing securities to extending loans, with the share of the securities portfolio in the banking sector balance sheet declining from 31.5 per cent. at the end of 2009 to 14.0 per cent. by the end of 2015. Interest rates began to rise in 2015, from 6.5 per cent. in January 2015 to 11.90 per cent. in September 2015. Increased competition for customers might reduce the margins the Group can achieve on its products, which in turn could have a material adverse effect on the Group's business, financial condition and/or results of operations.

**Pressure on Profitability – The Group's profitability and profitability growth in recent years might not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector**

For 2015, the Bank's return on average total assets was 2.2 per cent. (compared to 1.2 per cent. for the sector according to the BRSA) and the return on its average equity was 17.0 per cent. (compared to 10.7 per cent. for the sector according to the BRSA) (2.6 per cent. and 17.7 per cent., respectively for the Bank and 1.3 per cent. and 11.6 per cent., respectively, for the sector for the year ended 31 December 2014). The Group's profitability might be negatively affected as a result of a number of factors that are generally impacting the Turkish banking sector, including a slowdown of economic growth in Turkey from the high levels of recent years and volatility in interest rates (see “– *Reduction in Earnings on Investment Portfolio*” and “– *Interest Rate Risk*” below), increased competition (particularly as it impacts net interest margins (see “– *Competition in the Turkish Banking Sector*” above) and Central Bank and governmental actions that seek to limit the growth of Turkish banks and/or the Turkish economy through various conventional and unconventional policy measures, including increased reserve requirements, increased general provisioning requirements and higher risk-weighting for general purpose loans (see “– *Banking Regulatory Matters*” in this section below and “*Political, Economic and Legal Risks Related to Turkey – High Current Account Deficit*”).

**Fee Income Volatility – The Group's fee income can be volatile**

For the year ended 31 December 2015, the Group's fee income (which excludes fee income generated from cash loans, which is booked under interest income) represented a 4.3 per cent. share in its total operating income (4.5 per cent. and 5.3 per cent. for the years ended 31 December 2014 and 2013, respectively). The Group's total fee income includes (among other items) commissions from brokerage services, corporate finance and non-cash loans. Commissions from investment banking, which includes brokerage services and corporate finance, constituted 56.5 per cent. of total fee income for the year ended 31 December 2015 (63 per cent. for the year ended 31 December 2014). Non-cash loans, which include letters of guarantee, letters of credit and export credit agency transactions, constituted 33.4 per cent. of total fee income for the year ended 31 December 2015 (29 per cent. for the year ended 31 December 2014).

As the Group's investment banking and other market-based activities are significantly affected by trends and market conditions, an unfavourable market environment might have an adverse effect on the Bank's fee income. Similarly, a significant portion of the Group's fee income is derived directly or indirectly from its



lending operations, and thus a decline in its lending (whether due to market conditions or otherwise) might have an adverse effect on the Group's business, financial condition and/or results of operations.

### **Interest Rate Risk – The Group might be negatively affected by volatility in interest rates**

The Group's results of operations depend heavily upon the level of its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Net interest income contributed 91.6 per cent., 79.9 per cent. and 86.1 per cent. of the Group's operating income for the years ended 31 December 2013, 2014 and 2015, respectively, and net interest margin as measured on a Bank-only basis was 4.3 per cent., 4.2 per cent. and 3.7 per cent., respectively, over the same periods. Interest rates are highly sensitive to many factors beyond the Group's control, including monetary policies pursued by the Central Bank and domestic and international economic and political conditions. Income from financial operations is particularly vulnerable to interest rate volatility. As of 31 December 2015, 91.7 per cent. of the Group's securities portfolio consisted of Turkish government debt securities, which accounted for 16.5 per cent. of the Group's total assets (86.5 per cent. and 18.7 per cent., respectively, as of 31 December 2014), approximately 50 per cent. of which consists of fixed rate securities. As a result, a large portion of the Group's total assets is exposed to interest rate risk. Changes in market interest rates could affect the spread between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities and thereby affect the Group's results of operations. For instance, a significant decline in average interest rates charged on loans to customers might result in a decline in net interest margins as the Bank's loan portfolio has a significantly lower duration than its funding (i.e. it re-prices more quickly), which could have a material adverse effect on the Group's business, financial condition and/or results of operations. For more information on recent trends in Turkish interest rates, see "*Operating and Financial Review – Significant Factors Affecting the Group's Financial Condition and Results of Operations – Interest Rates*".

Although the Group uses various instruments and measures to manage exposures to interest rate risk (see "*Risk Management – Interest Rate Risk*"), these instruments and measures might not protect the Group from the risks of changing interest rates.

### **Concentration Risk – A significant percentage of the Group's loan portfolio consists of project finance loans and energy loans**

While in recent years, as a result of improvements in the Turkish economy, the percentage of smaller loans in the Group's loan portfolio has been increasing, significant concentrations still exist. As of 31 December 2015, 55 per cent. of the Bank's loan portfolio consisted of project finance loans (52 per cent. and 53 per cent., respectively, as of 31 December 2013 and 2014). With respect to the sectoral breakdown of the loan book, 42 per cent. were for energy-related projects (e.g., electricity production and electricity and gas distribution projects), 13 per cent. for the finance sector, 18 per cent. for each of the non-residential real estate, metal and machinery and tourism sectors, 5 per cent. for the logistics sector, 5 per cent. for the chemistry and plastics sector, 1 per cent. for constructions projects, 1 per cent. for the automotive industry and 15 per cent. for various other sectors, in each case as of 31 December 2015.

In addition to these sectoral concentrations, the share of the Bank's receivables from the top 10 borrower groups in the Bank's overall cash loan portfolio was approximately 21.3 per cent. as of 31 December 2015 (23.1 per cent. and 22.8 per cent., respectively, as of 31 December 2013 and 2014) while the top 20 constituted 35 per cent. of the Bank's loan portfolio as of the same date (37 per cent. and 36.9 per cent., respectively, as of 31 December 2013 and 2014). Furthermore, all of the Group's operations and essentially all of its assets are in Turkey. As a result, the Group's business and results of operations are affected by general economic conditions in Turkey. See "*- Political, Economic and Legal Risks Related to Turkey*".

A material change in the economic conditions of any of these customers or sectors, including declining production volumes in the energy sector, could have a material adverse effect on the Group's business, financial condition and/or results of operations.

### **Liquidity Risk – The Group is subject to liquidity and financing risk**

Liquidity risk comprises uncertainties in relation to the Group's ability, under adverse conditions, to access funding necessary to cover obligations to customers, meet the maturity of liabilities and satisfy capital requirements. It includes the risk of lack of access to funding (other than from the reserves held with the Central Bank and limits granted to the Bank by the Central Bank both in Turkish Lira and foreign currency), the risk of unexpected increases in the cost of financing and the risk of not being able to structure the maturity dates of the Group's liabilities reasonably in line with its assets, as well as the risk of not being able to meet payment obligations on time at a reasonable price due to liquidity pressures. The Group's inability to meet its net funding requirements due to inadequate liquidity could materially adversely affect its business, financial conditions and/or results of operations.

The Group, which is not legally empowered to receive deposits, relies primarily upon funds obtained from DFIs, which accounted for almost 65.9 per cent. of the Bank's borrowings as of 31 December 2015. The Bank also secures funds from other financial institutions in the form of syndicated loans, bilateral loans, short-term money markets and repo transactions. The Bank has also accessed the international debt capital markets by issuing eurobonds. An inability on the Group's part to access funds or to access the markets from which it raises funds may put the Group's positions in liquid assets at risk and lead the Group to be unable to finance its operations and growth plans adequately. The Group might be unable to secure funding through sources such as its current loan facilities if conditions in these markets, or its creditworthiness, were to deteriorate.

A rising interest rate environment could compound the risk of the Group not being able to access funds at favourable rates or at all. As central banks unwind the expansive liquidity provided during the recent global crisis, competition among banks and other borrowers for the reduced global liquidity might result in increased costs of funding. This and other factors could lead creditors to form a negative view of the Group's liquidity, which could result in lower credit ratings, higher borrowing costs and/or less access to funds. In addition, the Group's ability to raise or access funds might be impaired by factors that are not specific to its operations, such as general market conditions, disruptions of the financial markets or negative views about the prospects of the sectors to which the Group lends. While the Group aims to maintain at any given time an adequate level of liquidity reserves, and as of 31 December 2015 operated with a positive maturity mismatch (i.e., the average maturity of its receivables was less than the average maturity of its funding), future strains on liquidity caused by any of these factors or otherwise (including as a result of the requirement to repay any indebtedness, whether on a scheduled basis or as a result of an acceleration due to a default, change of control or other event) could adversely affect the Group's business, financial condition and/or results of operations. For example, in case of a liquidity crisis, wholesale funding would likely become more difficult to obtain, which may adversely affect borrowing using certain capital market instruments (such as eurobonds). See also “– *Reliance upon DFIs*” above.

Similarly, if the credit rating of Turkey and/or members of the Group is downgraded or put on negative watch, then the Group may experience higher levels of cost of funding and difficulty accessing certain sources of international or wholesale funding. As of the date of this Base Prospectus, the rating of Turkey's foreign currency- denominated long-term debt is “Baa3 (negative outlook)” from Moody's and “BBB- (stable outlook)” from Fitch. See also “– *Reliance on Government Guarantee*” above.

The Group might not be able to obtain additional funding on commercially reasonable terms as and when required, or at all. The Group's inability to refinance could result in its failure to service its debt, fulfil loan commitments or meet other on- or off-balance sheet payment obligations on specific dates, which could have

a material adverse effect on the Group's business, financial condition and/or results of operations. For further information on the Group's liquidity risk management policy, see "*Risk Management – Liquidity Risk*".

### **Foreign Exchange and Currency Risk – The Group is exposed to foreign exchange and currency risks**

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly U.S. Dollars and Euro. For example, the Group had extended loans denominated in currencies other than Turkish Lira totalling the equivalent of TL 8,473 million, TL 9,786 million and TL 12,564 million as of 31 December 2013, 2014 and 2015, respectively, representing 94 per cent., 90 per cent. and 92 per cent., respectively, of the Group's total loans at such dates. In preparing its BRSA Financial Statements, transactions in currencies other than Turkish Lira are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. As a result, and notwithstanding that the Group's balance sheet is significantly balanced from a currency perspective, the Group's reported income is affected by changes in the value of the Turkish Lira with respect to foreign currencies. The overall effect of exchange rate movements on the Group's results of operations depends upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies.

In addition, while the Bank's assets and liabilities are largely in the same currencies (with approximately 71.4 per cent. and 72.6 per cent. of the Group's total assets and liabilities, respectively, being denominated in foreign currencies as of 31 December 2015) the depreciation or appreciation of the Turkish Lira against foreign currencies might negatively affect the Group's net interest income.

### **Market Risk – The Group is exposed to market risk**

The Group is subject to risks that arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group seeks to manage its market risk exposure through a range of measures (see "*Risk Management – Market Risk*" for further information). Such measures might not be successful in mitigating all market risk and the Group's exposure to market risks could lead to a material adverse effect on the Group's business, financial condition and/or results of operations. A number of these risks are described in greater detail below.

### **Loan Growth – The rapid growth of the Group's loan portfolio subjects it to the risk that it might not be able to maintain asset quality**

The significant and rapid increase in the Group's loan portfolio (including a significant portion of unseasoned loans) over recent years has increased the Group's credit exposure and requires continued monitoring by the Group's management of its lending policies, credit quality and adequacy of provisioning levels through the Group's risk management structure. The Group intends to increase its loan portfolio further, particularly with medium-sized companies, and any such increase could further increase the credit risk faced by the Group. Negative developments in the Turkish economy could affect these borrowers more than large companies, resulting in higher levels of non-performing loans ("NPLs") and, as a result, higher levels of provisioning. Similarly, the Group is seeking to diversify its loan portfolio into areas in which it currently has less or no significant exposure. Any failure by the Group to manage the growth of its loan portfolio or the credit quality of its creditors within prudent risk parameters or to monitor and regulate the adequacy of its provisioning levels could have a material adverse effect on the Group's business, financial condition and/or results of operations.

**Capital Adequacy – The Group might not be able to meet minimum capital adequacy requirements and/or might have difficulty raising capital on acceptable terms, if at all**

By law, each of the Bank and the Group is required to maintain certain capital levels and capital ratios in connection with its business. Such capital ratios depend in part upon the level of risk-weighted assets. The Bank's management expects that (as evidenced by the growth in cash loans over recent years) improving economic conditions will result in increased lending (in absolute terms) and, as a result, there will be a continuing increase in the Group's risk-weighted assets. The increase in lending might adversely affect the Group's capital adequacy ratios, which also might be affected by potential changes in law as to the manner in which capital ratios are calculated. Additionally, it is possible that the Bank's and/or the Group's capital levels could decline due to, among other things, credit losses, increased credit reserves or currency fluctuations. In addition, the Group might need to raise additional capital in the future to ensure that it has sufficient capital to support future growth in its assets in order to remain competitive in the Turkish banking environment, particularly in line with the Group's growth strategy. Should the Group desire or be required to raise additional capital, that capital might not be available at all or at a price that the Group considers to be reasonable. If any or all of these risks materialise, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Turkish banks' capital adequacy requirements will be further affected by Basel III which is a comprehensive set of reform measures in banking prudential regulation developed by the Basel Committee on Banking Supervision (the "Basel Committee"), to strengthen the regulation, supervision and risk management of the banking sector, which are being phased in through 2019. Basel III includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the Regulation on the Equities of Banks (the "2013 Equity Regulation") and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (the "2012 Capital Adequacy Regulation"), both of which entered into effect on 1 January 2014. The 2013 Equity Regulation introduced core Tier I capital and additional Tier I capital as components of Tier I capital, whereas the amendments to the 2012 Capital Adequacy Regulation: (a) introduced a minimum core capital adequacy standard ratio (4.5 per cent.) and a minimum Tier I capital adequacy standard ratio (6.0 per cent.) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0 per cent.) and (b) changed the risk weights of certain items that are categorised under "other assets". The 2013 Equity Regulation also introduced new Tier II rules and determined new criteria for debt instruments to be included in a bank's Tier II capital.

In 2013, the BRSA published the Regulation on the Capital Conservation and Countercyclical Capital Buffer, which entered into effect on 1 January 2014 and regulates the procedures and principles regarding the calculation of additional core capital amount. In this context, the BRSA further published: (a) its decision dated 18 December 2015 No. 6602 regarding the procedures for and principles on calculation, application and announcement of a countercyclical capital buffer and (b) its decision dated 24 December 2015 No. 6619 regarding the determination of such countercyclical capital buffer. Pursuant to these decisions, the countercyclical capital buffer for Turkish banks' exposures in Turkey was initially set at 0 per cent. of a bank's risk weighted assets in Turkey (effective as of 1 January 2016); however, such ratio might fluctuate between 0 per cent. and 2.5 per cent. as announced from time to time by the BRSA. Any increase to the countercyclical capital buffer ratio is to be effective one year after the relevant public announcement, whereas any reduction is to be effective as of the date of the relevant public announcement.

The Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which regulation the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-

based capital measurement approach), was published in the Official Gazette dated 5 November 2013 and numbered 28812 and entered into effect on 1 January 2014 with the exception of certain provisions that entered into effect on 1 January 2015.

Furthermore, in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, the BRSA has published the Regulation on Calculation of Liquidity Coverage Ratios of Banks in the Official Gazette dated 21 March 2014 and numbered 28948 (the “Regulation on Liquidity Coverage Ratios”). The BRSA is currently implementing transitional liquidity coverage ratios for deposit banks under Basel III. Development and investment banks will follow a 0 per cent. legal liquidity coverage ratio requirement for 2016, though the BRSA may increase the ratio from 2017 onward.

If other capital adequacy-related revisions are adopted and the Bank and/or the Group is unable to maintain its capital adequacy ratios above the minimum levels required by the BRSA (whether due to its inability to obtain additional capital on acceptable economic terms, if at all, sell assets (including subsidiaries) at commercially reasonable prices, or at all, or for any other reason), then this could have a material adverse effect on the Group’s business, financial condition and/or results of operations. See “*Turkish Regulatory Environment*” below for a further discussion on Basel III.

The BRSA published a Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks in the Official Gazette dated 23 October 2015 and numbered 29511 (the “2016 Capital Adequacy Regulation”), entering into force on 31 March 2016 and at such time replacing the 2012 Capital Adequacy Regulation. The 2016 Capital Adequacy Regulation sustains the capital adequacy ratios introduced by the former regulation, but changes the risk weights of certain items. See “*Turkish Regulatory Environment – Capital Adequacy*”. The BRSA also amended certain regulations and communiqués as published in the Official Gazette dated 23 October 2015 No. 29511 and 20 January 2016 No. 29599 (also entering into force on 31 March 2016) in accordance with the Basel Committee’s Regulatory Consistency Assessment Programme (“RCAP”), which is conducted by the Bank for International Settlements (“BIS”) and reviews Turkey’s compliance level with Basel regulations. These new amendments include revisions to the 2013 Equity Regulation and the 2016 Capital Adequacy Regulation.

On 23 February 2016, the BRSA issued a domestic systemically important banks (“D-SIBs”) regulation (the “D-SIBs Regulation”), which sets forth additional capital requirements for those banks classified as D-SIBs. See “*Turkish Regulatory Environment – Capital Adequacy*”.

**Insufficient Collateral – The value of collateral securing the Group’s loans and advances might not be sufficient**

The Group might have difficulty realising on collateral or enforcing guarantees or other third-party credit support arrangements when its debtors default. In addition, the time and costs associated with enforcing security might make it uneconomical for the Group to pursue such proceedings, adversely affecting the Group’s ability to recover its loan losses, although a significant portion of the Group’s loans are collateralised.

Deterioration in economic conditions in Turkey or a decline in the value of certain markets might reduce the value of collateral securing the Group’s loans and advances, increasing the risk that the Group would not be able to recover the full amount of any such loans and advances in a default. In accordance with the Group’s credit policies, if any collateral shortfall is identified during credit reviews, then borrowers are required to provide additional collateral sufficient to cover any shortfall; however, a borrower might not be willing or able to post additional collateral. If the Group seeks to realise on any such collateral, it might be difficult to find a buyer and/or the collateral might be sold for significantly less than its appraised or actual value.

The Group also undertakes certain types of lending without tangible collateral, relying only upon guarantees, which might not be sufficient to cover the outstanding amount following a default. As a result of the above, the Group might not be able to realise adequate proceeds from collateral disposals to cover loan losses, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

**Reduction in Earnings on Investment Portfolio – The Group might be unable to sustain the level of earnings on its securities portfolio obtained during recent years**

The Group has historically generated a significant portion of interest income from its securities portfolio, with interest income derived from the Group's securities portfolio in 2013, 2014 and 2015 accounting for 35 per cent., 35 per cent. and 29 per cent., respectively, of its total interest income (and 33 per cent., 30 per cent. and 26.6 per cent., respectively, of its gross operating income before deducting interest expense and fee and commission expense). The consumer price index ("CPI") linked securities in the Bank's investment portfolio have been providing high real yields compared to other government securities, which also have been generating high nominal yields in an inflationary environment, but their impact on the Bank's earnings will vary as inflation rates change.

While the contribution of income from the Group's securities portfolio has been significant over recent years, such income might not be as large in coming years. In addition, the continuation of the recent trend towards lower interest rates or decreases in CPI levels might result in lower nominal earnings on the Group's holdings of securities. As such, high levels of earnings from the Group's securities portfolio might not be sustainable in future periods. If the Group is unable to sustain its high levels of earnings from its securities portfolio, then this could have a material adverse effect on its business, financial condition and/or results of operations. In addition, as the Group's investment portfolio is heavily concentrated in Turkish government securities, see also "*Political, Economic and Legal Risks Related to Turkey – Government Default*" below.

**Correlation of Finance Risks – The occurrence of a risk borne by the Group could exacerbate other risks that the Group faces**

The exposure of the Group's business to a market downturn in Turkey or any other risks could exacerbate or trigger other risks that the Group faces. For example, if the Group incurs substantial borrower default due to a market downturn in Turkey, then its need for liquidity could rise sharply while the availability of such liquidity in the market could be impaired. In addition, in conjunction with a market downturn, the Group's customers could incur substantial losses of their own, thereby weakening their financial condition and increasing the credit risk of the Group's exposure to such customers. If this or any other combination of risks occurs, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

**Banking Regulatory Matters – The activities of the Group are highly regulated and changes to applicable laws or regulations, the interpretation or enforcement of such laws or regulations or the failure to comply with such laws or regulations could have an adverse impact on the Group's business**

The Group is subject to a number of banking, competition, antitrust and other laws and regulations designed to maintain the safety and financial soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. Turkish banks' capital adequacy requirements will be further affected by Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are being phased in through 2019. See "*Capital Adequacy*" above and "*Turkish Regulatory Environment – Capital Adequacy*".

As a result of the recent global financial crisis, policy makers in Turkey, the EU and other jurisdictions in which the Group operates have enacted or proposed various new laws and regulations, and there is still

uncertainty as to what impact these changes might have. In addition, the Turkish government (including the BRSA or the Central Bank) has introduced (and might introduce in the future) new laws and regulations that increase reserves, increase provision requirements for loans or otherwise negatively affect the Group's business and/or profitability. The Group might not be able to pass on any increased costs associated with such regulatory changes to its customers, particularly given the high level of competition in the Turkish banking sector (see "*Turkish Banking Sector – Competition*"). Accordingly, the Group might not be able to sustain its level of profitability in light of these regulatory changes and the Group's profitability might be materially adversely impacted until (if ever) such changes could be incorporated into the Group's pricing.

Such measures could also limit or reduce growth of the Turkish economy and consequently the demand for the Group's products and services or its growth plans. As a consequence of certain of these changes, the Group might be required to increase its capital reserves and might need to access more expensive sources of financing (including equity) to meet its funding requirements. Furthermore, development and investment banks (such as the Bank) are exempt from banking and insurance transaction tax for investment loans, according to the Turkish Expenditure Taxes Law (Law No. 6802). Any regulatory change that abolishes such exemption could have an adverse effect on the Group's loan volume, profitability and/or access to funds. Any failure by the Group to adopt adequate responses to these or future changes in the regulatory framework could have an adverse effect on the Group's business, financial condition and/or results of operations. Finally, non-compliance with regulatory requirements or laws could expose the Group to potential liabilities and fines and/or damage its reputation.

#### **Related Party Transactions – The Bank is exposed to risks related to doing business with related parties**

The Banking Law places limits on a Turkish bank's exposure to related parties. Although development and investment banks (such as the Bank) are exempt from BRSA's requirements for exposures to related parties, the Group enters into banking transactions with its affiliates within the framework of the Banking Law and tax regulations. Although the Bank's management believes that these transactions are on an arm's length basis and in line with the Banking Law and tax regulations, the interests of the Group might not at all times be aligned with the interests of the Noteholders. For further information on the Group's transactions with its affiliates, see "*Business of the Group – Subsidiaries and Other Affiliates*".

#### **Measures to Prevent Money Laundering and/or Terrorist Financing – Third parties might use the Group as a conduit for illegal or terrorist activities without the Group's knowledge**

Although the Group does not accept deposits, has adopted various policies and procedures, has put in place systems, including internal control, "know your customer" rules and transaction monitoring, aimed at preventing money laundering and terrorist financing, and seeks to adhere to all requirements under Turkish legislation and international standards aimed at preventing the Group being used as a vehicle for money laundering or terrorist financing, these policies and procedures might not be completely effective. Similar to other financial institutions, if the Group fails to comply with timely reporting requirements or other anti-money laundering or anti-terrorist financing regulations and/or is associated with money laundering and/or terrorist financing, its business, results of operations and/or financial condition could be adversely affected. In addition, involvement in such activities might carry criminal or regulatory fines and sanctions and could severely harm the Group's reputation.

#### **Risk Management Strategies – The Group's risk management strategies and internal controls might leave it exposed to unidentified or unanticipated risks**

The Group's risk management strategies and internal controls might leave it exposed to unidentified or unanticipated risks. The Group's risk management and internal control policies and procedures might not adequately control, or protect the Group against, all credit, liquidity, market and other risks. In addition,

certain risks might not be accurately quantified by the Group's risk management systems. Some of the Group's methods of managing risk are based upon the use of historical market data, which, as evidenced by events caused by the global financial crisis, might not always accurately predict future risk exposures, which could be significantly greater than historical measures indicate.

Any material deficiency in the Group's risk management or other internal control policies or procedures might expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Group's business, results of operations and/or financial condition. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List.

**Turkish Disclosure Standards – Turkish disclosure standards might differ in certain significant respects from those in certain other countries, leading to a lesser amount of information being available**

Historically, the reporting, accounting and financial practices applied by Turkish banks have differed in certain respects from those applicable to similar banks in the European Union or in other similar economies. There is less publicly available information on businesses in Turkey than is regularly published by similar businesses in the EU or in other similar markets and any information that is published might only be presented in Turkish. The BRSA rules require Turkish banks to publish their financial reports on their websites and their annual financial reports in the official gazette in Turkey. Annual financial reports comprise audited financial statements and activity reports, and quarterly financial reports comprise reviewed financial statements, interim management reports and corporate governance compliance reports. In recent years, many Turkish banks (including the Bank) have also prepared financial statements using IFRS for certain reporting periods, with their financial statements being available first under BRSA Principles and only subsequently made available in IFRS financial statements. Most Turkish banks, including the Bank, have English versions of their financial statements available on their websites. In addition, banks that are listed on the Borsa İstanbul ("BİST"), such as the Bank, are also required to publish their financial statements on a quarterly basis and to disclose any significant development that is likely to have an impact on investors' decisions and/or that would be likely to have a significant effect on the price of the issuer's securities (both through the Turkish government's Public Disclosure Platform's website and the bank's own website). Nonetheless, investors might not have access to the same depth of disclosure relating to the Bank as they would for investments in banks in the European Union and other more-developed markets.

The Group maintains its accounting systems and prepares its accounts in accordance with the relevant legislation and publishes quarterly financial results in accordance with the BRSA Principles. With respect to IFRS, the Bank only publishes annual and semi-annual consolidated financial statements for the Group. There are differences between the BRSA Financial Statements and IFRS financial statements. The Group's and the Bank's IFRS financial statements are not incorporated by reference into and do not form a part of this Base Prospectus. A summary of the most material of such differences as they apply to the Group has been included elsewhere in this Base Prospectus, including the differences described above and other potential differences that may materially affect the Group's results of operations and financial position (see Appendix 1 – "*Overview of Significant Differences between IFRS and BRSA Accounting Principles*"). Potential investors should rely upon their own examination of the Group, the terms of the Notes and the financial and other information contained in this Base Prospectus.

**Operational Risk – The Group might be unable to monitor and prevent losses arising from fraud and/or operational errors or disruptions**

Similar to other financial institutions, the Group is susceptible to, among other things, fraud by employees or outsiders, unauthorised transactions by employees, lack or loss of skilled information technology ("IT")



employees and other operational errors (including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems). The Group is also subject to service interruptions from time to time for third party services such as telecommunications, and service interruptions due to natural disasters, which are beyond the Group's control. Such interruptions may result in interruption to services to the Group's offices and/or impact customer service. Errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult for any bank to detect quickly or at all. While the Group maintains a system of controls designed to monitor and control operational risk, the Group might suffer losses from such risks. Losses from the failure of the Group's system of internal controls to discover and rectify such matters could have a material adverse effect on the Group's business, financial condition and/or results of operations. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List.

**Dependence upon Information Technology Systems – The Group's operations could be adversely affected by interruptions to, or the improper functioning of, its information technology systems**

The Group's business services and functions rely upon the proper delivery of the IT services or applications to support their operations. These IT services or applications run on IT systems that have been developed either in-house or by third-party providers. While the Group has implemented and has future plans for various projects to ensure the proper functioning of its IT systems, any significant inadequacy, disruption, breach, failure, performance issues or interruption of the Group's IT systems or any other systems in its network, operations or elsewhere, inadequate selection of new technology, delays caused by the implementation of new technology or incomplete integration of new technology into the existing IT systems could result in unforeseen expense and difficulties in conducting the Group's operations, which might have a material adverse effect on the Group's business, financial condition and/or results of operations.

In addition, the Group uses a third party, Turkcell Superonline, to provide data storage services for the Group's critical systems at its data centre on the Asian side of İstanbul, and the Group's IT applications depend upon the proper functioning of this data centre. The Group also uses Turkcell Superonline to provide disaster recovery solutions for the Group's IT infrastructure; however, these recovery systems might not be adequate to ensure connectivity with the Bank's offices and protect the Group's IT systems and operations in the event of a disaster, natural or otherwise. For further information on the Group's IT system, see "*Business of the Group – Information Technology*".

**Personnel – The Group's continued success depends upon retaining key members of its senior management and its ability to recruit, train and motivate qualified staff**

The Group is dependent upon its senior management to implement its strategy and operate its day-to-day business. In addition, corporate and other relationships of members of senior management are important to the conduct of the Group's business. In a rapidly emerging and developing market such as Turkey, demand for highly trained and skilled staff is very high and requires the Group to continually re-assess its compensation and employment policies. If members of the Group's senior management were to leave, particularly if they were to join competitors, then those employees' relationships that have benefited the Group might not continue with the Group. In addition, the Group's continuing success depends, in part, upon its ability to attract, retain and motivate qualified and experienced banking and management personnel. The Group's failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on the Group's business, financial condition and/or results of operations.

### **Turkish Banking Sector – The Turkish banking sector has experienced significant volatility in the past and might experience significant volatility in the future**

The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several financial institutions. Following this crisis, the government made structural changes to the Turkish banking system to strengthen the private (i.e. non-governmental) banking sector and allow it to compete more effectively against the state-controlled banks. Notwithstanding such changes, the Turkish banking sector remains subject to volatility.

If the general macro-economic conditions in Turkey, and the Turkish banking sector in particular, were to suffer another period of volatility, there can be no assurance that this would not result in further bank failures, reduced liquidity and weaker public confidence in the Turkish banking system, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

### **Dependence upon Banking and Other Licenses – Group members might be unable to maintain or secure the necessary licenses for carrying on their business**

All banks established in Turkey require licensing by the BRSA. Each of the Bank and, to the extent applicable, each of its subsidiaries has a current Turkish and/or other applicable license for all of its banking and other operations. The Bank's management believes that the Bank and each of its subsidiaries is currently in compliance with its existing material license and reporting obligations; nevertheless, if it is incorrect, or if any member of the Group were to suffer a future loss of a license, breach the terms of a license or fail to obtain any further required licenses, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

### **Political, Economic and Legal Risks Related to Turkey**

#### **Global Financial Crisis and Eurozone Crisis – The Group has been, and will likely continue to be, subject to risks arising from the recent global financial crisis and eurozone crisis**

Starting in mid-2007, the global financial crisis significantly affected global economic conditions. The crisis resulted in significant declines in the value of a broad range of real and financial assets, increased volatility in financial markets and reduced availability of funding. Internationally, many financial institutions sought to raise additional capital and a number failed or merged with larger institutions. As a result of concern about the stability of the financial markets generally and the strength of counterparties in particular, many lenders and institutional investors reduced lending and, in some cases, ceased providing funding to borrowers, including other financial institutions, which significantly reduced liquidity and the availability of credit in the global financial system. Some of these conditions persist.

The global financial crisis and related economic slowdown also significantly impacted the Turkish economy and the principal external markets for Turkish goods and services. During the global financial crisis, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which led to an increase in unemployment. Turkey's GDP contracted by 7.0 per cent. in the fourth quarter of 2008 and declined 4.8 per cent. in 2009. Following the implementation of fiscal and monetary measures during 2009, the Turkish economy began to recover in the fourth quarter of 2009, resulting in Turkey's real GDP growing by 9.2 per cent. in 2010, 8.8 per cent. in 2011, 2.1 per cent. in 2012, 4.2 per cent. in 2013, 3.0 per cent. in 2014 and 4.0 per cent. in 2015 and its unemployment rate decreasing from 14.8 per cent. in February 2009 to 10.3 per cent. in December 2015 (source: TurkStat). There can be no assurance that the unemployment rate will, in fact, continue to improve, or even that it will not increase in the future. Continuing high levels of unemployment might affect the Group's retail customers and business confidence, which could impair its

business strategies and have a material adverse effect on its business, financial condition and/or results of operations.

Concerns about a sovereign debt crisis in certain European countries, including Cyprus, Greece, Ireland, Italy, Portugal and Spain, also undermined investor confidence in recent years and resulted in a general deterioration of the financial markets. Although there have been indications of economic recovery in the eurozone, the recovery might not continue and, in fact, recent economic performance in Europe has been very weak. Since the implementation of negative interest rates by the European Central Bank in June 2014, an increasing number of central banks in Europe have taken their policy rates below zero. In January 2016, the Bank of Japan also adopted negative interest rates. There is uncertainty in the markets as to the possible impact of these policies. Any deterioration in the condition of the global or Turkish economies, or continued uncertainty around the potential for such deterioration, could have a material adverse effect on the Group's business and customers in a number of ways, including, among others, the income, wealth, employment, liquidity, business prospects and/or financial condition of the Group's customers, which, in turn, could further reduce the Group's asset quality and/or demand for the Group's products and services and negatively impact the Group's growth plans. The Group's business, financial condition and/or results of operations might also continue to be adversely affected by conditions in the global and Turkish financial markets as long as they remain volatile and subject to disruption and uncertainty.

#### **High Current Account Deficit – Turkey's high current account deficit may result in governmental efforts to decrease economic activity**

In recent years, Turkey has had a significant current account deficit, which could leave its economy susceptible to declines in capital inflows and vulnerable to macroeconomic shocks. According to the Central Bank, Turkey's current account deficit increased significantly to U.S.\$75.0 billion in 2011 from U.S.\$45.3 billion in 2010, before decreasing to U.S.\$48.5 billion in 2012. The decline in the current account deficit in 2012 was largely the result of coordinated measures initiated by the Central Bank, the BRSA and the Turkish Ministry of Finance to lengthen the maturity of deposits, reduce short-term capital inflows and curb domestic demand. The main aim of these measures was to slow growth in the current account deficit by controlling the rate of loan growth. Unless there is a decline in credit growth, the BRSA and the Central Bank have stated that bank-specific actions might be implemented.

The decline in the current account deficit experienced in 2012 came to an end in early 2013, with the current account deficit increasing to U.S.\$64.7 billion in 2013 due principally to a recovery in domestic demand. To combat this increase, a package of macro-prudential measures issued by the BRSA to limit domestic demand, the Central Bank's tight monetary policy and increases in taxes, combined with the depreciation of the Turkish Lira and lower oil prices, contributed to a decrease in the 12-month current account deficit to U.S.\$46.5 billion as of 31 December 2014 and a further decrease to U.S.\$32.1 billion as of 31 December 2015.

If the value of the Turkish Lira relative to the U.S. Dollar and other relevant trading currencies changes, then the cost of importing oil and other goods and services and the value of exports might both change in a corresponding fashion, resulting in potential increases or decreases in the current account deficit. As an increase in the current account deficit might erode financial stability in Turkey, the Central Bank closely monitors the U.S. Federal Reserve's actions and takes (and has taken) certain actions to maintain price and financial stability. For example, through a series of interest rate decreases beginning in May 2014, the overnight borrowing rate was reduced from 8.0 per cent. to 7.25 per cent., the one week repo rate was reduced from 10.0 per cent. to 7.75 per cent. and the overnight lending rate was reduced from 12.0 per cent. to 10.75 per cent. On 25 February 2015, the Central Bank further reduced the one-week repo rate to 7.50 per cent. On 18 August 2015, the Central Bank introduced a "roadmap to normalisation", referring to the U.S. Federal Reserve's expected intention at the time to increase interest rates in the near future. The roadmap proposes

simplification steps for Turkish Lira liquidity to remain “tight” (a more orthodox and simple monetary framework in which the weekly repo rate will serve as the only possible policy rate), foreign exchange liquidity to remain “balanced” and financial sector policies to be “supportive” of a tighter monetary policy, taking the U.S. Federal Reserve’s normalisation period as the base case. The Central Bank cut the marginal funding rate by 25 bps to 10.50 per cent. on 24 March 2016, noting its intention to maintain a tight liquidity stance. This decision was announced as an incremental step towards the simplification of monetary policy and no indication of future cuts was given in the press release following the decision. However, as the U.S. Federal Reserve increased the general funds rate by 0.25 per cent. in December 2015 and opted to keep the policy rate unchanged following its meeting in March 2016, and as expectations of the U.S. Federal Reserve increasing rates in the remainder of 2016 diminish, the Central Bank has indicated that it may, depending on global economic conditions, cut the marginal funding rate further while keeping the average market funding cost above the policy rate by implementing a tight liquidity policy. Implementation of these policies by the Central Bank and similar or other actions that it might take in the future are subject to a number of uncertainties and might not be successful in reducing the current account deficit. See “*Turkish Regulatory Environment*”.

The Central Bank has continued to utilise its monetary tools frequently to try to maintain economic growth without unduly increasing the current account deficit, including through changes in reserve option mechanisms, altering the maturity of funding it provides to banks and limiting the growth of consumer loans through increased provisioning requirements. Such actions by the Central Bank and similar or other actions that it might take in the future might not be successful in fostering economic growth while maintaining an acceptable current account deficit. See “*Turkish Regulatory Environment*”. These actions could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

Although Turkey’s economic growth dynamics depend to some extent upon domestic demand, Turkey is also dependent upon foreign trade. A significant decline in the economic growth of any of Turkey’s major trading partners, such as the EU, could have an adverse impact on Turkey’s balance of trade and adversely affect Turkey’s economic growth. In 2015, exports to the EU decreased by 7 per cent. in U.S. Dollar terms due to the decline in the euro against the U.S. Dollar. While diversification in the export markets towards other regional countries may partially offset the negative impacts of external demand-related risks on domestic economic activity, the EU remains Turkey’s largest export market. Further, the conflict in Iraq and uncertainty surrounding long-term relations with Russia render any potential growth of Turkey’s exports to these markets unpredictable. Therefore, a decline in demand for imports from the EU and Russia could have a material adverse effect on Turkish exports and Turkey’s economic growth and result in an increase in Turkey’s current account deficit. To a lesser extent Turkey also exports to markets in the Middle East, and the continuing political turmoil in certain of those markets could lead to a decline in demand for such imports, with a similar negative effect on Turkish economic growth and Turkey’s current account deficit as described immediately above.

Turkey is an energy-dependent country and recorded U.S.\$54.9 billion of energy imports in 2014 and U.S.\$37.8 billion in 2015. As Turkey’s 12-month current account deficit reached U.S.\$46.5 billion in 2014 and U.S.\$32.1 billion in 2015, energy imports represented approximately 118 per cent. of the country’s current account deficit over those periods. As a result, any geopolitical development concerning energy security could have a material impact on Turkey’s current account balance. For instance, the efforts in northern Iraq to export its oil reserves via Turkish territory might improve Turkey’s energy bill; however, in order to export its oil reserves, the regional government in northern Iraq will need to reach an agreement with Iraq’s central government. Turkey might also be able to diversify its energy suppliers and lower its energy cost as a result of the interim arrangement between the P5+1 countries and Iran. Nonetheless, both of these approaches are subject to significant political and other risks and might not result in reduced energy costs to

Turkey – in fact, increased tensions with Iran could result in an increase in global energy prices and thus have a negative impact on Turkey’s current account deficit.

If the current account deficit widens more than anticipated, financial stability in Turkey might deteriorate. Financing the high current account deficit might be difficult in the event of a global liquidity crisis and/or declining interest or confidence of foreign investors in Turkey, and a failure to reduce the current account deficit could have a negative impact on Turkey’s sovereign credit ratings. Any such difficulties might lead the Turkish government to seek to raise additional revenue to finance the current account deficit or to seek to stabilise the Turkish financial system, and any such measures might adversely affect the Group’s business, financial condition and/or results of operations.

**Political Developments – Political developments in Turkey might negatively affect the Group’s business, financial condition and/or results of operations**

Negative changes in the government and political environment, including the failure of the government to devise or implement appropriate economic programmes, may adversely affect the stability of the Turkish economy and, in turn, the Group’s business, financial condition and/or results of operations. Turkey has been a parliamentary democracy since 1923. Unstable coalition governments have been common, and in the more than 90 years since its formation Turkey has had numerous short-lived governments, with political disagreements frequently resulting in early elections. Furthermore, though its role has diminished in recent years, the Turkish military establishment has historically played a significant role in Turkish government and politics, intervening in the political process.

Beginning in 2013, Turkish politics have been particularly volatile. Protests starting in May 2013 in İstanbul, and spreading to Ankara and other major cities in Turkey, against plans to replace Gezi Park, an urban park in İstanbul’s central Taksim Square, with a commercial development, and resulting confrontations among protestors and security forces, contributed to a significant increase in the volatility of Turkish financial markets. Later in 2013, Turkish politics entered a second phase of uncertainty commencing with a series of arrests of prominent businessmen and family members of some cabinet ministers (who then resigned) on suspicions of corruption. While the causes of these events are uncertain, there is speculation that it reflects a division among important elements of the Turkish government, police and judiciary. The government’s responses to these events have included the removal of certain prosecutors and police from their offices and proposals to change the manner in which the police and judicial authorities are supervised by the national government, which has led to concerns about the separation of powers.

These events, which coincided with the U.S. Federal Reserve’s decision to reduce monthly asset purchases, contributed to significant declines in the value of the Turkish stock market and the Turkish Lira. While these circumstances have receded and the Bank’s management does not believe that these events have had a material long-term negative impact on Turkey’s economy or the Group’s business, financial condition or results of operation, it is possible that these or other political circumstances could have such an impact and/or a negative impact on investors’ perception of Turkey, the strength of the Turkish economy and/or the price of an investment in the Notes.

Elections were held in Turkey on 7 June 2015 resulting in no party receiving a majority of the members of parliament. The parties with seats in parliament could not form a coalition within the period provided in the Turkish Constitution; therefore, early elections were held on 1 November 2015. In this election, the Justice and Development Party (“AKP”) received approximately 49 per cent. of the vote and a significant majority of the members of parliament, thus enabling it to form a single-party government. Notwithstanding this, social and political conditions remain challenging, including with increased tension resulting from Turkey’s conflict with the People’s Congress of Kurdistan (formerly known as the PKK) (an organisation that is listed as a terrorist organization by states and organisations including Turkey, the EU and the United States). The events

surrounding any future elections and/or the results of such elections could contribute to the volatility of Turkish financial markets and/or have an adverse effect on investors' perception of Turkey, including Turkey's ability to adopt macroeconomic reforms, support economic growth and manage domestic social conditions, which could in turn have a material adverse effect on the Group's business, financial condition and/or results of operations.

#### **Turkish Economy – The Turkish economy is subject to macro-economic risks**

All of the Group's operations and essentially all of its assets are in Turkey. As a result, the Group's business and results of operations are affected by general economic conditions in Turkey. Since the early 1980s, the Turkish economy has undergone a transformation from a highly protected and regulated system to a free market system. Although the Turkish economy has responded positively to this transformation, it has experienced severe macro-economic imbalances, including significant current account deficits, and a considerable level of unemployment. While the Turkish economy has been significantly stabilised due, in part, to support from the International Monetary Fund (the last stand-by agreement with which terminated in 2008), Turkey might experience a further significant economic crisis in the future, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Turkey's GDP grew by 8.4 per cent. in 2005, 6.9 per cent. in 2006, 4.7 per cent. in 2007 and 0.7 per cent. in 2008. Following these gains, Turkey's GDP contracted by 7.0 per cent. in the fourth quarter of 2008 and 4.8 per cent. in 2009, before growing in 2010 (9.2 per cent.), 2011 (8.8 per cent.), 2012 (2.1 per cent.), 2013 (4.2 per cent.), 2014 (3.0 per cent.) and 2015 (4.0 per cent.). The ratio of net public debt to GDP decreased from 41.7 per cent. in 2005 to 36.0 per cent. in 2013. In October 2013, the government announced a three-year medium-term economic programme from 2014 to 2016. Under this programme, the government has set growth targets of 4.0 per cent. for 2014 and 5.0 per cent. for each of 2015 and 2016, as well as a gradual decrease in the net public debt to GDP ratio, according to the Ministry of Development. In the absence of structural reforms, however, it is likely that GDP growth will remain around 3-3.5 per cent. There is no guarantee that the government will continue to successfully implement its current and proposed economic and fiscal policies and should Turkey's economy continue to experience macro-economic imbalances, it could have a material adverse impact on the Group's business, financial condition and/or results of operations.

#### **Inflation Risk – Turkey's economy has been subject to significant inflationary pressures in the past and might become subject to significant inflationary pressures in the future**

The Turkish economy has experienced significant inflationary pressures in the past with year-over-year consumer price inflation rates as high as 69.7 per cent. in the early 2000s; however, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year consumer price index to decrease to 6.5 per cent. at the end of 2009, the lowest level in many years. Consumer price inflation was 10.5 per cent., 6.2 per cent., 7.4 per cent., 8.2 per cent. and 8.8 per cent. in 2011, 2012, 2013, 2014 and 2015, respectively, with producer price inflation during those years of 13.3 per cent., 2.5 per cent., 7.0 per cent., 6.4 per cent. and 5.7 per cent., respectively. The annual consumer price inflation reached 8.8 per cent. as of February 2016, which was principally due to an increase in the prices of core goods driven by the pass through to consumers of exchange rates and increases in taxes and an increase in food prices caused by adverse weather conditions. The volatility of global prices of major commodities such as oil, cotton, corn and wheat might increase supply-side inflation pressures throughout the world. These inflationary pressures and any further depreciation of the Turkish Lira, may result in Turkish inflation exceeding the Central Bank's inflation target significantly, which may cause the Central Bank to modify its monetary policy. Inflation-related measures that may be taken by the Turkish government in response to increases in inflation could have an adverse effect on the Turkish economy. If the level of inflation in Turkey were to fluctuate or increase significantly, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

## **Terrorism and Conflicts – Turkey and its economy are subject to internal and external unrest and the threat of terrorism**

Turkey is located in a region that has been subject to ongoing political and security concerns. Political uncertainty within Turkey and in certain neighbouring countries, such as Iran, Iraq, Georgia, Armenia and Syria, has historically been one of the potential risks associated with an investment in Turkish securities. Regional instability has also resulted in an influx of displaced persons in Turkey, and thus the displaced person population has increased and is expected to increase. In recent years, political instability has at times increased markedly in a number of countries in the Middle East, North Africa and Eastern Europe, such as Ukraine, Syria, Iraq, Libya, Tunisia, Egypt, Jordan, Bahrain and Yemen. Unrest in those countries might have political implications in Turkey or otherwise have a negative impact on the Turkish economy, including through both financial markets and the real economy.

The ongoing conflict in Syria has been the subject of significant international attention and its impact and resolution are difficult to predict. In early October 2012, Turkish territory was hit by shells launched from Syria, some of which killed Turkish civilians. On 4 October 2012, the Turkish Parliament authorised the government for one year to deploy military forces abroad should such action be considered appropriate by the government, which authorisation was extended for a further year on each of 3 October 2013 and 2 October 2014. Given Turkey's close proximity to the conflict zone, Turkey continues to deploy troops near the Syrian border. On 24 November 2015, Turkey shot down a Russian military aircraft near Turkey's border with Syria claiming a violation of its airspace, leading to Russia implementing certain sanctions with regard to Turkey. The long-term impact of this on Turkey's relationship with Russia and other geopolitical circumstances remain uncertain. Any further escalation of political instability or international military intervention in Syria and/or a more aggressive stance by the Syrian government's allies, Russia, Iran, and China against Turkey and supporters of the Syrian opposition forces may act as a destabilising factor for Turkey.

Furthermore, elevated levels of conflict involving the Islamic State of Iraq and the Levant ("ISIL," also known as the Islamic State of Iraq and Syria, or "ISIS"), which has seized control of areas in Syria and Iraq, have caused further instability in the region. In August and September 2014, a U.S.-led coalition began an anti-ISIL aerial campaign in northern Iraq and Syria. Developments in Iraq also raise concerns as Iraq is one of Turkey's largest export markets, ranking second in 2014 according to TurkStat.

The aforementioned conflicts have caused a significant displacement of people, leading to a high number of refugees within Turkey's borders. On 20 March 2016, Turkey entered into an agreement with the EU aimed at controlling the flow of refugees into the EU.

In early 2014, political unrest and demonstrations in Ukraine led to a change in the national government. While the United States and the EU recognised the new government, Russia claimed that the new government was illegitimate and was violating the rights of ethnic Russians living in the Crimean peninsula and elsewhere in Ukraine. Escalating military activities in Ukraine and on its borders, including Russia's annexation of Crimea have, combined with Ukraine's precarious economic conditions, created significant uncertainty in Ukraine and the global markets. Resolution of the political and economic situation in Ukraine will likely not be achieved for some time, and the situation could even deteriorate into increased violence and/or economic collapse. While not directly impacting Turkey's territory, the disputes could materially negatively affect Turkey's economy, including through its impact on the global economy and the impact it might have on Turkey's access to Russian energy supplies.

Turkey has also experienced problems with domestic terrorist and ethnic separatist groups as well as other political unrest within its territory. In particular, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly known as the PKK (an organisation that is listed as a terrorist organisation by various states and organisations including Turkey, the EU and the United States). Turkey has from time to

time been the subject of terrorist attacks, including bombings in recent years in its tourist and commercial centres in İstanbul, Ankara and various coastal towns and (especially in the southeast of Turkey) attacks against its armed forces. Terrorist attacks carried out on 20 July 2015 in Suruç, on 10 October 2015 and 13 March 2016 in Ankara and on 19 March 2016 in İstanbul have collectively resulted in the deaths of more than 170 civilians.

Such circumstances have had and could continue to have a material adverse effect on the Turkish economy and/or the Group's business, financial condition and/or results of operations.

**Regional Risks – Recent developments in the Middle East and North Africa might create regional volatility affecting the Turkish economy**

As noted above, Turkey is located in a region that has been subject to ongoing political and security concerns. Political and economic uncertainty within neighbouring countries, such as Armenia, Georgia, Iran, Iraq and Syria, has been one of the risks associated with investment in Turkish securities. Since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Libya, Tunisia, Egypt, Syria, Iraq, Jordan, Bahrain and Yemen. Unrest in those countries might affect Turkey's relationships with its neighbours, have political implications in Turkey or otherwise have a negative impact on the Turkish economy, including through both financial markets and the real economy. For example, the conflict in Iraq could impact Turkey's exports and might increase oil prices and further negatively affect Turkey's current account deficit. Such impacts could occur (*inter alia*) through a lower flow of foreign direct investment into Turkey, capital outflows and/or increased volatility in the Turkish financial markets. In addition, certain sectors of the Turkish economy (such as construction, iron and steel) have operations in (or are otherwise active in) the Middle East and North Africa and may experience negative effects of the upheavals in the region. Any of such circumstances could adversely affect the Group's business, financial condition and/or results of operations.

**Emerging Market Risks – The Group is subject to risks associated with doing business in an emerging market**

The Group only operates in Turkey and derives almost all of its revenue from activities in Turkey. As a result, the Group's business, results of operations and financial condition are significantly affected by the overall level of economic activity and political stability in Turkey. Despite Turkey undergoing significant political and economic reform in recent years that increased stability and led to economic growth, Turkey is still considered by international investors to be an emerging market. Emerging markets are subject to greater risks than more developed markets and financial turmoil in any emerging market (or global markets generally) could disproportionately disrupt business in other emerging markets as well as causing a decline in the price of an investment in the Notes.

Investors' interest in Turkey might be negatively affected by events in other emerging markets or the global economy in general (for example, the recent global market crisis or monetary policies in the United States). An increase in the perceived risks associated with investing in emerging economies could adversely affect the Turkish economy, and the Notes might be subject to fluctuations in price that may not necessarily be related to economic conditions in Turkey or the financial performance of the Group. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect in which an entire region or class of investment is disfavoured by international investors, Turkey could be adversely affected by negative economic or financial developments in other emerging market countries. While the impact of the recent global financial crisis on Turkey was relatively limited, Turkey has been adversely affected by such contagion effects on a number of occasions in the past, including following the financial crises in 1994 and 2000 to 2001. Similar developments can be



expected to affect the Turkish economy in the future, which could, in turn, have an adverse impact on prices of investments in Turkish capital markets issuances such as the Notes.

#### **Earthquakes – Turkey is located in a high-risk earthquake zone**

Almost all of Turkey is classified by seismologists as being in a high-risk earthquake zone. On 17 August 1999, an earthquake measuring 7.4 on the Richter scale struck the area surrounding İzmit. On 12 November 1999, another earthquake occurred in the city of Düzce, between Ankara and İstanbul, resulting in significant financial costs to Turkey. More recently, on 8 March 2010, an earthquake measuring 6.0 on the Richter scale struck the eastern province of Elazığ, and in October 2011 an earthquake measuring 7.2 on the Richter scale struck the eastern part of the country, causing significant property damage and loss of life. A significant portion of Turkey's population and most of its economic resources are located in a first-degree earthquake risk zone (the zone with the highest level of risk of damage from earthquakes). A number of the properties and business operations of the Group and its customers in Turkey are located in earthquake risk zones.

The Group maintains earthquake insurance but, as such insurance is not generally available in Turkey, does not have the wider business interruption insurance or insurance for loss of profits. The occurrence of a severe earthquake could adversely affect one or more of the Group's facilities, thereby causing an interruption in, and an adverse effect on, the Group's business. In addition, a severe earthquake could harm the Turkish economy in general and/or any of its customers, which could adversely affect the Group's business, financial condition and/or results of operations.

#### **Exchange Rates – The value of the Turkish Lira fluctuates against other currencies**

Exchange rates for the Turkish Lira have historically been, and continue to be, highly volatile. Since February 2001, the Central Bank has applied a floating exchange rate policy that has arguably resulted in increased volatility in the value of the Turkish Lira. In 2012, the Turkish PPI increased by 2.5 per cent. while during the same year the Turkish Lira appreciated (in nominal terms) against the U.S. Dollar by 6.5 per cent., according to the Central Bank. Also according to the Central Bank, the CPI-based real effective exchange rate increased from 109.63 as of 31 December 2011 to 118.18 as of 31 December 2012, indicating a 7.8 per cent. real appreciation.

In 2013, in nominal terms the Turkish Lira depreciated against the U.S. Dollar by 19.73 per cent. compared to year-end 2012; however, on a real basis, based upon the CPI-based real effective exchange rate declining to 107.0 as of 31 December 2013, there was only a 9.50 per cent. real depreciation compared to year-end 2012. In particular, from June 2013 until the end of 2013 the value of the Turkish Lira depreciated against major currencies due to the increased risk perception in global markets regarding the market's expectation of U.S. Federal Reserve reductions in its quantitative easing (and its ultimate decision to do so) and the Taksim Square protests and other political events described above. In order to reduce the volatility of the Turkish Lira, the Central Bank first implemented additional monetary tightening and held intra-day foreign exchange selling auctions, and raised the upper limit of the interest rate corridor. The Turkish Lira continued to decline in value, falling 9.8 per cent. in nominal terms against the U.S. Dollar year-to-date through 28 January 2014. In response, the Central Bank significantly increased interest rates on 28 January 2014, after which (through 30 April 2014), the Turkish Lira appreciated against the U.S. Dollar by 9.6 per cent. Due to such improvement, on 22 May 2014, the Central Bank reduced its one-week repo rate 50 basis points to 9.5 per cent. (though leaving unchanged its overnight Turkish Lira borrowing rate and its overnight lending rate); however, in part due to growing expectations of an increase in interest rates by the U.S. Federal Reserve, the Turkish Lira began depreciating again. On 24 June 2014 and 17 July 2014 the Central Bank cut its one-week repo rate by 75 basis points and 50 basis points respectively to 8.25 per cent., in both cases as a result of favourable developments in global liquidity conditions. As of 31 December 2014, the CPI-based real effective exchange rate increased to 113.03, indicating a 5.9 per cent. real depreciation in Turkish Lira compared to 31

December 2013. As of 31 December 2015, the CPI increased to 8.8 per cent. due to the foreign exchange pass-through from the depreciation of the Turkish Lira and rising food prices. In 2015, the Turkish Lira depreciated by a further 25 per cent., primarily as a result of uncertainties surrounding the political and economic landscape. The exchange rate amounted to TL 2.1343 per U.S. Dollar as of 31 December 2013, TL 2.3189 per U.S. Dollar as of 31 December 2014 and TL 2.9076 per U.S. Dollar as of 31 December 2015.

Any significant depreciation of the Turkish Lira against the U.S. Dollar or other major currencies, or any actions taken by the Central Bank or Turkish government to protect the value of the Turkish Lira (such as increased interest rates or capital controls) may adversely affect the financial condition of Turkey as a whole, including its inflation rate, and may have a negative effect on the Group's business, financial condition and/or results of operations.

**Potential Overdevelopment – Certain sectors of the Turkish economy might have been or become overdeveloped, which might result in a negative impact on the Turkish economy**

Certain sectors of the Turkish economy may have been (or may become) overdeveloped, including in particular the construction of luxury residences, shopping centres, office buildings, hotels and other real estate-related projects and various renewable energy-related projects. For example, significant growth in the number of hotels is projected to occur over the coming years in anticipation of a continuing growth in international tourism, which might or might not in fact occur. Any such overdevelopment might lead to a rapid decline in prices of these properties or the failure of some of these projects. Even if this does not occur, the pace of development of such projects might decline in coming years as developers and project sponsors seek to reduce their risk, which might negatively affect the growth of the Turkish economy. Should any of such events occur, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

**Government Default – The Group has a significant portion of its assets invested in Turkish government debt, making it highly dependent upon the continued credit quality of, and payment of its debts by, the Turkish government**

The Group has a significant exposure to Turkish governmental entities, which it is not required to account for in its reserves. As of 31 December 2015, 91.7 per cent. of the Group's total securities portfolio (16.5 per cent. of its total assets and equal to 127 per cent. of its shareholders' equity) was invested in securities issued by the Turkish government (87 per cent., 19 per cent. and 125 per cent., respectively, as of 31 December 2014). In addition to any direct losses that the Group might incur, a default, or the perception of increased risk of default, by Turkish governmental entities in making payments on their debt or a downgrade in Turkey's credit rating would likely have a significant negative impact on the value of the government debt held by the Group and the Turkish banking system generally and might have a material adverse effect on the Group's business, financial condition and/or results of operations.

**Risks Related to the Structure of a Particular Issue of Notes**

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

**Optional Redemption – If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return**

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may similarly be true prior to any redemption period.

To the extent Notes have an optional redemption feature, the Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on such Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate (or through taking on a greater credit risk). Potential investors should consider reinvestment risk in light of other investments available at that time.

**Change of Interest Basis – If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned**

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this may affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

**Settlement Currency – In certain circumstances, investors may need to open a bank account in the Specified Currency or payment may be made in a currency other than as elected by a Noteholder or the currency in which payment is made may affect the value of the Notes or such payment to the relevant Noteholder**

In the case of Turkish Lira denominated Notes held other than through DTC, unless an election to receive payments in U.S. Dollars as provided in Condition 7.8 is made, holders of such Notes may need to open and maintain a Turkish Lira denominated bank account, and no assurance can be given that Noteholders will be able to do so either in or outside of Turkey. For so long as such Notes are in global form, any Noteholder who does not maintain such a bank account will be unable to transfer Turkish Lira funds (whether from payments on, or the proceeds of any sale of, such Notes) from its account at Euroclear or Clearstream, Luxembourg to which any such payment is made.

For Notes in a Specified Currency other than U.S. Dollars that are held through DTC, if a Noteholder wishes to receive payment in that Specified Currency, then it would need to open and maintain a bank account in the Specified Currency. Any Noteholder who does not maintain such a bank account will be unable to receive payments on the Notes in the Specified Currency. Absent an affirmative election to receive such payments in the Specified Currency, the Exchange Agent will convert any such payment made by the Issuer in the Specified Currency into U.S. Dollars and the holders of such Notes will receive payment in U.S. Dollars. See “*Terms and Conditions of the Notes – Condition 7.9*”.

Under Condition 7.8, if the Fiscal Agent receives cleared funds in respect of Turkish Lira denominated Notes held other than through DTC from the Issuer after the relevant time on the Relevant Payment Date, then the

Fiscal Agent will use reasonable efforts to pay any U.S. Dollar amounts Noteholders have elected to receive in respect of such funds as soon as reasonably practicable thereafter. If it is not possible for the Fiscal Agent to purchase U.S. Dollars with any Turkish Lira funds received, the relevant payments in respect of the Notes will be made in Turkish Lira.

As any currency election in respect of any payment to be made under such Turkish Lira denominated Notes or the purposes of Condition 7.8 is irrevocable: (a) its exercise may (at least temporarily) affect the liquidity of the applicable Notes, (b) a Noteholder would not be permitted to change its election notwithstanding changes in exchange rates or other market conditions and (c) if the Fiscal Agent cannot, for any reason, effect the conversion of the amount paid by the Issuer in Turkish Lira, Noteholders will receive the relevant amount in Turkish Lira.

Noteholders will have no recourse to the Issuer, any Agent or any other person for any reduction in value to the holder of any relevant Notes or any payment made in respect of such Notes as a result of such payment being made in the Specified Currency or in accordance with any currency election made by that holder, including as a result of any foreign exchange rate spreads, conversion fees or commissions resulting from any exchange of such payment into any currency other than the Specified Currency. Such exchange, and any fees and commissions related thereto, or payment made in the Specified Currency may result in a Noteholder receiving an amount that is less than the amount that such Noteholder might have obtained had it received the payment in the Specified Currency and converted such payment in an alternative manner or if payment had been made in accordance with the relevant currency election.

**Potential Price Volatility – Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.**

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

**Risks related to Notes Generally**

Set out below is a description of material risks relating to the Notes generally:

**Unsecured Obligations – The Notes will constitute unsecured obligations of the Issuer**

The Issuer's obligations under the Notes will constitute unsecured obligations of the Issuer. The ability of the Issuer to pay such obligations will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows, which could be affected by (*inter alia*) the circumstances described in these "Risk Factors".

**Effective Subordination – Claims of Noteholders under the Notes will be effectively subordinated to those of certain other creditors**

While the Notes will rank equally with all of the Issuer's other unsecured and unsubordinated indebtedness, the Notes will be effectively subordinated to the Issuer's secured indebtedness and securitisations, if any, to the extent of the value of the assets securing such transactions, and will be subject to certain preferential obligations under Turkish law (as is the case for all Turkish banks, including, without limitation, liabilities that are preferred by reason of reserve and/or liquidity requirements required by law to be maintained by the Issuer with the Central Bank, claims that the Central Bank may have against the Issuer with respect to certain loans made by it to the Issuer and certain "public claims"). Any such preferential claims might reduce the

amount recoverable by the Noteholders on any dissolution, winding up or liquidation of the Issuer and might result in an investor in the Notes losing all or some of its investment.

It is important for investors in the Notes to consider that, in case of the insolvency of the Issuer, the Turkish Treasury's reimbursement/subrogation claims relating to the guarantees it provides for debt raised by the Issuer are qualified as "public claims" and, as such, are subject to special collection procedures that result in their ranking prior to claims under the Notes and other ordinary claims. As a result, the remaining value of the Issuer's assets after repayment of these preferred claims in an insolvency of the Issuer might be insufficient to pay investors in the Notes all or any portion of the amounts due to them.

**Redemption for Taxation Reasons – The Issuer will have the right to redeem the Notes upon the occurrence of certain changes requiring it to pay withholding taxes in excess of levels, if any, applicable to interest or other payments on the Notes on the original Issue Date of such Notes**

The withholding tax rate on interest payments in respect of bonds issued by Turkish legal entities outside of Turkey varies depending upon the original maturity of such bonds as specified under Decree No. 2009/14592 dated 12 January 2009 which has been amended by Decree No. 2010/1182 dated 20 December 2010 and Decree No. 2011/1854 dated 26 April 2011 (together, the "Tax Decrees"). Pursuant to the Tax Decrees: (a) with respect to bonds with a maturity of less than one year, the withholding tax rate on interest is 10 per cent., (b) with respect to bonds with a maturity of at least one and less than three years, the withholding tax rate on interest is 7 per cent., (c) with respect to bonds with a maturity of at least three and less than five years, the withholding tax rate on interest is 3 per cent., and (d) with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0 per cent. The Issuer will have the right to redeem a Series of Notes at any time at the Early Redemption Amount specified in the applicable Final Terms (including in the case of Floating Rate Notes) prior to their maturity date if, upon the occurrence: (i) of a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9.1) or (ii) any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after the date on which agreement is reached to issue the most recently issued Tranche of the relevant Series of Notes, on the next Interest Payment Date the Issuer would be required: (A) to pay additional amounts in respect of such Series of Notes as provided or referred to in Condition 9 on account of any Taxes (as defined in Condition 9.1) and (B) to make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on the date on which agreement is reached to issue the most recently issued Tranche of the relevant Series of Notes, and such requirement cannot be avoided by the Issuer taking reasonable measures available to it. Upon such a redemption, investors in such Series of Notes might not be able to reinvest the amounts received at a rate that will provide the same rate of return as their investment in the redeemed Notes and, in the case of any Floating Rate Notes, the redemption could take place on any relevant date during an Interest Period.

This redemption feature is also likely to limit the market value of the Notes at any time when the Issuer has the right to redeem them as provided above, as the market value at such time will generally not rise substantially above the price at which they can be redeemed. This may similarly be true in the period before such time when any relevant change in law or regulation is yet to become effective.

**Majority Decisions – The Conditions of the Notes contain provisions which may permit their modification without the consent of all investors**

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Notes of a Series, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

**Transfer Restrictions – Transfers of interests in the Notes will be subject to certain restrictions and interests in Global Notes can only be held through a clearing system**

Although the Notes have been authorised by the CMB pursuant to Decree 32, the Capital Markets Law, the Communiqué on Debt Instruments and other related legislation as debt securities to be offered outside of Turkey, the Notes have not been and are not expected to be registered: (a) under the Securities Act or any applicable state's or other jurisdiction's securities laws or (b) with the SEC or any other applicable state's or other jurisdiction's regulatory authorities. The offering of the Notes will be made pursuant to exemptions from the registration requirements of the Securities Act and from other securities laws. Accordingly, reoffers, resales, pledges and other transfers of interests in the Notes will be subject to certain transfer restrictions. Each investor is advised to consult its legal advisers in connection with any such reoffer, resale, pledge or other transfer. See "*Subscription and Sale and Transfer and Selling Restrictions*".

Because transfers of interests in the Global Notes can be effected only through book entries at DTC, Clearstream, Luxembourg and/or Euroclear (as applicable) for the accounts of their respective participants, the liquidity of any secondary market for investments in the Global Notes may be reduced to the extent that some investors are unwilling to invest in notes held in book-entry form in the name of a participant in Clearstream, Luxembourg, Euroclear or DTC, as applicable. The ability to pledge interests in the Notes may be limited due to the lack of a physical certificate. In the event of the insolvency of Euroclear, Clearstream, Luxembourg, DTC or any of their respective participants in whose name interests in the Notes are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on the Notes may be impaired.

**Further Issues – The Issuer may issue further Notes of any Series, which would dilute the interests of an existing holder of the Notes of such Series**

As permitted by Condition 17, the Issuer may from time to time without the consent of the Noteholders of a Series create and issue further Notes of that Series; provided that such further Notes will be required to be fungible with the existing Notes of such Series for U.S. federal income tax purposes as a result of their issuance being a "qualified reopening" under U.S. Treasury Regulation §1.1275 -2(k). To the extent that the Issuer issues further Notes of a Series, the interests of an existing holder of the Notes of such Series (e.g., in respect of any meeting of holders of the Notes of that Series (see "*Majority Decisions*" above)) will be diluted.

**Enforcement of Judgments – It may not be possible for investors to enforce foreign judgments against the Issuer or its management**

The Issuer is a public joint stock company organized under the laws of Turkey. All of the directors and officers of the Issuer reside inside Turkey and all or a substantial portion of the assets of such persons may be, and substantially all of the assets of the Issuer are, located in Turkey. As a result, it may not be possible for investors to effect service of process upon such persons outside Turkey or to enforce against them in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions.

In addition, under the International Private and Procedure Law of the Republic of Turkey (Law No. 5718), a judgment of a court established in a country other than Turkey may not be enforced in Turkish courts in certain circumstances. There is no treaty between the United Kingdom and Turkey providing for reciprocal enforcement of judgments; however, Turkish courts have rendered at least one judgment confirming de facto reciprocity between Turkey and the United Kingdom with respect to the enforcement of judgments of their respective courts. However, since de facto reciprocity is decided by the relevant court on a case-by-case basis, there is uncertainty as to the enforceability of court judgments obtained in the United Kingdom by Turkish

courts. The same may apply for judgments obtained in other jurisdictions. For further information, see “*Enforcement of Judgments and Service of Process*”.

**Change in Law – The value of the Notes could be adversely affected by a change in English law or administrative practice**

The Conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

**Interests in Bearer Global Notes and Specified Denominations – Investors who purchase interests in Bearer Global Notes in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive bearer Notes are subsequently required to be issued**

In relation to any issue of Notes in global bearer form which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that interests in such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in their account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in their account with the relevant clearing system at the relevant time may not receive a definitive Note in bearer form in respect of such holding (should definitive Notes replace the applicable Bearer Global Notes) and would need to purchase or sell a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes in bearer form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

**Clearing Systems – Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures**

Unless issued in definitive form, Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with or registered in the name of a nominee for a common depositary or a common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg or may be deposited with or registered in the name of a nominee for DTC (each as defined under “*Form of the Notes*”). Except in the circumstances described in the applicable Global Note, investors in a Global Note will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

Except in the case of a Registered Global Note denominated in a Specified Currency other than U.S. Dollars and registered in the name of DTC or its nominee and in respect of which a participant in DTC has elected to receive any part of such payment in that Specified Currency, for so long as the Notes are represented by Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no

responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

**No Secondary Market – An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes**

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

**Market Price Volatility – The market price of an investment in the Notes may be subject to a high degree of volatility**

The market price of any investment in the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale by the Group of other Notes or debt securities, as well as other factors, including the trading market for notes issued by the Republic of Turkey. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, could adversely affect the market price of an investment in the Notes without regard to the Issuer's financial condition or results of operations.

The market price of any investment in the Notes will also be influenced by economic and market conditions in Turkey and, to varying degrees, economic and market conditions in emerging markets generally. Although economic conditions differ in each country, the reaction of investors to developments in one country may cause capital markets in other countries to fluctuate. Developments or economic conditions in other emerging market countries have at times significantly affected the availability of credit to the Turkish economy and resulted in considerable outflows of funds and declines in the amount of foreign investment in Turkey. Crises in other emerging market countries may diminish investor interest in securities of Turkish issuers, including the Issuer's, which could adversely affect the market price of an investment in the Notes.

**Exchange Rate Risks and Exchange Controls – If an investor holds Notes which are not denominated in the investor's home currency, then such an investor will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes**

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's



Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (a) the Investor's Currency-equivalent yield on the Notes, (b) the Investor's Currency-equivalent value of the principal payable on the Notes and (c) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal. An investor may also not be able to convert (at a reasonable exchange rate or at all) amounts received in the Specified Currency into the Investor's Currency, which could materially adversely affect the market value of the Notes. There may also be tax consequences for investors.

**Interest Rate Risk – The value of Fixed Rate Notes may be adversely affected by movements in market interest rates**

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

**Credit Ratings – Credit ratings assigned to the Issuer or any Notes may not reflect all risks associated with an investment in those Notes**

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

## ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

The Issuer is a public joint stock company under the Turkish Commercial Code (No. 6102). Substantially all of the assets of the Issuer are located in Turkey. As a result, it may not be possible for investors to effect service of process upon the Issuer outside Turkey or to enforce against it in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions. In order to enforce such judgments in Turkey, investors should initiate enforcement lawsuits before the competent Turkish courts. In accordance with Articles 50 to 59 of Turkey's International Private and Procedure Law (Law No. 5718), the courts of Turkey will not enforce any judgment obtained in a court established in a country other than Turkey unless:

- (a) there is in effect a treaty between such country and Turkey providing for a reciprocal enforcement of court judgments,
- (b) there is *de facto* enforcement in such country of judgments rendered by Turkish courts, or
- (c) there is a provision in the laws of such country that provides for the enforcement of judgments of Turkish courts.

There is no treaty between Turkey and either the United States or the United Kingdom providing for reciprocal enforcement of judgments. There is no *de facto* reciprocity between Turkey and the United States. Turkish courts have rendered at least one judgment confirming a *de facto* reciprocity between Turkey and the United Kingdom; *however*, since *de facto* reciprocity is decided by the relevant court on a case-by-case basis, there is uncertainty as to the enforceability of court judgments obtained in the United States or the United Kingdom by Turkish courts. Moreover, there is uncertainty as to the ability of an investor to bring an original action in Turkey based upon the U.S. federal or any other non-Turkish securities laws.

In addition, the courts of Turkey will not enforce any judgment obtained in a court established in a country other than Turkey if:

- (a) the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed,
- (b) the judgment in question was rendered with respect to a matter within the exclusive jurisdiction of the courts of Turkey,
- (c) the judgment is incompatible with a judgment of a court in Turkey between the same parties and relating to the same issues or, as the case may be, with an earlier foreign judgment on the same issue and enforceable in Turkey,
- (d) the judgment is not of a civil nature,
- (e) the judgment is clearly against public policy rules of Turkey,
- (f) the judgment is not final and binding with no further recourse for appeal or similar revision process under the laws of the country where the judgment has been rendered, or
- (g) the judgment was rendered by a foreign court that has deemed itself competent even though it has no actual relationship with the parties or the subject matter at hand.

Process may be served on the Issuer at İşbank's London branch (with an address at the date of this Base Prospectus of 8 Princes Street, London EC2R 8HL, England) in relation to any proceedings in England in connection with any Notes issued under the Programme.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the Central Bank of Ireland shall be incorporated in, and form part of, this Base Prospectus:

- (a) the independent auditors' audit reports and audited consolidated BRSA Financial Statements of the Group as of and for the years ended 31 December 2015, 2014 and 2013;
- (b) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Issuer as of and for the years ended 31 December 2015, 2014 and 2013; and
- (c) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 2 April 2015 (on pages 68 to 101 (inclusive)) prepared by the Issuer in connection with the Programme.

**Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.**

The BRSA Financial Statements incorporated by reference into this Base Prospectus, all of which are in English, were prepared as convenience translations of the corresponding Turkish language BRSA Financial Statements (which translations the Issuer confirms were direct and accurate).

Copies of documents incorporated by reference in this Base Prospectus are available on the Issuer's website at the following links:

- (a) the independent auditors' audit reports and audited consolidated BRSA Financial Statements of the Group as of and for the years ended 31 December 2015 ([http://www.tskb.com.tr/i/content/1609\\_1\\_TSKB\\_CONS\\_ENG\\_31\\_12\\_2015.pdf](http://www.tskb.com.tr/i/content/1609_1_TSKB_CONS_ENG_31_12_2015.pdf)), 2014 ([http://www.tskb.com.tr/i/content/1407\\_1\\_TSKB\\_CONS\\_ENG\\_31\\_12\\_2014.pdf](http://www.tskb.com.tr/i/content/1407_1_TSKB_CONS_ENG_31_12_2014.pdf)) and 2013 ([http://www.tskb.com.tr/i/content/1315\\_1\\_TSKB\\_31.12.2013\\_Cons.pdf](http://www.tskb.com.tr/i/content/1315_1_TSKB_31.12.2013_Cons.pdf));
- (b) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Issuer as of and for the years ended 31 December 2015 ([http://www.tskb.com.tr/i/content/1609\\_1\\_TSKB\\_SOLO\\_ENG\\_31\\_12\\_2015.pdf](http://www.tskb.com.tr/i/content/1609_1_TSKB_SOLO_ENG_31_12_2015.pdf)), 2014 ([http://www.tskb.com.tr/i/content/1407\\_1\\_TSKB\\_SOLO\\_ENG\\_31\\_12\\_2014.pdf](http://www.tskb.com.tr/i/content/1407_1_TSKB_SOLO_ENG_31_12_2014.pdf)) and 2013 ([http://www.tskb.com.tr/i/content/1315\\_1\\_TSKB\\_31.12.2013\\_Bank\\_only.pdf](http://www.tskb.com.tr/i/content/1315_1_TSKB_31.12.2013_Bank_only.pdf)); and
- (c) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 2 April 2015 (on pages 68 to 101 (inclusive)) prepared by the Issuer in connection with the Programme (<http://www.tskb.com.tr/i/assets/document/pdf/2-base-prospectus-dated-2-april-2015.pdf>).

Any non-incorporated parts of a document referred to above are either irrelevant to an investor or covered elsewhere in this Base Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus do not (and shall not be deemed to) form part of this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes,

prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes in accordance with Article 16 of the Prospectus Directive.

The contents of any website referenced in this Base Prospectus do not form part of (and are not incorporated into) this Base Prospectus.

## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. This overview only relates to the terms and conditions of the Notes as set out in this Base Prospectus. Notes may be issued under the Programme in a form other than that contemplated in such conditions, and where any such Notes are to be: (a) admitted to trading on the Main Securities Market or another regulated market for the purposes of MiFID or (b) offered to the public in the European Economic Area in circumstances that require the publication of a prospectus under the Prospectus Directive, a supplement to this Base Prospectus or a new prospectus will be prepared and published by the Issuer.*

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this overview.

<b>Issuer</b>	Türkiye Sınai Kalkınma Bankası A.Ş.
<b>Risk Factors</b>	There are certain factors that may affect the Issuer’s ability to fulfill its obligations under Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include risks relating to the Group and its business, the Group’s relationship with the Issuer’s principal shareholders, Turkey and the Turkish banking industry. In addition, there are certain factors which are material for the purpose of assessing the risks associated with Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include certain risks relating to the structure of particular Series of Notes and certain market risks.
<b>Description</b>	Global Medium Term Note Programme
<b>Arrangers</b>	Citigroup Global Markets Limited Commerzbank Aktiengesellschaft
<b>Dealers</b>	BNP Paribas Citigroup Global Markets Limited Commerzbank Aktiengesellschaft Credit Suisse Securities (Europe) Limited HSBC Bank plc ING Bank N.V., London Branch Société Générale Standard Chartered Bank UniCredit Bank AG  and any other Dealers appointed in accordance with the Programme Agreement.
<b>Certain Restrictions</b>	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines,

regulations, restrictions or reporting requirements from time to time (see “*Subscription and Sale and Transfer and Selling Restrictions*”) including the below restrictions applicable at the date of this Base Prospectus.

<b>Fiscal Agent</b>	Citibank, N.A., London Branch
<b>Programme Size</b>	Up to U.S.\$750,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Distribution</b>	Notes may be distributed by way of private or (other than in the United States) public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies</b>	<p>Notes may be denominated and payments in respect of the Notes may be made in euro, Sterling, U.S. Dollars, Turkish Lira or, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer, and as set out in the Conditions and specified in the applicable Final Terms.</p> <p>Each payment in respect of Notes denominated in Turkish Lira and held other than through DTC may be made in U.S. Dollars under Condition 7.8 if an irrevocable election to receive such payment in U.S. Dollars is made. See “<i>Terms and Conditions of the Notes – Condition 7.8</i>”.</p> <p>In the case of Notes held through DTC and denominated in a Specified Currency other than U.S. Dollars, payments will be made in U.S. Dollars unless the participant in DTC with an interest in such Notes has elected to receive any part of such payment in that Specified Currency. See “<i>Terms and Conditions of the Notes – Condition 7.9</i>”.</p>
<b>Maturities</b>	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
<b>Issue Price</b>	Notes may be issued at an issue price which is at par or at a discount to, or premium over, par.
<b>Form of Notes</b>	The Notes will be issued in bearer or registered form as described in “ <i>Form of the Notes</i> ”. Registered Notes will not be exchangeable for Bearer Notes and vice versa.
<b>Fixed Rate Notes</b>	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and, on redemption, will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant

Dealer.

### **Floating Rate Notes**

Floating Rate Notes will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

### **Zero Coupon Notes**

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

### **Redemption**

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or as a result of an acceleration due to an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

### **Denomination of Notes**

The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State in circumstances which require the publication of a prospectus under the Prospectus Directive will be not less than €100,000 (or, if the Notes are denominated

in a currency other than euro, the equivalent amount in such currency as of the applicable Issue Date).

The minimum denomination of each Definitive IAI Registered Note, and of Notes sold to Institutional Accredited Investors in the form of a Global IAI Note, will be not less than U.S.\$500,000 or its approximate equivalent in other Specified Currencies.

**Taxation**

All payments in respect of the Notes by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“Taxes”), imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will (subject to certain exceptions) pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, after such withholding or deduction will equal the respective amounts that would have been receivable in respect of the Notes in the absence of the withholding or deduction. See “*Taxation – Certain Turkish Tax Considerations*” and “*Terms and Conditions of the Notes – Condition 9*”.

All payments in respect of the Notes will be made subject to any withholding or deduction required pursuant to FATCA or any law implementing an intergovernmental approach to FATCA, as provided in Condition 7.1 and, in accordance with Condition 9.1, no additional amount will be payable by the Issuer in respect of any such withholding or deduction.

**Negative Pledge**

The terms of the Notes will contain a negative pledge provision as further described in Condition 4.

**Certain Covenants**

The Issuer will agree to certain covenants, including covenants limiting transactions with affiliates.

**Events of Default**

The Notes will be subject to certain events of default, including (among others) non-payment, breach of obligations, cross-acceleration and certain bankruptcy and insolvency events. See “*Terms and Conditions of the Notes – Condition 11*”.

**Status of the Notes**

The Notes will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) will rank pari passu without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ rights.

**Rating**

The Programme has been rated “BBB-” (for long-term issuances) and “F3” (for short-term issuances) by Fitch and Notes issued under the Programme are expected to be rated



“Baa3” (for long-term issuances) and “P-3” (for short-term issuances) by Moody’s. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

## **ERISA**

Subject to certain conditions, the Notes may be invested in with the assets of an “employee benefit plan” as defined in and subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), a “plan” as defined in and subject to Section 4975 of the Code, or any entity whose underlying assets include “plan assets” of any of the foregoing. See “*Certain Considerations for ERISA and other U.S. Employee Benefit Plans*”.

## **Listing and admission to trading**

Application will be made to the Irish Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the Official List and to trading on the Main Securities Market, however, no assurance can be given that any such application will be accepted.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

## **Governing Law**

The Notes and the Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes or the Agency Agreement are or will be (as applicable) governed by, and shall be construed in accordance with, English law.

## **Selling Restrictions**

There are restrictions on the offer, sale and transfer of the Notes in Turkey, the United States, the European Economic Area (including the United Kingdom), Japan, the Kingdom of Bahrain, Hong Kong, Switzerland, Singapore and Thailand, and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes; see “*Subscription and Sale and Transfer and Selling Restrictions*”.

## **United States Selling Restrictions**

Regulation S (Category 2), Rule 144A and Section 4(a)(2). Bearer Notes will be issued in compliance with U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of

Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) (“TEFRA D”), unless (i) the applicable Final Terms states that such Notes are issued in compliance with U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (“TEFRA C”) or (ii) the Bearer Notes are issued other than in circumstances under which the Bearer Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”), which circumstances will be referred to in the applicable Final Terms as a transaction to which TEFRA is not applicable. Such rules impose certain additional restrictions on transfers of Bearer Notes.

## FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act (“Regulation S”) and Registered Notes will be issued both in “offshore transactions” to non-U.S. persons in reliance on the exemption from registration provided by Regulation S, to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“QIBs”) in reliance on Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

### **Bearer Notes**

Each Tranche of Bearer Notes will be initially issued in the form of a temporary global note (a “Temporary Bearer Global Note”) or, if so specified in the applicable Final Terms, a permanent global note (a “Permanent Bearer Global Note”) and, together with a Temporary Bearer Global Note, each a “Bearer Global Note”) which, in either case, will:

- (a) if the Bearer Global Notes are intended to be issued in new global note (“NGN”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, S.A. (“Clearstream, Luxembourg”); and
- (b) if the Bearer Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the “Common Depositary”) for, Euroclear and Clearstream, Luxembourg.

Where the Bearer Global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms will also indicate whether such Bearer Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Bearer Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognized as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Note if the Temporary Bearer Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Bearer Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Fiscal Agent.

On and after the date (the “Exchange Date”) which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial

ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Bearer Global Note if the Permanent Bearer Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Temporary Bearer Global Note or a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice given at any time from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Fiscal Agent as described therein or (b) only upon the occurrence of an Exchange Event or (c) at any time at the request of the Issuer. For these purposes, "Exchange Event" means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or the common depository or the common safekeeper for Euroclear and Clearstream, Luxembourg, as the case may be, on their behalf (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Fiscal Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

The following legend will appear on all Bearer Notes (other than Temporary Bearer Global Notes or Bearer Notes issued in compliance with TEFRA C) which have an original maturity of more than one year and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections of the Code referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Bearer Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purposes of their immobilization in accordance with article 4 of the Belgian law of December 14, 2005.

## Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S in offshore transactions to persons other than U.S. persons will initially be represented by a global note in registered form (a “Regulation S Global Note”) or, if so specified in the applicable Final Terms, by a registered note in definitive form (a “Definitive Regulation S Registered Note”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, Registered Notes offered and sold in reliance on Regulation S (including Definitive Regulation S Registered Notes) or beneficial interests therein may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and such beneficial interests in a Regulation S Global Note (including one held by DTC or its nominee) may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Notes will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche offered and sold in the United States or to, or for the account or benefit of, U.S. persons may only be offered and sold by the Issuer or any person acting on its behalf in transactions exempt from the registration requirements of the Securities Act: (i) to QIBs or (ii) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“Institutional Accredited Investors”) and who execute and deliver an IAI Investment Letter in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs pursuant to Rule 144A will be represented by a global note in registered form (a “Rule 144A Global Note”).

Registered Global Notes will either be (i) deposited with a custodian for, and registered in the name of a nominee of, the Depository Trust Company (“DTC”) or (ii) deposited with a common depository or, if the Registered Notes are to be held under the New Safekeeping Structure (“NSS”), a common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of that common depository or common safekeeper, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Where the Registered Global Notes issued in respect of any Tranche are to be held under the NSS, the applicable Final Terms will also indicate whether such Registered Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Registered Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognized as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for registered Global Notes to be held under the NSS will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

The Registered Notes of each Tranche sold to Institutional Accredited Investors in reliance on Section 4(a)(2) of the Securities Act will be in definitive form, registered in the name of the holder thereof (“Definitive IAI Registered Notes”) or, if so specified in the applicable Final Terms, by a global note in registered form (an “IAI Global Note” and, together with a Rule 144A Global Note and a Regulation S Global Note, each a “Registered Global Note”). An interest in an IAI Global Note sold to an Institutional Accredited Investor will, for so long as such remain restricted securities within the meaning of Rule 144(a)(3) under the Securities Act, only be transferable to QIBs or to non-U.S. persons in offshore transactions, in accordance with the legends regarding restrictions on transfer set out under “*Subscription and Sale and Transfer and Selling Restrictions*”. Unless otherwise set forth in the applicable Final Terms, Definitive IAI Registered Notes will be issued, and interests in an IAI Global Note may be purchased, only in minimum denominations of at least U.S.\$500,000

and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes and interests in Global Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “*Subscription and Sale and Transfer and Selling Restrictions*”. Institutional Accredited Investors that hold Definitive IAI Registered Notes may not elect to hold such Notes through DTC, Euroclear or Clearstream, Luxembourg.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.4) as the registered holder of the Registered Global Notes on the relevant Record Date. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (a) an Event of Default has occurred and is continuing, (b) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act and no alternative clearing system is available, (c) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (d) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (d) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

### **Transfer of Interests**

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. The Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions (see “*Subscription and Sale and Transfer and Selling Restrictions*”).

## General

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Fiscal Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes but is to be consolidated with such existing Tranche on a date after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until such time as the further Tranche is so consolidated, which shall not be prior to the expiry of any applicable distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such further Tranche.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then, from 8.00 p.m. (London time) on such day, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and DTC on and subject to the terms of a deed of covenant (the “Deed of Covenant”) dated 2 April 2015 and executed by the Issuer.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a new Base Prospectus or a supplement to the Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

## APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

### TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] (the “Notes”)  
under the U.S.\$750,000,000  
Global Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Base Prospectus dated 19 April 2016 [and the supplement[s] to it dated [date] [and [date]] [which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Base Prospectus”). [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus]<sup>1</sup>. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Issuer’s website (<http://www.tskb.com.tr>).]

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]*

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Base Prospectus dated 2 April 2015 [and the supplement[s] to it dated [date] and [date]] which are incorporated by reference in the Base Prospectus dated 19 April 2016. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 19 April 2016 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Base Prospectus”), including the Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Issuer’s website (<http://www.tskb.com.tr>).]

*[Include whichever of the following apply or specify as “Not Applicable”. Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Final Terms.]*

- |   |                                     |   |
|---|-------------------------------------|---|
| 1 | Issuer:                             | Türkiye Sınai Kalkınma Bankası A.Ş.               |
| 2 | (a) Series Number:                  | [•]   |
|   | (b) Tranche Number:                 | [•]   |
|   | (c) Date on which the Notes will be | [The Notes will be consolidated and form a single |

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<sup>1</sup> Delete where the Notes are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive.



	consolidated and form a single Series:	Series with [ <i>identify earlier Tranches</i> ] on [the Issue Date/exchange of the Temporary Bearer Global Note for interests in the Permanent Bearer Global Note, as referred to in paragraph 21 below, which is expected to occur on or about [ <i>date</i> ]][Not Applicable]
3	Specified Currency:	[•]
4	Aggregate Nominal Amount:	
	(a) Series:	[•]
	(b) Tranche:	[•]
5	Issue Price:	[•] per cent. of the Aggregate Nominal Amount of the Tranche [plus accrued interest from [ <i>insert date</i> ] ( <i>if applicable</i> )]
6	(a) Specified Denomination(s):	[•] [and integral multiples of [•] in excess thereof] <i>(N.B. Notes must have a minimum denomination of €100,000 (or equivalent))</i> <i>(Note – where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed:</i> <i>“[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”)</i>
	(b) Calculation Amount:	[•] <i>(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)</i>
7	(a) Issue Date:	[•]
	(b) Interest Commencement Date:	[specify/Issue Date/Not Applicable] <i>(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)</i>
8	Maturity Date:	[Fixed rate – specify date/Floating rate – Interest Payment Date [falling in][nearest to] [specify month and year]]
9	Interest Basis:	[•] per cent. Fixed Rate] [•] month [[ <i>currency</i> ]LIBOR/EURIBOR/TRLIBOR/ROBOR/P RIBOR/SIBOR/NIBOR/WIBOR]] +/- [•] per cent. Floating Rate] [Zero coupon]

- (see paragraph [14]/[15]/[16] below)
- 10 Redemption[/Payment] Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [●] per cent. of their nominal amount
- 11 Change of Interest Basis: [For the period from (and including) the Interest Commencement Date, up to (but excluding) [●], paragraph [14/15] below applies, and, for the period from (and including) [●] up to (and including) the Maturity Date, paragraph [14/15] below applies]/[Not Applicable][●]
- 12 Put/Call Options: [Investor Put]  
[Issuer Call]  
[Not Applicable]  
[(see paragraph [17]/[18]/[19] below)]
- 13 Status of the Notes: Senior  
Date Board approval for issuance of Notes obtained: [●] [Not Applicable] (N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes)

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 14 Fixed Rate Note Provisions: [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [●] per cent. per annum payable in arrear on [the/each] Interest Payment Date
- (b) Interest Payment Date(s): [●] in each year up to and including the Maturity Date/[specify other]  
(Amend appropriately in the case of irregular coupons. In the case of Modified Fixed Rate Notes, insert regular interest payment dates and also complete paragraph (g) below as applicable. Paragraph (g) is not relevant to Fixed Rate Notes where Interest Periods and Interest Amounts are not subject to adjustment and either (a) a customary Following Business Day Convention is to apply in accordance with Condition 7.6 to any date for payment that is not a Payment Business Day or (b) such payment dates are not otherwise to be subject to adjustment by reference to any other Business Day Convention.)
- (c) Fixed Coupon Amount(s): [[●] per Calculation Amount] [Not Applicable]  
(Applicable to Notes in definitive form. Not applicable to Modified Fixed Rate Notes where Interest Periods and

*Interest Amounts are subject to adjustment)*

- (d) Broken Amount(s):  per Calculation Amount, payable on the Interest Payment Date falling   [Not Applicable]

*(Applicable to Notes in definitive form. Not applicable to Modified Fixed Rate Notes where Interest Periods and Interest Amounts are subject to adjustment)*

- (e) [Day Count Fraction: /360]  [Actual/Actual (ICMA)]  
*(Delete this sub-paragraph in the case of Modified Fixed Rate Notes)*

- (f) [Determination Date(s): ] in each year][Not Applicable]  
*(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*  
*(Delete this sub-paragraph in the case of Modified Fixed Rate Notes)*

- (g) Modified Fixed Rate Notes:  [Applicable/Not Applicable]  
*(Modified Fixed Rate Notes are Fixed Rate Notes: (i) the terms of which provide for Interest Periods and Interest Amounts to be subject to adjustment or (ii) for which Interest Periods and Interest Amounts are not subject to adjustment but a specified Payment Business Day Convention is to apply to any date for payment that is not a Payment Business Day. If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Interest Periods and Interest Amounts subject to adjustment:  [Applicable/Not Applicable]

- (ii) Business Day Convention:  [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]  
*(Only applicable where Interest Periods and Interest Amounts are subject to adjustment)*

- (iii) Specified Business Centre(s):  [Not Applicable]  
*(Only applicable where Interest Periods and Interest Amounts are subject to adjustment. This paragraph relates to Interest Period end dates and not the date of payment to which sub-paragraph (vi) below relates)*

- (iv) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]  
[Actual/Actual (ISDA)] [Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360] [Bond Basis]  
[30E/360] [Eurobond Basis]  
[30E/360 (ISDA)]
- (v) Payment Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]  
*(Only applicable where Interest Periods and Interest Amounts are not subject to adjustment and a specified Business Day Convention is to apply to any date for payment that is not a Payment Business Day)*
- (vi) Specified Financial Centres: [●/Not Applicable]  
*(Only applicable if a Payment Business Day Convention is specified in sub-paragraph 14(g)(v), Note that this paragraph relates to the date of payment and not Interest Period end dates to which sub-paragraph (iii) above relates)*
- 15 Floating Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (a) Specified Period(s)/Specified Interest Payment Dates: [●][, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]  
*(Specified Period(s)/Specified Interest Payment Dates may not be subject to adjustment in accordance with a Business Day Convention in the case of Modified Floating Rate Notes. In these circumstances only, paragraph (m) below will be applicable)*
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention][Not Applicable]<sup>2</sup>  
*(Complete unless paragraph (m) below is applicable. See note to paragraph (a) above for guidance)*
- (c) Specified Business Centre(s): [●][Not Applicable]<sup>3</sup>

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<sup>2</sup>Only not applicable in the case of Modified Floating Rate Notes.

<sup>3</sup>Only not applicable in the case of Modified Floating Rate Notes.

*(Note that this paragraph relates to Interest Period end dates and not the date of payment to which paragraph 22 relates. Complete unless paragraph (m) below is applicable. See note to paragraph (a) above for guidance)*

- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [•][Not Applicable]
- (f) Screen Rate Determination: [Applicable][Not Applicable]
- Reference Rate: [•] month  
[[currency]][LIBOR/EURIBOR/TRLIBOR/ROBOR/PRIBOR /SIBOR/NIBOR/WIBOR].
  - Specified Time: [11.00 a.m.] [11.30 a.m.] [12.00 p.m.] [other]  
*(11.00 a.m. in the case of LIBOR, EURIBOR, ROBOR, PRIBOR, SIBOR and WIBOR, 11.30 a.m. in the case of TRLIBOR and 12.00 p.m. in the case of NIBOR)*
  - Relevant Financial Centre: [London] [Brussels] [Bucharest] [İstanbul] [Prague] [Singapore] [Oslo] [Warsaw] [other]
  - Interest Determination Date(s): [•]  
*(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR, the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR, the second İstanbul business day prior to the start of each Interest Period if TRLIBOR, the second Bucharest business day prior to the start of each Interest Period if ROBOR, the second Prague business day prior to the start of each Interest Period if PRIBOR, the second Singapore business day prior to the start of each Interest Period if SIBOR, the second Oslo business day prior to the start of each Interest Period if NIBOR and the second Warsaw business day prior to the start of each Interest Period if WIBOR)*
  - Relevant Screen Page: [•]  
*(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions)*

			<i>appropriately)</i>
	(g)	ISDA Determination:	[Applicable][Not Applicable]
		• Floating Rate Option:	[•]
		• Designated Maturity:	[•]
		• Reset Date:	[•]
			<i>(In the case of a LIBOR or EURIBOR-based option, the first day of the Interest Period)</i>
	(h)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation ( <i>specify for each short or long interest period</i> )
	(i)	Margin(s):	[+/-] [•]% per annum
	(j)	Minimum Rate of Interest:	[[•]% per annum][Not Applicable]
	(k)	Maximum Rate of Interest:	[[•]% per annum][Not Applicable]
	(l)	Day Count Fraction:	[Actual/Actual (ICMA)] [Actual/Actual (ISDA)][Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)]
	(m)	Modified Floating Rate Notes:	[Applicable/Not Applicable]  <i>(Modified Floating Rate Notes are Floating Rate Notes: (i) the terms of which provide that Interest Periods and Interest Amounts are not subject to adjustment as provided in the italicised directions for completing paragraph (a) and the paragraphs that follow above and (ii) for which a specified Payment Business Day Convention is to apply to any date for payment that is not a Payment Business Day. If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
		(i) Payment Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
		(ii) Specified Financial Centre(s):	[•/Not Applicable]
16		Zero Coupon Note Provisions	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(a)	Accrual Yield:	[•] per cent. per annum
	(b)	Reference Price:	[•]

- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
[Actual/360]  
[Actual/365]

**PROVISIONS RELATING TO REDEMPTION**

- 17 Issuer Call: [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Optional Redemption Date(s): [•]
- (b) Optional Redemption Amount: [•] per Calculation Amount
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [•]
- (ii) Maximum Redemption Amount: [•]
- (d) Notice periods: Minimum period: [•] days  
Maximum period: [•] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which, in the case of Euroclear and Clearstream, Luxembourg, require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
- 18 Investor Put: [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Optional Redemption Date(s): [•]
- (b) Optional Redemption Amount: [•] per Calculation Amount
- (c) Notice periods: Minimum period: [•] days  
Maximum period: [•] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which, in the case of Euroclear and Clearstream, Luxembourg, require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
- 19 Final Redemption Amount: [•] per Calculation Amount
- 20 Early Redemption Amount payable on redemption for taxation reasons or on event [•] per Calculation Amount

of default:

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

### 21 Form of Notes:

#### (a) Form:

[Bearer Notes:]

[Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on not less than 60 days' notice given at any time][only upon an Exchange Event]]

[Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Bearer Global Note exchangeable for Definitive Notes [on not less than 60 days' notice given at any time][only upon an Exchange Event][at any time at the request of the Issuer]]

[Definitive Bearer Notes]

[Bearer Notes shall not be physically delivered (i) in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005, or (ii) in the United States of America.]

*(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Bearer Global Note exchangeable for Definitive Notes.)*

[Registered Notes:

[Regulation S Global Note registered in the name of a nominee for [DTC][a common depository for Euroclear and Clearstream, Luxembourg][a common safekeeper for Euroclear and Clearstream, Luxembourg] exchangeable for Definitive Registered Notes [upon an Exchange Event][at any time at the request of the Issuer]]

[Rule 144A Global Note(s) registered in the name of a nominee for [DTC][a common depository for Euroclear and Clearstream, Luxembourg][a common



safekeeper for Euroclear and Clearstream, Luxembourg] exchangeable for Definitive Registered Notes [upon an Exchange Event][at any time at the request of the Issuer]]

[Definitive Regulation S Registered Note]

[Definitive IAI Registered Notes]

[IAI Global Note registered in the name of a nominee for [DTC][a common depository for Euroclear and Clearstream, Luxembourg][a common safekeeper for Euroclear and Clearstream, Luxembourg] exchangeable for Definitive Registered Notes [upon an Exchange Event][at any time at the request of the Issuer]]

*(N.B. In the case of an issue with more than one Global Note or a combination of one or more Bearer Global Note(s) and Definitive IAI Notes, specify the nominal amounts of each Global Note and, if applicable, the aggregate nominal amount of all Definitive IAI Notes if such information is available)*

(b) [New Global Note:

[Yes][No]]

22 Specified Financial Centre(s):

[●/Not Applicable]

*(Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the Interest Amount to which sub-paragraph 15(c) relates. Delete this paragraph if sub-paragraphs 14(g)(vi) or 15(m)(ii) are completed)*

23 Talons for future Coupons to be attached to Definitive Notes:

[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

#### **PROVISIONS APPLICABLE TO TURKISH LIRA NOTES**

24 USD Payment Election:

[Applicable/Not Applicable]

*(Only applicable for Notes the Specified Currency of which is Turkish Lira)*

#### **THIRD PARTY INFORMATION**

[[*Relevant third party information,*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

By:

*Duly authorised*

By:

*Duly authorised*

## PART B – OTHER INFORMATION

### 1 LISTING AND ADMISSION TO TRADING

- (a) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the Official List and admitted to trading on the Main Securities Market of the Irish Stock Exchange with effect from [•].] [Not Applicable.]
- (When documenting an issue of Notes that is to be consolidated and to form a single series with a previous issue, it should be indicated here that the original Notes are already listed and admitted to trading)*
- (b) Estimate of total expenses related to admission to trading: [•]

### 2 RATINGS

- Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:
- [insert details] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms].*
- [Each of *[defined terms]* is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”).]
- [[Insert legal name of credit rating agency] is established in the European Union and is not registered under Regulation (EC) No 1060/2009 (the “CRA Regulation”).]*
- [[Insert legal name of credit rating agency] is not established in the European Union but the rating it has given to the Notes is endorsed by [insert legal name of credit rating agency], which is established in the European Union and registered under Regulation (EC) No 1060/2009 (the “CRA Regulation”).]*
- [[Insert legal name of credit rating agency] is not established in the European Union but is certified under Regulation (EC) No 1060/2009 (the “CRA Regulation”).]*
- [[Insert legal name of credit rating agency] is not established in the European Union and is not certified under Regulation (EU) No 1060/2009, (the*

“CRA Regulation”) and the rating it has given to the Notes is not endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation.]

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### **3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to the [Managers /Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer of the Notes. The [Managers/Dealers] and/or their [respective] affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business – *Amend as appropriate if there are other interests*]

*[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

### **4 YIELD (Fixed Rate Notes only)**

Indication of yield:

[●] per cent. per annum

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

### **5 HISTORIC INTEREST RATES (Floating Rate Notes only)**

Details of historic

[[*currency*]LIBOR/EURIBOR/TRLIBOR/ROBOR/PRIBOR/SIBOR/NIBOR/WIBOR] rates can be obtained from [Reuters] at [●].

### **6 OPERATIONAL INFORMATION**

(a) ISIN: [●][Not Applicable]

(b) Common Code: [●][Not Applicable]

(c) CUSIP: [●][Not Applicable]

(d) Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]

(e) Delivery: Delivery [against/free of] payment

(f) Names and addresses of additional Paying Agent(s) (if any): [●][Not Applicable]

(g) Deemed delivery of clearing system notices for the purposes of Condition 15: [Any notice delivered to Noteholders of Notes held through a clearing system will be deemed to have been given on the [first] [second] [business] day after the day on which it was given to the relevant clearing system.][Not Applicable]

(h) Intended to be held in a manner which [Yes. Note that the designation “yes” simply means

would allow Eurosystem eligibility:

that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [or registered in the name of a nominee of one of the ICSDs acting as common safekeeper] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [or registered in the name of a nominee of one of the ICSDs acting as common safekeeper]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## 7 DISTRIBUTION

- |   |  |
|---|--|
| (a) Method of distribution:                     | [Syndicated/Non-syndicated]  |
| (b) If syndicated, names of Managers:           | [Not Applicable/ <i>give names</i> ]   |
| (c) Date of [Subscription] Agreement:           | [•]  |
| (d) Stabilisation Manager(s) (if any):          | [Not Applicable/ <i>give name</i> ]  |
| (e) If non-syndicated, name of relevant Dealer: | [Not Applicable/ <i>give name</i> ]  |
| (f) U.S. Selling Restrictions:                  | [Reg. S Compliance Category 2][Rule 144A][Rule 144A][Section 4(a)(2)] [Rules identical to those provided in [TEFRA C][TEFRA D] applicable][TEFRA not applicable] |

## 8 REASONS FOR THE OFFER

Reasons for the offer

[•]

*(See “Use of Proceeds” wording in Base Prospectus – if reasons for offer different from general corporate purposes will need to include those reasons here.)*

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which, unless otherwise agreed by the Issuer and the relevant Dealer(s) or Investor(s) at the time of issue, will be incorporated by reference into, or attached to, each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Applicable Final Terms” and “Form of the Notes” for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Türkiye Sınai Kalkınma Bankası A.Ş. (the “Issuer”) pursuant to the Agency Agreement (as defined below).

References herein to the “Notes” shall, unless the context otherwise requires, be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a “Global Note”), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note;
- (c) any definitive Notes in bearer form (“Bearer Notes”) issued in exchange for a Global Note in bearer form; and
- (d) any definitive Notes in registered form (“Registered Notes”) (whether or not issued in exchange for a Global Note in registered form).

The Notes and the Coupons (as defined below) have the benefit of an agency agreement dated 2 April 2015 as supplemented by a supplemental agency agreement dated 19 April 2016 (such agency agreement as further amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) and made among the Issuer, Citibank N.A., London Branch as fiscal and principal paying agent and exchange agent (the “Fiscal Agent” and the “Exchange Agent”, which expression shall, in each case, include any successor fiscal agent and exchange agent) and the other paying agents named therein (together with the Fiscal Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents), Citibank N.A., London Branch as transfer agent (together with the Registrar (as defined below), the “Transfer Agents”, which expression shall include any additional or successor transfer agent) and Citigroup Global Markets Deutschland AG as registrar (the “Registrar”, which expression shall include any successor registrar).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note, which complete these Terms and Conditions (the “Conditions”). References to the “applicable Final Terms” are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive) to the extent implemented in the relevant Member State of the European Economic Area and includes any relevant implementing measure in the relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

Interest-bearing definitive Bearer Notes have interest coupons (“Coupons”) and, in the case of Notes which, when issued in definitive bearer form, have more than 27 interest payments remaining, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context

otherwise requires, be deemed to include a reference to Talons or talons. Registered Notes and Global Notes do not have Coupons or Talons attached on issue.

Any reference to “Noteholders” or “holders” in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “Couponholders” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes (a) which are expressed in the applicable Final Terms to be consolidated and form a single series and (b) the terms and conditions of which are identical in all respects except for their respective Issue Dates, (unless this is a Zero Coupon Note) Interest Commencement Dates and/or Issue Prices.

The Noteholders and the Couponholders are entitled to the benefit of a deed of covenant (such deed of covenant as modified and/or supplemented and/or restated from time to time, the “Deed of Covenant”) dated 2 April 2015 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, a deed poll (such deed poll as modified and/or supplemented and/or restated from time to time, the “Deed Poll”) dated 2 April 2015 and made by the Issuer and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Fiscal Agent, the Registrar and the other Paying Agents, the Exchange Agent and the other Transfer Agents (such agents and the Registrar being together referred to as the “Agents”). If the Notes are to be admitted to trading on the regulated market of the Irish Stock Exchange, the applicable Final Terms will be published on the Issuer’s website (<http://www.tskb.com.tr>). If this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, “euro” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

## **1 Form, Denomination and Title**

### **1.1 Form and denomination**

The Notes are in bearer form or in registered form as specified in the applicable Final Terms and serially numbered in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*. The Notes are issued

pursuant to the Turkish Commercial Code (Law No. 6102), the Capital Markets Law (Law No. 6362) of Turkey and the Communiqué Serial: II. No: 31.1 on Debt Instruments of the Turkish Capital Markets Board (in Turkish: *Sermaye Piyasası Kurulu*) (the “CMB”).

This Note may be a Fixed Rate Note, a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis specified in the applicable Final Terms.

Definitive Bearer Notes are issued with Coupons attached unless they are Zero Coupon Notes, in which case references to Coupons and Couponholders in the Conditions are not applicable.

## **1.2 Title**

Subject as set out below, title to the Bearer Notes and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership, trust or any other interest or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next two succeeding paragraphs.

For so long as any of the Notes is represented by a Global Note deposited with and, in the case of a Registered Global Note, registered in the name of a nominee for a common depository or a common safekeeper, as the case may be, for Euroclear Bank SA/NV (“Euroclear”) and/or Clearstream Banking, S.A. (“Clearstream, Luxembourg”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall upon their receipt of such certificate or other document be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes and the bearer or registered holder of such Global Note shall be deemed not to be the holder for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

For so long as the Depository Trust Company (“DTC”) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be. References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Fiscal Agent.



## **2 Transfers of Registered Notes**

### **2.1 Transfers of interests in Registered Global Notes**

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes of the same Series in definitive form or for a beneficial interest in another Registered Global Note of the same Series, in each case only in the Specified Denomination(s) (and provided that the aggregate nominal amount of any balance of such beneficial interest of the transferor not so transferred is an amount of at least the Specified Denomination) and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

### **2.2 Transfers of Registered Notes in definitive form**

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the Specified Denomination(s) set out in the applicable Final Terms) (and provided that, if transferred in part, the aggregate nominal amount of the balance of that Registered Note not so transferred is an amount of at least the Specified Denomination). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 10 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of its receipt of such request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (if so requested by the specified transferee and at the risk of such transferee), send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) being transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (if so requested by the transferor and at the risk of the transferor) sent by uninsured mail to the transferor. No transfer of a Registered Note will be valid unless and until entered in the Register.

### **2.3 Costs of registration**

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided in this Condition 2, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer and/or any Agent may require the payment of a sum

sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration and/or transfer.

### **3 Status of the Notes**

The Notes and any relative Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

### **4 Negative Pledge**

#### **4.1 Negative Pledge**

So long as any of the Notes remains outstanding, the Issuer will not create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a "Security Interest") upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

- (a) all amounts payable by it under the Notes are secured by the Security Interest equally and rateably with the Relevant Indebtedness;
- (b) such Security Interest is terminated;
- (c) such other arrangement (whether or not it includes the giving of a Security Interest) is provided for the benefit of the Noteholders as is approved by an Extraordinary Resolution of the Noteholders; or
- (d) such Security Interest is provided as is approved by an Extraordinary Resolution of the Noteholders.

Nothing in this Condition 4.1 shall prevent the Issuer from creating or permitting to subsist any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to: (i) a bond, note or other indebtedness whereby the payment obligations are secured by a segregated pool of assets (whether held by the Issuer or any third party guarantor) (any such bond, note or other indebtedness, a "Covered Bond"), or (ii) any securitisation of receivables or other payment rights, asset-backed financing or similar financing structure (created in accordance with normal market practice) and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest are to be discharged principally from such assets or revenues (or in the case of Direct Recourse Securities, by direct unsecured recourse to the Issuer); *provided* that the aggregate then-existing balance sheet value of assets or revenues subject to any Security Interest created in respect of: (A) Covered Bonds that are Relevant Indebtedness and (B) any other secured Relevant Indebtedness (other than Direct Recourse Securities) of the Issuer, when added to the nominal amount of any outstanding Direct Recourse Securities that are Relevant Indebtedness, does not, at the time of the incurrence thereof, exceed 15 per cent. of the consolidated total assets of the Issuer (as shown in the most recent audited consolidated financial statements of the Issuer prepared in accordance with BRSA Principles).

## 4.2 Interpretation

For the purposes of these Conditions:

“BRSA” means the Banking Regulation and Supervision Agency (in Turkish: *Bankacılık Düzenleme ve Denetleme Kurumu*);

“BRSA Principles” means collectively the regulation on “The Procedures and Principles Regarding Banks’ Accounting Practices and Maintaining Documents” published in the Official Gazette dated 1 November 2006 and numbered 26333, Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Turkish Accounting Standards Board, and the additional notes and explanations related thereto, and other regulations, circulars, communiqués and pronouncements in respect of accounting and financial reporting made by the BRSA;

“Direct Recourse Securities” means securities (other than Covered Bonds) issued in connection with any securitisation of receivables or other payment rights, asset-backed financing or similar financing structure (created in accordance with normal market practice) and whereby all payment obligations secured by a Security Interest or having the benefit of a Security Interest are to be discharged principally from such assets or revenues, or by direct unsecured recourse to the Issuer; and

“Relevant Indebtedness” means: (a) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other organised securities market and having a maturity in excess of 365 days or any loan disbursed to the Issuer as a borrower under a loan participation note or similar transaction and (b) any guarantee or indemnity of any such indebtedness.

## 5 Covenants

### 5.1 Maintenance of Authorisations

So long as any of the Notes remains outstanding, the Issuer shall take all necessary action to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, permissions, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Republic of Turkey (including, without limitation, with the CMB and the BRSA) for: (a) the execution, delivery or performance of the Agency Agreement, the Deed of Covenant and the Notes or for the validity or enforceability thereof, or (b) save to the extent any failure to do so does not and would not have a material adverse effect on: (i) the business, financial condition or results of operations of the Issuer or (ii) the Issuer’s ability to perform its obligations under the Notes, the conduct by it of the Permitted Business.

### 5.2 Transactions with Affiliates

So long as any of the Notes remains outstanding, the Issuer shall not, and shall not permit any of its Material Subsidiaries to, in any 12 month period: (a) make any payment to, (b) sell, lease, transfer or otherwise dispose of any of its properties, revenues or assets to, (c) purchase any properties, revenues or assets from or (d) enter into or make or amend any transaction, contract, agreement, understanding, loan, advance, indemnity or guarantee (whether related or not) with or for the benefit of, any Affiliate (each, an “Affiliate Transaction”) which Affiliate Transaction has (or, when taken together with any other Affiliate Transactions during such 12 month period, in the aggregate have) a value in excess of U.S.\$10,000,000 (or its equivalent in any other currency) unless such Affiliate Transaction (and each such other aggregated Affiliate Transaction) is on terms that are no less favourable to the Issuer or the

relevant Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or such Subsidiary with an unrelated Person.

### 5.3 Financial Reporting

So long as any of the Notes remains outstanding, the Issuer shall deliver to the Fiscal Agent for distribution to any Noteholder upon such Noteholder's written request to the Fiscal Agent:

- (a) not later than six months after the end of each financial year of the Issuer, English language copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with BRSA Principles, together with the corresponding financial statements for the preceding financial year, and all such annual financial statements of the Issuer shall be accompanied by the report of the auditors thereon; and
- (b) not later than four months after the end of the first six months of each financial year of the Issuer, English language copies of its unaudited consolidated financial statements for such six month period, prepared in accordance with BRSA Principles, together with the financial statements for the corresponding period of the previous financial year, and all such interim financial statements of the Issuer shall be accompanied by a review report of the auditors thereon.

### 5.4 Interpretation

For the purposes of these Conditions:

"Affiliate" means, in respect of any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, and, in the case of a natural Person, any immediate family member of such Person. For purposes of this definition, control, as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise and the terms controlling, controlled by and under common control with shall have corresponding meanings.

"Material Subsidiary" means at any time a Subsidiary of the Issuer:

- (a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated BRSA Principles financial statements of the Issuer and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited BRSA Principles financial statements (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries; *provided* that: (i) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated BRSA Principles financial statements of the Issuer and its Subsidiaries relate or (ii) in the case of any such Subsidiary for which its then latest relevant audited accounts, at the time of such acquisition, are not prepared in accordance with BRSA Principles, the reference to the then latest audited consolidated BRSA Principles financial statements of the Issuer and its Subsidiaries and the relevant then latest audited BRSA Principles financial statements of such Subsidiary for the purposes of the calculation above shall, until consolidated or, as the case may be, BRSA Principles accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such consolidated BRSA Principles financial statements of the Issuer and its Subsidiaries as if such Subsidiary had been

shown in those financial statements by reference to such Subsidiary's then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer (including to reflect a conversion of such accounts into BRSA Principles if the then latest relevant audited accounts of such Subsidiary were not prepared in accordance with BRSA Principles);

- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer that immediately prior to such transfer is a Material Subsidiary; provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary pursuant to this sub-paragraph (b) but shall cease to be a Material Subsidiary on the date of publication of the Issuer's next audited consolidated BRSA Principles financial statements unless it would then be a Material Subsidiary under sub-paragraph (a) above; or
- (c) to which is transferred an undertaking or assets that, taken together with the undertaking or assets of the transferee Subsidiary, represent (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated BRSA Principles financial statements of the Issuer and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole (calculated as set out in sub-paragraph (a) above); provided that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer, its assets represent (or, in the case aforesaid, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole (all as calculated as set out in sub-paragraph (a) above), and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this sub-paragraph (c) on the date of the publication of the Issuer's next consolidated audited BRSA Principles financial statements, save that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of sub-paragraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A report by the auditors of the Issuer that in their opinion a Subsidiary is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

"Permitted Business" means any business which is the same as or related, ancillary or complementary to any of the businesses of the Issuer on the Issue Date.

"Person" means: (a) any individual, company, unincorporated association, government, state agency, international organisation or other entity and (b) its successors and assigns.

"Subsidiary" means, in relation to any Person, any company: (a) in which such Person holds a majority of the voting rights, (b) of which such Person is a member and has the right to appoint or remove a majority of the board of directors or (c) of which such Person is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of such Person. In relation to the consolidated financial statements of the Issuer, a Subsidiary shall also include any other Person that is (in accordance with BRSA Principles) consolidated with the Issuer.

## 6 Interest

### 6.1 Interest on Fixed Rate Notes

This Condition 6.1 applies to Fixed Rate Notes only. The applicable Final Terms contain provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 6.1 for full information on the manner in which interest is calculated on Fixed Rate Notes. In particular, the applicable Final Terms will specify the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Maturity Date, the Fixed Coupon Amount, any applicable Broken Amount, the Calculation Amount, the Day Count Fraction, any applicable Determination Date and whether the provisions relating to Modified Fixed Rate Notes will be applicable.

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, the Interest Amount payable on each Interest Payment Date in respect of the Interest Period ending on (but excluding) such date will amount, where a Fixed Coupon Amount is specified in the applicable Final Terms, to the Fixed Coupon Amount so specified; *provided* that the Interest Amount payable on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount and (if applicable) a Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency (with half of any such sub-unit being rounded upwards or otherwise in accordance with any other applicable market convention with the written consent of the Issuer). Where the Specified Denomination of a Fixed Rate Note in definitive form is greater than the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

If Modified Fixed Rate Notes is specified as applicable in the applicable Final Terms and Interest Periods and Interest Amounts are specified as being subject to adjustment, a Business Day Convention shall also be specified in the applicable Final Terms and (where applicable) Interest Payment Dates shall be postponed or brought forward, as the case may be, in accordance with Condition 6.5(b) and the relevant Interest Period and Interest Amount payable on the Interest Payment Date for such Interest Period will be adjusted accordingly.

### 6.2 Interest on Floating Rate Notes

This Condition 6.2 applies to Floating Rate Notes only. The applicable Final Terms contain provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 6.2 for full information on the manner in which interest is calculated on Floating Rate Notes. In particular, the applicable Final Terms will identify any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Specified

Business Centres, whether ISDA Determination or Screen Rate Determination applies to the calculation of interest, the party who will calculate the amount of interest due if it is not the Fiscal Agent, the Margin, any maximum or minimum interest rates, the Day Count Fraction and whether the provisions relating to Modified Floating Rate Notes will be applicable. Where ISDA Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date. Where Screen Rate Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Reference Rate, Relevant Financial Centre, Interest Determination Date(s) and Relevant Screen Page.

(a) **Interest Payment Dates**

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date” for the purposes of such Floating Rate Note) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period.

(b) **Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Fiscal Agent under an interest rate swap transaction if the Fiscal Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “ISDA Definitions”) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this subparagraph (i), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR, EURIBOR, TRLIBOR, ROBOR, PRIBOR, SIBOR, NIBOR or WIBOR as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at the Specified Time in the Relevant Financial Centre on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Fiscal Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Fiscal Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (A) above, no offered quotation appears or, in the case of (B) above, fewer than three offered quotations appear, in each case as at the Specified Time, the Fiscal Agent shall request each of the Reference Banks to provide the Fiscal Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Fiscal Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Fiscal Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Fiscal Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Fiscal Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Fiscal Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London interbank market (if the Reference Rate is LIBOR), the Euro-zone interbank market (if the Reference Rate is EURIBOR), the Turkish Lira interbank market (if the Reference Rate is TRLIBOR), the Romanian interbank market (if the Reference Rate is ROBOR), the Prague interbank market (if the Reference Rate is PRIBOR), the Singapore interbank market (if the Reference Rate is SIBOR), the Norwegian interbank



market (if the Reference Rate is NIBOR), the Warsaw interbank market (if the Reference Rate is WIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Fiscal Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Fiscal Agent it is quoting to leading banks in the London interbank market (if the Reference Rate is LIBOR), the Euro-zone interbank market (if the Reference Rate is EURIBOR), the Turkish Lira interbank market (if the Reference Rate is TRLIBOR), the Romanian interbank market (if the Reference Rate is ROBOR), the Prague interbank market (if the Reference Rate is PRIBOR), the Singapore interbank market (if the Reference Rate is SIBOR), the Norwegian interbank market (if the Reference Rate is NIBOR), the Warsaw interbank market (if the Reference Rate is WIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

(c) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) **Determination of Rate of Interest and calculation of Interest Amounts**

The Fiscal Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Fiscal Agent will calculate the Interest Amount payable on the Floating Rate Notes for the relevant Interest Period (or any other relevant period) by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is greater than the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product

of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

(e) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period; provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“Designated Maturity” means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

**6.3 Notification of Rate of Interest and Interest Amounts**

In the case of Floating Rate Notes and Modified Fixed Rate Notes where Interest Periods and Interest Amounts are specified in the applicable Final Terms as being subject to adjustment, the Fiscal Agent will cause, in the case of Floating Rate Notes, the Rate of Interest and, in either case, each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Notes are for the time being listed and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

**6.4 Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6, whether by the Fiscal Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Fiscal Agent or, if applicable, the Calculation Agent in connection with the exercise or non exercise by it of its powers, duties and discretions pursuant to such provisions.

**6.5 Accrual of interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption, unless payment of principal is

improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note (or part thereof) have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 15.

## **6.6 Day Count Fraction and Business Day Convention**

### **(a) Day Count Fraction**

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 6:

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
  - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final) that would occur in one calendar year; or
  - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

“Determination Period” means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

- (ii) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period or the Relevant Period, as the case may be, divided by 360, calculated as follows:
  - (A) in the case of Fixed Rate Notes, on the basis of a year of 360 days with 12 30-day months; and
  - (B) in the case of Floating Rate Notes, on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of such period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of such period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of such period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of such period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of such period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in such period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (iii) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period or the Relevant Period, as the case may be, divided by 365 (or, if any portion of such period falls in a leap year, the sum of (I) the actual number of days in that portion of the period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the period falling in a non-leap year divided by 365);
- (iv) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period or the Relevant Period, as the case may be, divided by 365;
- (v) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period or the Relevant Period, as the case may be, divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (vi) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period or the Relevant Period, as the case may be, divided by 360;
- (vii) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period or the Relevant Period, as the case may be, divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of such period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of such period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of such period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of such period falls;

“D1” is the first calendar day, expressed as a number, of such period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in such period, unless such number would be 31, in which case D2 will be 30; and

- (viii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period or the Relevant Period, as the case may be, divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of such period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of such period falls;

“M1” is the calendar month, expressed as a number, in which the first day of such period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of such period falls;

“D1” is the first calendar day, expressed as a number, of such period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in such period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

(b) **Business Day Convention**

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should *occur* or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (i) in the case of Floating Rate Notes where Specified Periods are specified in accordance with Condition 6.2 above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (C) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (ii) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (iii) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (iv) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

## **6.7 Interpretation**

In these Conditions:

“Business Day” means a day which is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Specified Business Centre (other than TARGET 2 System) specified in the applicable Final Terms;
- (b) if TARGET 2 System is specified as a Specified Business Centre in the applicable Final Terms, a day on which the TARGET 2 System is open; and
- (c) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency or (2) in relation to any sum payable in euro, a day on which the TARGET 2 System is open;

“Interest Amount” means the amount of interest;

“Interest Period” means the period means the period from (and including) an Interest Payment Date (or, as the case may be, the Interest Commencement Date) to (but excluding) the next (or, as the case may be, first) Interest Payment Date;

“Reference Banks” means:

- (a) in the case of a determination of LIBOR, the principal London office of four major banks in the London interbank market,
- (b) in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market;
- (c) in the case of a determination of TRLIBOR, the principal İstanbul office of four major banks in the Turkish Lira interbank market;
- (d) in the case of a determination of ROBOR, the principal Bucharest office of four major banks in the Romanian interbank market;
- (e) in the case of a determination of PRIBOR, the principal Prague office of four major banks in the Prague interbank market;
- (f) in the case of a determination of SIBOR, the principal Singapore office of four major banks in the Singapore interbank market;

- (g) in the case of a determination of NIBOR, the principal Oslo office of four major banks in the Norwegian interbank market; and
- (h) in the case of a determination of WIBOR, the principal Warsaw office of four major banks in the Warsaw interbank market,

in each case as selected by the Issuer and unless otherwise specified in the applicable Final Terms;

“Reference Rate” means, unless otherwise specified in the applicable Final Terms: (i) the London interbank offered rate (“LIBOR”), (ii) the Euro-zone interbank offered rate (“EURIBOR”), (iii) the Turkish Lira interbank offered rate (“TRLIBOR”), (iv) the Romanian interbank offered rate (“ROBOR”), (v) the Prague interbank offered rate (“PRIBOR”), (vi) the Singapore interbank offered rate (“SIBOR”), (vii) the Norwegian interbank offered rate (“NIBOR”) or (viii) the Warsaw interbank offered rate (“WIBOR”);

“Relevant Period” means the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date;

“Specified Time” means, unless otherwise specified in the applicable Final Terms: (i) 11.00 a.m. (London time, in the case of a determination of LIBOR, Brussels time, in the case of a determination of EURIBOR, Romanian time, in the case of a determination of ROBOR, Prague time, in the case of a determination of PRIBOR, Singapore time, in the case of a determination of SIBOR and Warsaw time, in the case of a determination of WIBOR), (ii) 11.30 a.m. (İstanbul time, in the case of a determination of TRLIBOR), and (iii) 12.00 p.m. (Oslo time, in the case of a determination of NIBOR);

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.; and

“TARGET 2 System” mean the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System.

## **7 Payments**

### **7.1 Method of payment**

Subject as provided below, payments in a Specified Currency will be made by credit or transfer to an account in the relevant Specified Currency (or any account to which such Specified Currency may be credited or transferred) maintained by the payee, or, at the option of the payee, by a cheque in such Specified Currency drawn on a bank in any country in which the Specified Currency constitutes legal tender from time to time.

Payments in respect of principal and interest on the Notes will be subject in all cases to: (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “FATCA Withholding”).

## **7.2 Presentation of definitive Bearer Notes and Coupons**

Notwithstanding any other provision of the Conditions to the contrary, payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 7.1 only against surrender (or, in the case of part payment of any sum due, presentation and endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the applicable Coupon(s), in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid thereon after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

## **7.3 Payments in respect of Bearer Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified in Condition 7.2 in relation to definitive Bearer Notes or otherwise in the manner specified in the relevant Global Note, where applicable against surrender or, as the case may be, presentation and endorsement, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.



#### **7.4 Payments in respect of Registered Notes**

Payments of principal in respect of each Registered Note (whether or not in global form) will be made against surrender (or, in the case of part payment of any sum due, presentation and endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar outside of the United Kingdom (the "Register") at (i) where in global form, the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) in all other cases, the close of business on the 15th day (or, if such 15th day is not a day on which banks are open for business in the city where the specified office of the Registrar is located, the first such day prior to such 15th day) before the relevant due date (in each case, the "Record Date"). Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment may instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "Designated Account" means the account maintained by a holder with a Designated Bank and identified as such in the Register and "Designated Bank" means any bank which processes payments in such Specified Currency.

Payments of interest in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the relevant Record Date at the address of such holder shown in the Register on such Record Date and at that holder's risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment will be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by any Agent in respect of any payments of principal or interest in respect of the Registered Notes, save as provided in Condition 7.9.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. Dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. Dollars in accordance with the provisions of the Agency Agreement and Condition 7.9.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global

Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

#### **7.5 General provisions applicable to payments**

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for such person's share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. Dollars, such U.S. Dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

#### **7.6 Payment Business Day**

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day, the holder thereof shall not be entitled to payment until the next following Payment Business Day in the relevant place (except in the case of Modified Fixed Rate Notes and Modified Floating Rate Notes where a Payment Business Day Convention is specified in the applicable Final Terms, in which case, such holder will be entitled to payment on the Payment Business Day in the relevant place as determined in accordance with the Payment Business Day Convention so specified) and, in any such case, shall not be entitled to further interest or other payment in respect of such delay.

For these purposes, "Payment Business Day" means any day which (subject to Condition 10) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Notes in definitive form only, the relevant place of presentation;
  - (ii) each Specified Financial Centre (if any) (other than TARGET 2 System) specified in the applicable Final Terms; and
  - (iii) if TARGET 2 System is specified as a Specified Business Centre in the applicable Final Terms, a day on which the TARGET 2 System is open; and
- (b) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for

general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency, or (2) in relation to any sum payable in euro, a day on which the TARGET 2 System is open; and

- (c) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. Dollars and registered in the name of DTC or its nominee and in respect of which a participant in DTC (with an interest in such Registered Global Note) has not elected in accordance with Condition 7.9 to receive any part of such payment in that Specified Currency, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

“Payment Business Day Convention” means, if the Payment Business Day Convention is specified in the applicable Final Terms as the:

- (a) Following Business Day Convention, the next following Payment Business Day;
- (b) Modified Following Business Day Convention, the next day which is a Payment Business Day unless it would thereby fall into the next calendar month, in which event the holder shall be entitled to such payment at the place of presentation on the immediately preceding Payment Business Day; or
- (c) Preceding Business Day Convention, the immediately preceding Payment Business Day.

#### **7.7 Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 9;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.5); and
- (f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

#### **7.8 U.S. Dollar exchange and payments on Turkish Lira-denominated Notes held other than through DTC**

- (a) If “USD Payment Election” is specified as being applicable in the applicable Final Terms, the Specified Currency is Turkish Lira and interests in the Notes are not represented by a Registered Global Note registered in the name of DTC or its nominee, then a Noteholder (in the case of a Series of Notes in registered form, as of the applicable Record Date) may, not more than 10 and not less than five Business Days before the due date (the “Relevant Payment Date”) for the next payment of interest and/or principal on a Note (such period, the “USD Election Period”), give an irrevocable election to any Agent to receive such payment in U.S. Dollars instead of Turkish Lira (each, a “USD Payment Election”). Each Agent to which such an

election is given shall notify the Fiscal Agent on the Business Day following each USD Election Period of the USD Payment Elections made by the Noteholders during such USD Election Period and upon its receipt of such notification the Fiscal Agent shall notify the Exchange Agent of the total amount of Turkish Lira (the “Lira Amount”) to be paid by the Issuer in respect of the Notes the subject of such USD Payment Elections and which is to be converted into U.S. Dollars and paid to the holders of such Notes on the Relevant Payment Date in accordance with the provisions of this Condition 7.8 and Clause 7 of the Agency Agreement.

*Each USD Payment Election of a Noteholder will be made only in respect of the immediately following payment of interest and/or principal on the Notes the subject of such USD Payment Election and, unless a USD Payment Election is given in respect of each subsequent payment of interest and principal on those Notes, such payments will be made in Turkish Lira.*

- (b) Upon receipt of the Lira Amount from the Issuer and by no later than 11.00 a.m. (London time) on the Relevant Payment Date, the Fiscal Agent shall transfer the Lira Amount to the Exchange Agent, which shall purchase U.S. Dollars with the Lira Amount for settlement on the Relevant Payment Date at a purchase price calculated on the basis of its own internal foreign exchange conversion procedures, which conversion shall be conducted in a commercially reasonable manner and on a similar basis to that which the Exchange Agent would use to effect such conversion for its customers (such rate, taking into account any spread, fees, commission or charges on foreign exchange transactions customarily charged by it in connection with such conversions, the “Applicable Exchange Rate”). In no event shall any Agent be liable to any Noteholder, the Issuer or any third party for the conversion rate so used.

The Issuer’s obligation to make payments on Notes the Specified Currency of which is Turkish Lira is limited to the specified Turkish Lira amount of such payments and, in the event that it fails to make any payment on the Notes in full on its due date, its obligation shall remain the payment of the relevant outstanding Turkish Lira amount and it shall have no obligation to pay any greater or other amount as a result of any change in the Applicable Exchange Rate between the due date and the date on which such payment is made in full.

- (c) Following conversion of the Lira Amount into U.S. Dollars in accordance with this Condition 7.8 and the Agency Agreement, the Exchange Agent shall notify the Fiscal Agent of: (i) the total amount of U.S. Dollars purchased with the relevant Lira Amount, and (ii) the Applicable Exchange Rate at which such U.S. Dollars were purchased by the Exchange Agent. On each Relevant Payment Date, the Fiscal Agent shall give notice to the Noteholders of such U.S. Dollar amount and Applicable Exchange Rate in accordance with Condition 15 as so notified to it by the Exchange Agent.

*Under the terms of the Agency Agreement, the Fiscal Agent will need to have received cleared funds from the Issuer on the Relevant Payment Date by no later than 10.00 a.m. (London time) in the case of a payment of interest or principal becoming due in order to make any payments to Noteholders on such Relevant Payment Date, including any such payments in U.S. Dollars. If the Fiscal Agent receives cleared funds from the Issuer after such time, then the Fiscal Agent will use reasonable efforts to pay the funds (including any so converted U.S. Dollar amounts) as soon as reasonably practicable thereafter.*

- (d) If, for illegality or any other reason, it is not possible for the Exchange Agent to purchase U.S. Dollars with the Lira Amount, then the Exchange Agent will promptly notify the Fiscal Agent, which shall, as soon as practicable upon receipt of such notification from the Exchange Agent, promptly notify the Noteholders of such event in accordance with Condition 15 and all

payments on the Notes on the Relevant Payment Date will be made in Turkish Lira in accordance with this Condition 7.8, irrespective of any USD Payment Election made.

- (e) To give a USD Payment Election:
- (i) in the case of Notes in definitive form, a Noteholder must deliver at the specified office of any Agent, on any Business Day falling within the USD Election Period, a duly signed and completed USD Payment Election in the form (for the time being current) obtainable from any specified office of any Agent and in which the holder must specify a USD bank account to which payment is to be made under this Condition 7.8 accompanied by the relevant Notes or evidence satisfactory to the Agent concerned that such Notes will, following the delivery of the USD Payment Election, be held to the Agent's order or under its control until the applicable U.S. Dollar payment is made; and
  - (ii) in the case of Notes in global form, a Noteholder must, on any Business Day falling within the USD Election Period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or DTC, as applicable (which may include notice being given on such holder's instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for any of them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg or DTC, as applicable, from time to time.

Notwithstanding any other provision in the Conditions to the contrary: (i) all costs of the purchase of U.S. Dollars *with* the Lira Amount shall be borne *pro rata* by the relevant Noteholders relative to the Notes of *such* Noteholders the subject of USD Payment Elections, which *pro rata* amount will be deducted from the U.S. Dollar payment made to such Noteholders, (ii) none of the Issuer, any Agent or any other Person shall have any obligation whatsoever to pay any related foreign exchange rate spreads, commissions or expenses or to indemnify any Noteholder against any difference between the U.S. Dollar amount received by such Noteholder and the portion of the Lira Amount that would have been payable to the Noteholder if it had not made the relevant USD Payment Election and (iii) the Issuer shall not have any liability or other obligation to any Noteholder with respect to the conversion into U.S. Dollars of any amount paid by it to the Fiscal Agent in Turkish Lira or the payment of any U.S. Dollar amount to the applicable Noteholders.

#### **7.9 Payments on Notes held through DTC in a Specified Currency other than U.S. Dollars**

In the case of any Notes represented by a Registered Global Note registered in the name of DTC or its nominee and denominated in a Specified Currency other than U.S. Dollars, payments in respect of such Notes will be made in U.S. Dollars unless the participant in DTC with an interest in such Notes has elected to receive any part of such payment in that Specified Currency in the manner specified in the Agency Agreement and in accordance with the rules and procedures for the time being of DTC.

## **8 Redemption and Purchase**

### **8.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

### **8.2 Redemption for tax reasons**

If:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after the date on which agreement is reached to issue the most recently issued Tranche of the Notes (which shall, for the avoidance of doubt and for the purposes of this Condition 8.2, be the date on which the applicable Final Terms is signed by the Issuer), on the next Interest Payment Date the Issuer would be required to:
  - (i) pay additional amounts as provided or referred to in Condition 9; and
  - (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction, at a rate in excess of the prevailing applicable rates on such date on which agreement is reached to issue the most recently issued Tranche of the Notes; and
- (b) such requirement cannot be avoided by the Issuer taking reasonable measures available to it,

then the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes at any time at their Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent: (i) a certificate signed by two Directors of the Issuer stating that the requirement referred to in sub-paragraph (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

### **8.3 Redemption at the option of the Issuer (Issuer Call)**

This Condition 8.3 applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Issuer (other than for taxation reasons pursuant to Condition 8.2), such option being referred to as an "Issuer Call". The applicable Final Terms contains provisions applicable to any Issuer Call and must be read in conjunction with this Condition 8.3 for full information on any Issuer Call. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount, any minimum or maximum amount of Notes which can be redeemed and the applicable notice periods.

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Noteholders in accordance with Condition 14 (which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together (if applicable) with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Notes under this Condition 8.3, the Notes to be redeemed ("Redeemed Notes") will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of

Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) and/or DTC. In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption.

#### **8.4 Redemption at the option of the Noteholders (Investor Put)**

This Condition 8.4 applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Noteholder, such option being referred to as an “Investor Put”. The applicable Final Terms contains provisions applicable to any Investor Put and must be read in conjunction with this Condition 8.4 for full information on any Investor Put. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount and the applicable notice periods.

If Investor Put is specified as being applicable in the applicable Final Terms, then upon the holder of any Note giving to the Issuer in accordance with Condition 15 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the Optional Redemption Amount together (if applicable) with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 8.4 in any Specified Denomination.

To exercise the right to require redemption of this Note:

- (a) if this Note is in definitive form and held outside Euroclear, Clearstream, Luxembourg or DTC, then the holder of this Note must deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 8.4 and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Note is in definitive bearer form, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to such Paying Agent’s order or under its control, and
- (b) if this Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or DTC, as applicable, the holder of this Note must, within the notice period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or DTC, as the case may be (which may include notice being given on such holder’s instruction by Euroclear, Clearstream, Luxembourg, DTC or any depository for them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg or DTC, as applicable, from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or DTC, as applicable, given by a holder of any Note pursuant to this

Condition 8.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 8.4 and instead to declare such Note forthwith due and payable pursuant to Condition 11.

### **8.5 Early Redemption Amounts**

For the purpose of Condition 8.2 above and Condition 11, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price of the first Tranche of the Series, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price of the first Tranche of the Series, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the “Amortised Face Amount”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“RP” means the Reference Price;

“AY” means the Accrual Yield expressed as a decimal; and

“y” is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

### **8.6 Purchases**

The Issuer or any of its Subsidiaries may at any time purchase or otherwise acquire Notes (provided that, in the case of definitive Bearer Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, resold or, at the option of the Issuer or any such Subsidiary (as the case may be) for those Notes held by it, surrendered to any Paying Agent and/or the Registrar for cancellation.



## **8.7 Cancellation**

All Notes which are redeemed will forthwith be cancelled (together, in the case of definitive Bearer Notes, with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 8.6 above (together, in the case of definitive Bearer Notes, with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be held, reissued or resold.

## **8.8 Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to the foregoing provisions of this Condition 8 or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, then the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.5(b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Fiscal Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 15.

## **9 Taxation**

### **9.1 Payment without Withholding**

All payments in respect of the Notes and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of any Relevant Jurisdiction unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable for Taxes in respect of the Note or Coupon by reason of such holder having some connection with any Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) presented for payment in the Republic of Turkey; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder or, as the case may be, Couponholder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Payment Business Day (as defined in Condition 7.6).

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer, will be paid net of FATCA Withholding. Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

In these Conditions:

- (i) the “Relevant Date” means, with respect to any payment, the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders or the Couponholders, as the case may be, by the Issuer in accordance with Condition 15.
- (ii) “Relevant Jurisdiction” means the Republic of Turkey or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes or Coupons.

## **9.2 Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 9.

## **10 Prescription**

The Notes (whether in bearer or registered form) and Coupons will become void unless claims in respect of principal and/or interest with respect thereto are made within a period of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 9) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7.2 or any Talon which would be void pursuant to Condition 7.2.

## **11 Events of Default**

### **11.1 Events of Default**

The holder of any Note may give notice to the Issuer that such Note is, and it shall accordingly forthwith become, immediately due and repayable at its Early Redemption Amount, together with interest accrued to (but excluding) the date of repayment, if any of the following events (each, an “Event of Default”) shall have occurred and be continuing:

- (a) if default is made by the Issuer in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 14 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or
- (c) if: (i) any Indebtedness for Borrowed Money of the Issuer or any of its Material Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Material Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment, subject to any originally applicable grace period; (iii) any security given by the Issuer or any of its Material Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer or any of its Material Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other

person, subject to any applicable grace period; *provided* that the aggregate principal amount of: (A) such Indebtedness for Borrowed Money of the Issuer or the relevant Material Subsidiary in the case of sub-paragraphs (i), (ii) and/or (iii) above, and/or (B) the maximum amount payable by the Issuer or the relevant Material Subsidiary under such guarantee and/or indemnity of the Issuer or the relevant Material Subsidiary in the case of sub-paragraph (iv) above, exceeds U.S.\$15,000,000 (or its equivalent in other currencies); or

- (d) if:
- (i) any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of its Material Subsidiaries; or
  - (ii) the Issuer ceases or threatens to cease to carry on the whole or a substantial part, or any Material Subsidiary ceases or threatens to cease to carry on the whole or substantially the whole, in each case, of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any of its Material Subsidiaries suspends or threatens to suspend payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated, declared or found by a competent authority to be (or becomes) bankrupt or insolvent; or
  - (iii) the Issuer or any of its Material Subsidiaries commences negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of all or a substantial part of its indebtedness; or
  - (iv) the Issuer or any of its Material Subsidiaries: (A) takes any corporate action or other steps are taken or legal proceedings are started: (x) for its winding-up, dissolution, administration, bankruptcy or re-organisation (other than for the purposes of and followed by a reconstruction while solvent upon terms previously approved by an Extraordinary Resolution of Noteholders) or (y) for the appointment of a liquidator, receiver, administrator, administrative receiver, trustee or similar officer of it or any substantial part or all of its revenues and assets or (B) shall or propose to make a general assignment for the benefit of its creditors or shall enter into any general arrangement or composition with its creditors,
- in each case in sub-paragraphs (i) to (iv) above, save for the solvent voluntary winding-up, dissolution or re-organisation of any Material Subsidiary in connection with any combination with, or transfer of the whole or substantially the whole of its business and/or assets to, the Issuer or one or more other Subsidiaries of the Issuer; or
- (e) if the banking licence of the Issuer is temporarily or permanently revoked.

## 11.2 Interpretation

For the purposes of this Condition 11:

“Indebtedness for Borrowed Money” means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of:

- (a) any notes, bonds, debentures, debenture stock, loan stock or other securities; or
- (b) any borrowed money; or
- (c) any liability under or in respect of any acceptance or acceptance credit.

## **12 Replacement of Notes, Coupons and Talons**

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent (in the case of Bearer Notes or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to (a) evidence of such loss, theft, mutilation, defacement or destruction and (b) indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

## **13 Agents**

The names of the initial Agents and their initial specified offices are set out in the Agency Agreement. If any additional Agents are appointed in connection with any Series, the names of such Agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Fiscal Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be, in the case of Bearer Notes a Paying Agent (which may be the Fiscal Agent) and, in the case of Registered Notes, a Transfer Agent (which may be the Registrar) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. Dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and
- (d) there will at all times be a Paying Agent in a jurisdiction other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall as soon as practicable appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.5. Notice of any variation, termination, appointment or change in Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 15.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholder, Receiptholder or Couponholder. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

## **14 Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

## 15 Notices

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language newspaper of general circulation in London. It is anticipated that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) of such Registered Notes at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

There may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on such day as is specified in the applicable Final Terms after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC, as applicable.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Fiscal Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

## 16 Meetings of Noteholders and Modification

### 16.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more person(s) holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more person(s) being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or

the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes or the Coupons or amending the Deed of Covenant in certain respects), the quorum shall be one or more person(s) holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more person(s) holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Agency Agreement provides that: (a) a resolution in writing signed on behalf of the Noteholders of not less than 75 per cent. in principal amount of the Notes for the time being outstanding (whether such resolution in writing is contained in one document or several documents in the same form, each signed on behalf of one or more Noteholders) or (b) consent given by way of electronic consents through the relevant clearing systems by or on behalf of Noteholders of not less than 75 per cent. in principal amount of the Notes for the time being outstanding will, in each case, take effect as if it were an Extraordinary Resolution and shall be binding upon all Noteholders.

## **16.2 Modification**

The Fiscal Agent and the Issuer may agree in writing, without the consent of the Noteholders or Couponholders, to any modification of any of these Conditions, the Deed of Covenant or any of the provisions of the Agency Agreement which is, in the opinion of the Issuer, either (a) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (b) following the advice of an independent financial institution of international standing, not materially prejudicial to the interests of the Noteholders. Any such modification shall be binding on the Noteholders and Couponholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders and Couponholders as soon as practicable thereafter in accordance with Condition 15.

## **17 Further Issues**

The Issuer may from time to time without the consent of the Noteholders or the Couponholders create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes; provided that such further notes will be fungible for U.S. federal income tax purposes as a result of their issuance being a “qualified reopening” under U.S. Treasury Regulation § 1.1275-2(k).

## **18 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **19 Governing Law and Submission to Jurisdiction**

### **19.1 Governing law**

The Agency Agreement, the Deed of Covenant, the Deed Poll, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of

Covenant, the Deed Poll, the Notes and the Coupons, are and shall be governed by, and construed in accordance with, English law.

### **19.2 Submission to jurisdiction**

The Issuer irrevocably agrees, for the benefit of the Noteholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons) and accordingly submits to the exclusive jurisdiction of the courts of England.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders and the Couponholders may take any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with the Notes and the Coupons (including any Proceeding relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions to the extent allowed by law.

### **19.3 Consent to Enforcement**

The Issuer agrees, without prejudice to the enforcement of a judgment obtained in the courts of England according to the provisions of Article 54 of the International Private and Procedural Law of Turkey (Law No. 5718), that in the event that any action is brought in relation to the Issuer in a court in Turkey in connection with the Notes and/or the Coupons, in addition to other permissible legal evidence pursuant to the Civil Procedure Code of Turkey (Law No. 6100), any judgment obtained in the courts of England in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer, pursuant to the provisions of the first paragraph of Article 193 of the Civil Procedure Code of Turkey (Law No. 6100) and Articles 58 and 59 of the International Private and Procedural Law of Turkey (Law No. 5718).

### **19.4 Appointment of Process Agent**

The Issuer irrevocably and unconditionally appoints Türkiye İş Bankası A.Ş., London Branch at 8 Princes Street, London EC2R 8HL, United Kingdom as its agent for service of process in respect of any Proceedings in England and the Issuer undertakes that in the event of such agent being unable or unwilling for any reason so to act, it will as promptly as practicable appoint another person as its agent for that purpose.

### **19.5 Other Documents**

The Issuer has, in the Agency Agreement, the Deed of Covenant and the Deed Poll, submitted to the jurisdiction of the courts of England and appointed an agent in England for service of process, in terms substantially similar to those set out above.

## **USE OF PROCEEDS**

The Issuer will incur various expenses in connection with the issuance of each Tranche of the Notes, including underwriting fees, legal counsel fees, rating agency expenses and listing expenses. The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes, unless otherwise specified in the applicable Final Terms.



## SUMMARY FINANCIAL AND OTHER INFORMATION

The following tables set forth, for the periods indicated, selected historical consolidated financial and other information about the Group which have been extracted from the BRSA Financial Statements. Such financial and other information should be read in conjunction with, and is qualified in its entirety by reference to, the BRSA Financial Statements, “*Operating and Financial Review*” and other relevant information included elsewhere in (or incorporated by reference into) this Base Prospectus. The BRSA Financial Statements are presented in Turkish Lira and have been prepared in accordance with BRSA Principles described in more detail in the accounting principles included in the notes to the BRSA Financial Statements included in this Base Prospectus and in “*Presentation of Financial Information*”.

The BRSA Financial Statements as of and for the years ended 31 December 2013, 2014 and 2015 have been audited by KPMG.

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
<b>Balance Sheet Data:</b>			
Cash and balances with the Central Bank .....	345,040	507,794	811,123
Financial assets at fair value through profit or loss (net).....	60,248	95,417	209,571
Banks.....	421,304	503,981	751,545
Money Market Placements.....	50	105,206	1,080,724
Financial Assets Available For Sale (Net).....	2,973,058	3,517,617	2,972,162
Loans.....	9,049,098	10,866,989	13,633,129
Factoring Receivables .....	—	—	—
Held To Maturity Investments (Net) .....	—	—	872,602
Investments In Associates (Net).....	236,634	263,300	293,543
Investments In Subsidiaries (Net) .....	847	609	609
Entities Under Common Control (Joint Venture)(Net).....	10	10	1,760
Lease Receivables (Net).....	4,518	—	—
Derivative Financial Assets for Hedging Purposes	—	—	4,093
Tangible Assets (Net) .....	24,397	26,454	207,027
Intangible Assets (Net) .....	2,249	2,173	2,056
Investment Property (Net) .....	222,295	224,090	241,293
Tax Assets .....	18,896	21,253	29,624
Assets Held–For–Sale And Discontinued Operations (Net).....	—	—	—
Other assets .....	80,572	90,808	255,719
<b>Total Assets</b> .....	<b>13,439,216</b>	<b>16,225,701</b>	<b>21,366,580</b>

**As of 31 December**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Derivative Financial Liabilities Held-for-Trading .....	57,857	63,576	174,950
Funds Borrowed .....	9,125,037	10,151,582	13,441,831
Money Market Balances .....	1,856,204	2,272,713	2,350,540
Debt Securities Issued (Net).....	—	813,824	2,037,571
Funds.....	5,954	39,081	30,677
Miscellaneous Payables .....	89,769	96,591	129,298
Derivative Financial Liabilities for Hedging Purposes	—	—	5,799
Provisions.....	157,442	210,296	217,860
Tax liabilities.....	22,660	37,722	48,426
Subordinated Loans.....	106,759	116,065	145,836
<b>Total Liabilities</b> .....	<b>11,421,682</b>	<b>13,801,450</b>	<b>18,582,788</b>
Paid-in Capital.....	1,300,000	1,500,000	1,750,000
Capital Reserves.....	13,723	124,100	147,322
Share Premium.....	388	413	428
Marketable Securities Value Increase Fund .....	4,041	113,993	(27,755)
Tangible Assets Revaluation Differences .....	8,920	9,320	174,619
Other Capital Reserves.....	374	374	30
Profit Reserves .....	262,400	315,408	362,902
Profit or Loss.....	365,889	417,290	458,078
Non-Controlling Interests .....	75,522	67,453	65,490
<b>Total Equity</b> .....	<b>2,017,534</b>	<b>2,424,251</b>	<b>2,783,792</b>
<b>Total Liabilities and Equity</b> .....	<b>13,439,216</b>	<b>16,225,701</b>	<b>21,366,580</b>

**For the year ended 31 December**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
<b>Income Statement Data:</b>			
Interest Income .....	657,490	819,918	1,098,725
Interest Expense .....	(175,902)	(291,295)	(500,183)
<b>Net Interest Income</b> .....	<b>481,588</b>	<b>528,623</b>	<b>598,542</b>
Net Fees and Commissions Income .....	27,867	29,500	29,547
Dividend Income.....	15,715	13,876	10,175

**For the year ended 31 December**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Trading Income (net).....	(24,735)	41,238	5,780
Other Operating Income.....	25,541	47,684	51,137
<b>Total Operating Income</b> .....	<b>525,976</b>	<b>660,921</b>	<b>695,181</b>
Provision for Loan Losses and Other Receivables.....	(47,230)	(61,150)	(78,563)
Other Operating Expenses.....	(140,528)	(160,560)	(140,573)
<b>Net Operating Income</b> .....	<b>338,218</b>	<b>439,211</b>	<b>476,045</b>
Profit/Loss on Equity Method.....	31,975	27,136	35,280
<b>Profit/Loss on Continued Operations before Tax</b> .....	<b>370,193</b>	<b>466,347</b>	<b>511,325</b>
Tax Provision for Continued Operations.....	(75,039)	(92,236)	(100,735)
<b>Net Period Profit/Loss from Continuing Operations ...</b>	<b>295,154</b>	<b>374,111</b>	<b>410,590</b>
<b>Net Period Profit/Loss</b> .....	<b>295,154</b>	<b>374,111</b>	<b>410,590</b>

**As of (or for the year ended) 31 December**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Key Ratios:</b>			
Net interest margin <sup>(1)(2)</sup> .....	4.0%	4.2%	3.6%
Spread <sup>(3)</sup> .....	4.3%	3.9%	3.5%
Turkish Lira .....	5.9%	5.5%	5.7%
Foreign Currency .....	3.6%	3.2%	2.6%
Cost-to-income ratio <sup>(4)</sup> .....	26.7%	24.3%	20.2%
Free capital ratio <sup>(5)</sup> .....	12.9%	13.0%	11.5%
Non-performing loans to total cash loans .....	0.4%	0.2%	0.4%
Cost to average total assets <sup>(1)(6)</sup> .....	1.2%	1.1%	0.7%
Return on average shareholders' equity excluding minority interest <sup>(1)(7)</sup> .....	15.4%	16.8%	15.6%
Return on average total assets <sup>(1)(8)</sup> .....	2.5%	2.5%	2.2%
<b>Capital Adequacy:</b>			
Tier I regulatory capital/risk-weighted assets and market risk <sup>(9)</sup> .....	17.4%	17.5%	16%
Total regulatory capital/risk-weighted assets and market risk <sup>(9)</sup> .....	16.8%	18.3%	15.3%

**As of (or for the year ended) 31 December**

	2013	2014	2015
<b>Other Information:</b>			
Average employees during the period .....	491	483	483

Notes:

- (1) Calculated on quarterly averages.
- (2) Consolidated net interest income as a percentage of consolidated average interest-earning assets. Reserves held at the Central Bank have been excluded from interest-earning assets. Trading income is included in the net interest income.
- (3) Spread represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest accrued on interest-bearing liabilities. Average balances are calculated from monthly balances and do not include interest accruals.
- (4) “Cost” includes total operating expenses. “Income” includes operating income. Total operating income is net of insurance expense and total operating expense does not include insurance expense.
- (5) Total shareholders’ equity excluding fixed assets, investment property, investments in equity participations and net NPLs as a percentage of total assets.
- (6) Total operating expense does not include insurance expense.
- (7) Net income for the period as a percentage of average shareholders’ equity excluding minority interest.
- (8) Net income for the period as a percentage of average total assets.
- (9) Calculated in accordance with BRSA regulations.

## OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of the consolidated financial position and results of operations of the Group covers the financial years ended 31 December 2013, 2014 and 2015. Unless otherwise specified, the financial information presented in this discussion has been extracted from the BRSA Financial Statements for such periods without material adjustment. This section should be read in conjunction with such BRSA Financial Statements and the notes thereto and the other financial information included in (or incorporated by reference into) this Base Prospectus (including the section entitled “*Presentation of Financial Information*”). The BRSA Financial Statements for such periods have been prepared in accordance with BRSA regulations as described in “*Presentation of Financial Information*”.

The BRSA Financial Statements attached hereto or incorporated by reference herein, all of which are in English, were prepared as convenience translations of the corresponding Turkish language BRSA financial statements (which translations the Bank confirms were direct and accurate). The English language BRSA Financial Statements were not prepared for the purpose of their inclusion in (or incorporation by reference into) this Base Prospectus.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Base Prospectus includes “forward-looking statements”. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled “*Cautionary Statement Regarding Forward-Looking Statements*”.

The Group’s financial condition and results of operations depend significantly upon the macro-economic conditions prevailing in Turkey and prospective investors should consider the factors set forth under “*Risk Factors — Risks Related to the Group’s Business*” and “*Risk Factors — Political, Economic and Legal Risks Related to Turkey*”.

The discussion and analysis of the financial position and results of operations of the Group in this Base Prospectus are based upon the BRSA Financial Statements. As elsewhere in this Base Prospectus, the term “Group” is used in this section to denote the Group on a consolidated basis and the term “Bank” in this section indicates that the context refers to the Bank on a stand-alone basis.

### Overview

The Group provides a wide range of banking and advisory services, only in Turkey, including corporate banking, investment banking and advisory services. The Group operates in a highly competitive banking market in Turkey. As of 31 December 2015, 52 banks (including domestic and foreign banks, including participation banks, but excluding the Central Bank) were operating in Turkey, 34 of which were deposit-taking banks, 13 of which (including the Bank) were development and investment banks and five of which were participation banks, which conduct their business under different legislation in accordance with Islamic banking principles. Of the deposit-taking banks, 21 were private foreign banks, 9 were private domestic banks, three were government-controlled banks and one was under the administration of the SDIF (Savings Deposit Insurance Fund (“SDIF”)). The Bank has two branches, one in Ankara and the other in İzmir, as well as its principal İstanbul office.

As of 31 December 2015, the Group’s total capital adequacy ratio was 16 per cent. and its Tier I capital adequacy ratio was 15.3 per cent., both as calculated in accordance with Basel III rules that came into effect on 1 January 2014. See “— *Capital Adequacy*” below. As of the same date, the Group’s shareholders’ equity was TL 2,784 million, its liquid asset ratio (being the total amount of cash and balances with banks, money

market placements, trading securities and available-for-sale securities divided by the Group's total assets) was 31.3 per cent. The Group's net operating income was TL 338 million in 2013, TL 439 million in 2014 and TL 476 million in 2015 while its net period profit from continuing operations was TL 295 million in 2013, TL 374 million in 2014 and TL 411 million in 2015.

With its domestic Turkish focus, the Group's financial condition and results of operations have been significantly impacted by the Turkish economy, the real GDP of which increased at a compound annual growth rate of 4.4 per cent. between 2000 and 2008 according to TurkStat. Real GDP growth slowed to 0.7 per cent. in 2008 and then declined by 4.8 per cent. in 2009, but significantly rebounded in 2010 (9.2 per cent.) and 2011 (8.8 per cent.); however, real GDP growth slowed to 2.1 per cent. in 2012 due in part to governmental efforts to slow the economy and the continuing impact of global macro-economic conditions. Turkey's real GDP grew by 4.2 per cent. in 2013, 3.0 per cent. in 2014 and 4.0 per cent in 2015.

As of 31 December 2015, the Group had total assets of TL 21.4 billion, an increase of 31.7 per cent. from TL 16.2 billion as of 31 December 2014, itself a 20.7 per cent. increase from TL 13.4 billion as of 31 December 2013 .

The Bank's loan portfolio grew from TL 9.1 billion as of 31 December 2013 to TL 10.9 billion as of 31 December 2014 and TL 13.6 billion as of 31 December 2015, a growth rate of 20.0 per cent. in 2014 and 25.5 per cent. in 2015. The Group's policy is to comply with the provisioning levels required by law. For additional information on regulatory requirements for provisioning, see "*Business of the Group — Loan Classification and Provisioning Policy*", "*Risk Factors — Banking Regulatory Matters*" and "*Turkish Regulatory Environment — Loan Loss Reserves*". The Bank's NPL ratios were 0.4 per cent., 0.2 per cent. and 0.4 per cent. as of 31 December 2013, 2014 and 2015, respectively. See "*Significant Factors Affecting the Group's Financial Condition and Results of Operations — Provisioning for Impaired Loans*".

As of 31 December 2015, 92 per cent. of the Group's performing loans and all of the Group's total borrowings were denominated in foreign currencies, principally U.S. Dollars and Euro.

### **Significant Factors Affecting the Group's Financial Condition and Results of Operations**

The Group's business, financial condition and results of operations depend significantly upon the macro-economic conditions prevailing in Turkey as well as other factors. The impact of these and other potential factors may vary significantly in the future and many of these factors are outside the control of the Group. Prospective investors should (among other things) consider the factors set forth under "*Cautionary Statement Regarding Forward-Looking Statements*" and "*Risk Factors*". The following describes the most significant of such factors since the beginning of 2012.

#### **Turkish Economy**

All of the Group's operations (and almost all of its loans) are in Turkey, and its business and results of operations are significantly affected by general economic conditions in Turkey. Accordingly, the Group's results of operations and financial condition have been and will continue to be significantly affected by Turkish political and economic factors, including the economic growth rate, the rate of inflation and fluctuations in exchange and interest rates. The economic contraction in Turkey beginning in 2008 and reaching its peak in 2009 limited lending growth and caused a decline in asset quality in the Turkish banking sector. Starting in 2010 there was a rapid recovery in lending growth and NPL ratios displayed a declining trend both for Turkish financial institutions as a whole and for the Group's operations in particular, although this trend may stabilise. In 2011, the Central Bank increased its funding rates and reserve requirement rates in order to suppress loan growth and moderate the growth of the Turkish economy. In 2012, Basel II took effect and had a similar impact due to the additional capital requirements applying to certain types of credit

exposures and other controls imposed under Basel II. After a mild economic slowdown, the Central Bank started to loosen monetary policy in the second half of 2012 and domestic demand started to recover in the first quarter of 2013; however, capital inflows have weakened since May 2013 due to uncertainties regarding global monetary policies (particularly those in the United States) and as a result the Central Bank tightened monetary policy in order to support financial stability. The Central Bank continued to tighten its monetary policy with rate increases in June and August 2013 and then, in order to balance the risks associated with the increased volatility in capital flows observed at the end of 2013 due to domestic political concerns, the Central Bank held an interim meeting on 28 January 2014 and announced a significant rate increase. As a result of this tight monetary policy and other measures taken by the BRSA to dampen consumer lending, domestic demand weakened and a significant improvement was observed in the current account deficit in 2014 (falling to U.S.\$46.5 billion from U.S.\$64.7 billion in 2013). On 22 May 2014, the Central Bank decreased the one-week repo rate to 9.5 per cent. from 10 per cent., citing the recent decline in uncertainties and the improvement in risk premium indicators. In June 2014, the Central Bank further reduced its one-week repo rate to 8.75 per cent. taking the expected decline in annual inflation into consideration. The Central Bank's main argument was the adverse impact of declining TL depreciation on pricing behaviours. The Central Bank cut its policy rate by another 50 basis points to 8.25 per cent. on 17 July 2014 in line with favourable global liquidity conditions. Five months later, the Central Bank lowered its one-week repo rate to the so-called policy rate of 7.75 per cent. on 20 January 2015 and again to 7.50 per cent. on 24 February 2015, citing falling oil prices and an expected decline in core inflation indicators. The Central Bank maintained a tight monetary policy stance for the remainder of 2015 due to rising inflation. While it kept the policy rate unchanged since February 2015, the Central Bank increased the daily average funding rate of the market up to 9.02 per cent. in September 2015 and up to 9.14 per cent. in February 2016 but then subsequently decreased to below 9 per cent. in March 2016 due to the U.S. Federal Reserve's dovish stance in its March 2016 meeting. The yearly average daily funding rate of the Central Bank in 2015 was 8.48 per cent. The Central Bank also announced planned simplifications in its monetary policy in August 2015. Following its meeting on 24 March 2016, the Central Bank cut the marginal funding rate by 25 bps to 10.50 per cent. as an incremental step towards simplification of its monetary policy.

The following table provides certain macro-economic indicators for Turkey, including real GDP, inflation rates and the Central Bank's overnight TL interest rate for each of the indicated periods:

	2009	2010	2011	2012	2013	2014	2015
Nominal GDP at current prices (TL millions).....	952,559	1,098,799	1,297,713	1,416,798	1,567,289	1,748,168	1,953,561
Real GDP growth.....	(4.8)%	9.2%	8.8%	2.1%	4.2%	3.0%	4.0%
Deficit/surplus of consolidated budget/GDP.....	(5.5)%	(3.6)%	(1.4)%	(2.1)%	1.2%	0.9%	(1.2)%
Consumer Price Inflation <sup>(1)</sup> .....	6.5%	6.4%	10.5%	6.2%	7.4%	8.17%	8.81%
Producer Price Inflation <sup>(1)</sup> .....	5.9%	8.9%	13.3%	2.5%	7.0%	6.36%	5.71%
Central Bank overnight TL interest rate, period-end <sup>(2)</sup> .....	6.50%	1.50%	5.00%	5.00%	3.50%	7.50%	7.25%
Central Bank weekly TL repo rate, period-end <sup>(2)</sup> .....	N/A	6.50%	5.75%	5.50%	4.50%	8.25%	7.50%
Refinancing rate of the Central Bank, period-end.....	9.0%	9.0%	12.5%	9.00%	7.75%	11.25%	10.75%
Nominal appreciation (depreciation) of the Turkish Lira against the U.S. Dollar <sup>(3)</sup> .	0.4%	(2.7)%	(23.3)%	6.5%	(19.7)%	(9.2)%	(25.41)%

	2009	2010	2011	2012	2013	2014	2015
CPI-based real effective exchange rate appreciation (depreciation) (2003=100).....	1.7%	7.7%	(12.9)%	7.8%	(9.5)%	4.6%	(6.9)%
Total gross gold and international currency reserves, period-end (U.S. Dollars, millions) .....	74,829	85,968	88,340	119,167	131,035	126,450	110,528

Sources: TurkStat for nominal GDP at current prices, real GDP growth, inflation, Turkish Ministry of Finance, General Directorate of Public Accounts, for deficit/surplus of consolidated budget and Central Bank for reference overnight interest rate, refinancing rate, nominal appreciation (depreciation) of the Turkish Lira against the U.S. Dollar, real effective exchange rate and total gross gold and international currency reserves.

Notes:

- (1) Annual percentage change of the applicable index (the percentage change of the applicable index in June 2014 is compared to June 2013).
- (2) The overnight borrowing rate announced by the Central Bank. Starting from 2010, the Central Bank announces the weekly repo lending rate as the reference rate.
- (3) Central Bank buying rates.

## Interest Rates

One of the primary factors affecting the Group's profitability is the level of, and fluctuations in, interest rates in Turkey, which in turn influence the return on the Group's securities portfolio and its loan rates. Interest earned and paid on the Group's assets and liabilities reflects, to a certain degree, actual inflation, inflation expectations, shifts in short-term interest rates set by the Central Bank and movements in long-term real interest rates (with respect to the Group's foreign currency-denominated liabilities, including similar changes in global markets. Although the impact of decreasing interest rates earned on assets has had a direct and material impact on the Group's profitability, and the Group has been further negatively affected by competitive pressures from both the public and private sector banks, the Group has utilised low cost and long-term sources for raising funds, thereby mitigating this competitive pressure.

The Group's strategy is to hedge any interest rate mismatch with derivative instruments and, as a result, the interest rates on the Group's loans and funds are very closely matched. Due to the natural hedge in the Bank's assets and liabilities, as supplemented by such hedges, the Group's existing loan portfolio is not materially affected by changes in interest rates. In addition, 50 per cent. of the Group's securities portfolio consisted of floating rate notes and CPI-linked securities as of 31 December 2015; however the remaining securities portfolio, consisting of fixed rate notes, might create a negative or positive effect on the Group's equity as a result of changes in market interest rates. In addition, rising interest rates are expected to reduce the value of the Group's existing securities investment portfolio while ultimately being expected to result in increased interest income on additional assets included in this portfolio.

As of 31 December 2013, 2014 and 2015, respectively, approximately 86 per cent. 76 per cent. and 74 per cent. of the Bank's loans and 81 per cent., 72 per cent. and 63 per cent. of the Bank's interest-earning assets were at floating rates. The fixed/floating composition of the Group's assets and liabilities is mainly determined by general market trends and customer demand. As a result, due to the highly competitive banking environment, the Group's ability to change the naturally established composition of loans and funding base is limited. On the other hand, the Group tries to diversify its securities portfolio in terms of maturity and repricing periods in order to balance the duration mismatch of the entire balance sheet.

The Group's interest income is primarily comprised of: (a) interest earned on its loan portfolio (TL 505 million, or 62 per cent. of total interest income, in 2014; TL 669 million and 61 per cent. in 2015) and (b) interest earned from its securities portfolio (TL 284 million, or 35 per cent. of total interest income, in 2014;



TL 319 million and 29 per cent. in 2015). For further information on the Group's securities portfolio, see "*Securities Portfolio*".

The Group's primary sources of funding for the periods under review have typically been funds borrowed from DFIs, Eurobonds, syndication loans, repo transactions with banks, including the Central Bank, and certain other money market transactions. The Group's cost of funding in relation to repo transactions generally decreases as the Central Bank's rates decrease.

Among the most significant indicators of the movements in interest rates as they affect the Group is the competitive environment. In general, the Bank's net interest margin does not depend upon Turkish Lira interest rates since a significant portion of the Bank's interest earning assets are foreign exchange-denominated. Turkish Lira interest rates do, however, affect the cost of the Bank's daily repo funding. The Central Bank reference overnight interest rate declined from 6.50 per cent. as of 31 December 2009, to 1.50 per cent. as of 31 December 2010 (at which time the overnight interest rate was no longer linked to the policy rate) in response to the effect of the global economic crisis on banks' liquidity. In August 2011, the rate increased to 5.00 per cent. where it remained as of 31 December 2012 before being gradually reduced to 3.50 per cent. as of 31 December 2013. In 2014, the overnight interest rate was significantly increased to 8 per cent. at the Central Bank's interim meeting held on 28 January 2014. As of 31 December 2015, the overnight interest rate was 7.50 per cent. As the duration of the Turkish Lira loan book is relatively short and a majority of the securities portfolio is formed of floating rate notes, the impact of higher Turkish Lira interest rates turns positive in a short period of time.

From 2009 to 2011, net interest margins and spreads in Turkish Lira and foreign currencies were on a decreasing trend due to assets being re-priced with a time-lag compared to liabilities. The decrease in margins was principally due to the moderation of local market conditions (including inflationary pressures), the increases to reserve requirements introduced by the Central Bank (until recently no interest was earned on such reserves; however, reserve accounts kept in Turkish Lira may be interest-bearing pursuant to guidelines adopted by the Central Bank from time to time according to the reserve requirement manual issued by the Central Bank on 11 April 2014), the tightening of monetary policy in Turkey over the period and continuing high levels of competition. Although the Central Bank has recently relaxed certain of these measures in light of weakening macro-economic conditions, significant pressure on net interest margins remains despite efforts to re-price assets and liabilities given funding costs and competitive conditions. In 2013, the net interest margin of the Bank was 4.3 per cent., while it was 4.2 per cent. in 2014.

As a result of the depreciation in the value of the Turkish Lira (which in 2013 depreciated by 19.7 per cent. against the U.S. Dollar compared to year-end 2012; however, on a real basis, based upon the CPI-based real effective exchange rate, there was only a 9.5 per cent. real depreciation compared to year-end 2012), in July and August 2013, the Central Bank increased the upper band of the interest rate corridor (the lending rate) from 6.50 per cent. to 7.25 per cent. and then to 7.75 per cent. and also announced that there would be no funding to banks via the primary dealer repo facility on additional monetary tightening days. Moreover, in its November 2013 and December 2013 meetings, the Central Bank announced that one month repo auctions were terminated, that the maximum amount of funding via one-week repo was reduced from TL 10 billion to TL 6 billion and that the total amount of funding offered to primary dealer banks was reduced to approximately TL 6.5 billion. In addition to increasing the liquidity of the Turkish Lira, the Central Bank announced, as part of its monetary and exchange rate policy for 2014, that it will increase the funding needs of the financial system via foreign exchange auctions, through changes in reserve option mechanisms and by shortening the maturity of funding. In January 2014, to counter a significant depreciation in the Turkish Lira, the Central Bank held an interim Monetary Policy Committee meeting and increased its overnight Turkish Lira borrowing rate to 8 per cent. from 3.5 per cent., its one-week repo rate to 10 per cent. from 4.5 per cent. and its overnight lending rate to 12 per cent. from 7.75 per cent. In the Monetary Policy Committee's April

2014 meeting, the late liquidity window facility lending rate was reduced from 15 per cent. to 13.5 per cent. (though such rate has little application on market practice). While such increases have resulted in a limited increase in the Group's short-term funding costs, they have also contributed to an increase in rates earned by the Group on its assets and, as a result, have had an immaterial impact on the Group's net interest margin. Following the Central Bank's significant rate increase and the diminishing political uncertainties, the Turkish Lira recovered briefly in early 2014 but has since continued to depreciate due both to domestic matters as well as the growing expectation of rate increases by the U.S. Federal Reserve. Due to the recovery in the Turkish Lira in early 2014 and the decline in political uncertainty, the Central Bank reduced its one-week repo rate from 10 per cent. to 9.50 per cent. initially, subsequently reduced it further to 8.25 per cent., reduced its overnight borrowing rate from 8.00 per cent. to 7.50 per cent. and cut the overnight lending rate from 12.00 per cent. to 11.25 per cent. As of 31 December 2014, the Turkish Lira had appreciated by 2.7 per cent. in nominal terms compared to its historical low level against the U.S. Dollar recorded on 28 January 2014. In 2015, the Central Bank cut its policy rate twice, in January and February, to 7.50 per cent., however, the Central Bank increased the daily average funding rate up to around 9.0 per cent. towards the end of the year. The Central Bank also revoked the special lending rate to primary dealers, which was lower than the marginal funding rate, in order to simplify its monetary policy. The Turkish banking system in general has also been raising lending rates since the start of the year and the average loan-deposit rate spread of the banking system has increased in 2015.

### **Fees and Commissions**

Another primary factor affecting the Group's profitability is the level of fees and commissions that it earns. In order to diversify its sources of revenue and obtain income in a capital efficient manner, the Group has been creating new products and incentivising its employees to increase the Group's fee and commission income. The share of net fees and commissions to total operating income has been 5.3 per cent., 4.5 per cent. and 4.3 per cent. respectively, for 2013, 2014 and 2015. A significant portion of the Group's fee and commission income is derived from its non-cash loan business and investment banking activities. The Group's investment banking activities are operated by its subsidiary Yatırım Finansman Menkul Değerler A.Ş. ("Yatırım Finansman"), a local brokerage house, as described in greater detail below. The Group's ability to increase its fee and commission income is also dependent upon the Bank's corporate finance department, which is active in initial public offerings, bond offerings, mergers and acquisitions and providing advisory services. As with these investment banking revenues, the commissions generated by the Bank's corporate finance department are dependent upon the economic and political environment in Turkey.

A second significant influence on the Group's ability to earn fee and commission income is the level of domestic competition, which has been significant during all macro-economic conditions. Competitive pressures from other banks to reduce fees on loan products and banking services require the Group either to lower its own fees (including waiving them in certain circumstances) in order to be competitive in the applicable business segment and/or to seek to develop new products that can earn additional fees and commissions within a prudent risk management context. The Bank's management believes that this competitive pressure will continue in all of the Group's business segments, particularly as other Turkish banks have increased their focus on fee and commission income as the current environment of low interest rates has impacted net interest income.

### **Exchange Rates**

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly in U.S. Dollars and Euro. As of 31 December 2015, 71.4 per cent. of the Group's total assets and 72.6 per cent. of the Group's total liabilities and shareholder's equity were denominated in foreign currencies.

While the Group monitors its net position in foreign currencies (i.e. the amount by which its foreign currency risk-bearing assets differ from its foreign currency-denominated liabilities) and each of the Bank and the Group is required to comply with foreign currency position limits promulgated by the BRSA, each of the Bank and the Group has maintained and likely will continue to maintain gaps between the balances of its foreign currency-denominated assets and liabilities. The foreign currency position limit imposed by the BRSA is defined as an amount plus/minus 20 per cent. of the total capital used in the calculation of regulatory capital adequacy ratios.

Historically, the Bank has sought to maintain a balance between such assets and liabilities based upon the actual composition of its balance sheet and off-balance sheet positions at any time and, as a general matter, does not enter into any speculative positions. Under BRSA rules, any foreign exchange gains and losses are accounted for together with any gains and losses from the Group's investment in foreign exchange-based derivative financial instruments.

Even though the Group seeks to balance its actual foreign exchange position based upon the composition of its portfolio, the Group's financial results are impacted by changes in foreign exchange rates as the Group translates such assets and liabilities, and interest earned from and paid on those assets and liabilities, into Turkish Lira. The overall effect of exchange rate movements on the Group's results of operations depends upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies. For 2013, the Group recorded a net foreign exchange loss of TL 25 million, whereas in 2014 it recorded a gain of TL 41 million. In 2015, the Group recorded net foreign exchange gains of TL 6 million. Exchange rate movements also affect the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital, which can affect capital adequacy either positively (for example, if the Turkish Lira appreciates, then assets in foreign currencies convert into fewer Turkish Lira in the calculations of capital adequacy ratios and thus increase the capital adequacy ratios) or negatively (for example, if the Turkish Lira depreciates, then assets in foreign currency convert into more Turkish Lira in the calculations of capital adequacy ratios and thus reduce the capital adequacy ratios).

### **Securities Portfolio**

The Group maintains a securities portfolio that consists primarily of Turkish government debt securities. The Group's investment securities portfolio amounted to TL 3.9 billion as of 31 December 2015. Of this amount, TL 3.0 billion, or 76 per cent., was classified as available-for-sale, TL 0.9 billion, or 22 per cent. was classified as held-to-maturity, with the remainder held in the trading securities portfolio. Interest income derived from the Group's trading and investment securities amounted to TL 318.7 million for the year ended 31 December 2015, accounting for 29 per cent. of total interest income for the period, TL 283.9 million for 2014, accounting for 34.6 per cent. of total interest income for the year, and TL 229.2 million for 2013, accounting for 34.9 per cent. of total interest income for 2013. The Group's securities portfolio has decreased in size from 22.3 per cent. as of 31 December 2013 to 18.2 per cent. of total assets as of 31 December 2015, due to a preference to invest in higher yield liquid assets, such as money market placements. While the Group benefitted from attractive yields and trading gains from its securities portfolio (in particular on Turkish government securities, including CPI-linked securities) between 2008 and 2010, the yields from securities have generally declined after 2010 as the yield curve (in particular for Turkish government securities) shifted downward during the lower interest rate environment. Notwithstanding the changes in interest rates during recent years and specifically the volatility within the most recent quarters, the Group's earnings from its securities portfolio have consistently represented a significant portion of the Group's earnings.

The Bank expects that interest income derived from the Group's investment securities portfolio will continue to be a significant contributor to the Group's total interest income. The size of the Group's securities portfolio will depend on the Group's strategy as to its asset allocation between loans and liquid assets, as well as its overall risk appetite.

### **Provisioning for Impaired Loans**

The Group classifies loans in line with the provisions of the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside published in the Official Gazette No. 26333 on 1 November 2006 and amended from time to time thereafter (the “Regulation on Provisions and Classification of Loans and Receivables”). Such legal requirements impose minimum provisions depending upon the category of the non-performing loan, including special provisions in the amounts of at least 20 per cent.

50 per cent. and 100 per cent., respectively, being required to be set aside for loans and receivables in Groups III, IV and V. See “*Turkish Regulatory Environment — Loan Loss Reserves*”. Specific provisions are allocated by the Group for the total amount of loans and other receivables that are deemed to be non-performing, without being restricted by the minimum legal requirements stated in such regulation. The Bank’s policy is to provide fully (at a rate of 100 per cent.) for all of its non-performing loans rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

Provisions that have been made within the current financial year but are released within the same financial year result in a credit to the “Provision Expenses” account in the quarter of release, while the released parts of provisions from previous years are transferred to and recognised in the “Other Operating Income” account. For further information on the Group’s internal loan provision requirements, see Part Three, VIII of the Group’s 31 December 2015 BRSA Financial Statements incorporated by reference into this Base Prospectus.

### **Critical Accounting Policies**

The Group’s accounting policies are integral to understanding its results of operations and financial condition presented in the BRSA Financial Statements and the notes thereto. The Group’s critical and other significant accounting policies are described in Section Three to the 31 December 2015 BRSA Financial Statements. The preparation of these financial statements requires management to make estimates and assumptions on some events that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. On an on-going basis, management evaluates its estimates and judgments, including those related to allowance for contingencies, litigation and arbitration. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The Group’s actual results may differ from the estimates under different assumptions, judgments or conditions.

The Bank’s management believes that the following significant accounting policies require critical judgments or estimates or involve a degree of complexity in application that affects the Group’s financial condition and results of operation.

### **Consolidation of Subsidiaries and Associates**

In the consolidated BRSA Financial Statements, the Bank consolidates its subsidiaries that are entities that are controlled by the Bank, but only its financial subsidiaries. The Bank does not consolidate its non-financial subsidiaries in the consolidated BRSA Financial Statements but rather reflects them under “Investments in Associates” and “Investments in Subsidiaries”. For a list of the Bank’s financial subsidiaries, see “*Business of the Group — Subsidiaries and Other Affiliates*”, and for a list of the Bank’s non-financial subsidiaries, see “*Business of the Group — Non-Financial Subsidiaries*”. In determining whether the Bank controls another entity, the Bank’s management considers the Bank’s power to appoint or remove from office the decision-taking majority of members of board of directors through direct or indirect possession of the majority of the entity’s capital irrespective of the requirement of owning a minimum 51 per cent. of its capital, or by having control over the majority of the voting right as a consequence of holding privileged shares or of agreements with other shareholders although not owning the majority of capital.

The Bank's subsidiaries and associates that have been consolidated in each of the Group's 2013, 2014 and 2015 BRSA Financial Statements are Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş., İş Finansal Kiralama A.Ş. ("İş Leasing"), İş Faktoring A.Ş. ("İş Faktoring") and İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. ("İş Girişim").

An associate is an entity in which the Bank owns capital and over which it has a significant influence but no control, whether established at home or abroad. Significant influence is the power to participate in the financial and operating policy of the investee. If the Bank holds qualified shares in the associate, then it is presumed that the Bank has significant influence unless otherwise demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence. A qualified share is a share that directly or indirectly constitutes 10 per cent. or more of an entity's capital or voting rights and, irrespective of this requirement, possession of privileged shares giving right to appoint members of the board of directors.

The equity method is an evaluation method of associates by which the book value of the Bank's share in the associate's equity is increased or decreased by the Bank's proportional share in the change in the associate company's equity and the dividend received by the Bank is deducted. The accounting policies of İş Leasing, İş Girişim and İş Faktoring, the associates that are consolidated using the equity method, are not different than the Bank's. Thus, no adjustments of compliance have been applied.

### **Classification and Measurement of Financial Assets**

Financial assets comprise cash, contractual rights to obtain cash or another financial asset from (or to exchange financial instruments with) a counterparty or capital instrument transactions with a counterparty. According to the Bank's management's purpose of holding, financial assets are classified into four groups: "Financial Assets at Fair Value through Profit And Loss", "Financial Assets Available for Sale", "Held-to-Maturity Investments" and "Loans and Receivables".

#### ***Cash and Banks***

Cash consists of cash in vault, foreign currency cash, money in transit, checks purchased and precious metals. Foreign currency cash and banks are shown in the balance sheet by their amounts converted into Turkish Lira at the foreign exchange rate on the balance sheet date. The carrying values of both the cash and banks are their estimated fair values.

#### ***Financial Assets at Fair Value through Profit and Loss***

Financial assets classified as "at fair value through profit and loss" include both "financial assets held-for-trading" as well as "financial assets at fair value through profit and loss", both of which are described below.

##### ***Financial Assets Held-for-Trading***

Financial assets held-for-trading are those acquired for the purpose of generating profit from short-term market fluctuations in prices or similar elements, or securities that are part of a portfolio set up to realise short term profit regardless of the purpose of acquisition.

Financial assets held-for-trading are presented in the balance sheet with their fair values and are subject to valuation at fair values after the initial recognition. In cases where values that form the basis for the fair value do not exist in active market conditions, it is accepted that the fair value is not reliably determined and "amortised cost", calculated by the internal rate of return method, is taken into account as the fair value.

Any gains or losses resulting from such valuation are recorded in the profit and loss accounts. Pursuant to legal regulations, any positive difference between the historical cost and amortised cost of financial assets is recognised under the "Interest Income" account, and in case the fair value of the asset is over the amortised cost, the positive difference is recognised in the "Gains on Securities Trading" account. If the fair value is less

than the amortised cost, then the negative difference is recognised under the “Losses on Securities Trading” account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognised within the framework of the same principles.

#### *Financial Assets at Fair Value through Profit and Loss*

Financial assets classified as “at fair value through profit and loss” are financial assets that have not been acquired for trading purposes but were classified as “fair value through profit and loss” at their initial recognition. The recognition of such assets at fair value is accounted similarly to the financial assets held-for-trading described above.

#### *Financial Assets Available for Sale*

Financial assets available for sale are non-derivative financial assets other than bank loans and receivables, held-to-maturity investments and financial assets at fair value through profit and loss. Initial recognition and subsequent valuation of financial assets available for sale are performed based upon the fair value including transaction costs. The amount arising from the difference between cost and amortised value is recognised through the income statement by using the internal rate of return. If a price does not occur in an active market, then the fair value cannot be reliably determined and “amortised value” is determined as the fair value using the internal rate of return. Unrealised gains and losses arising from changes in fair value of the financial assets available for sale are not recognised in the income statement but rather in the “Marketable Securities Revaluation Fund” until the disposal, sale, redemption or incurring loss of those assets. Fair value differences accounted under equity arising from the application of fair value are reflected to the income statement when these assets are sold or when the valuation difference is collected.

#### *Held to Maturity Investments*

Held to maturity investments are investments for which there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including funding ability, and for which there are fixed or determinable payments with fixed maturity, which investments are recognised at fair value at initial recognition. Held to maturity investments with the initial recognition at fair value including transaction costs are subject to valuation with their discounted cost value by using the internal rate of return method less provision for any impairment. Interest income from held-to-maturity investments is recognised in the income statement as an interest income.

#### *Loans and Receivables*

Loans and receivables represent financial assets that are not quoted in an active market and are generated by providing money, goods or services to the debtor with fixed or determinable payments. Loans and receivables are initially recognised at their fair values including settlement costs and are thereafter carried at their amortised cost, which is calculated using the internal rate of return method. Retail and commercial loans that are included in cash loans are accounted at original maturities, based upon their contents.

Foreign currency-indexed loans are valued in Turkish Lira at the exchange rates prevailing at the opening date. Thereafter, increases and decreases in the principal amount of the loan resulting from movements in exchange rates are recognised under the foreign currency income and expense accounts in the income statement. Repayment amounts are calculated using the exchange rate on the repayment date and any exchange differences are also recognised in the foreign currency income and expense accounts in the income statement.

#### **Impairment of Financial Assets**

As of each balance sheet date, the Group companies evaluate the carrying amount of their financial assets or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If such indication exists, then the Group determines the related impairment amount.

A financial asset or group of financial assets is subject to impairment loss only if there is an objective indication that the occurrence of one or more event(s) after the initial recognition of that asset or group of assets has had an effect on the reliable estimate of the expected future cash flows thereof. Irrespective of their probability of occurrence, no estimated loss that might arise from future events is recognised in the financial statements.

Impairment losses attributable to the “held-to-maturity investments” are measured as the difference between the present values of the estimated future cash flows thereof as discounted using the original interest rate of such asset and the book value of such asset. The related difference is recognised as a loss and decreases the book value of the financial asset. In subsequent periods, to the extent that the impairment loss amount decreases, the previously recognised impairment loss is reversed.

When a decline occurs in the fair value of an “available-for-sale” financial asset, which is accounted at fair value and the increases and decreases in value of which are recognised directly in equity, the accumulated profit or loss that had been recognised directly in equity is transferred from equity and recognised in the period’s profit or loss. If, in a subsequent period, the fair value of the related financial asset increases, then the impairment loss is reversed and the amount of reversal is recognised in profit or loss.

“Loans and receivables” are classified and followed in line with the provisions of the Regulation on Provisions and Classification of Loans and Receivables. Such legal requirements impose minimum provisions depending upon the category of the non-performing loan, including special provisions in the amounts of at least 20 per cent., 50 per cent. and 100 per cent., respectively, being required to be set aside for loans and receivables in Groups III, IV and V. See “*Turkish Regulatory Environment — Loan Loss Reserves*”. Specific provisions are allocated by the Group for the total amount of loans and other receivables that are deemed to be non-performing, without being restricted by the minimum legal requirements stated in such regulation. The Bank’s policy is to provide fully (at a rate of 100 per cent.) for all of its non-performing loans rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

Other than specific provisions, the Bank and the financial institutions affiliated to the Group also provide “general allowances” for loans and other receivables classified in accordance with applicable regulations.

### **Employee Benefits Obligations**

According to the related regulation, the Bank and consolidated Group companies are obligated to pay termination benefits for employees who retire, die, quit for their military service obligations, have been dismissed as defined in the related regulation or (for female employees) have voluntarily quit within one year after the date of their marriage. Within the scope of TAS 19 (“Employee Benefits”), the Bank allocates seniority pay provisions for employee benefits by estimating the present value of the probable future liabilities.

The Bank’s mandatory pension fund, of which each employee of the Bank is a member, has been established according to provisional Article 20 of the Social Security Act No. 506. For pension funds such as this, Law No. 5754 published in the Official Gazette dated 8 May 2008 and numbered 26870 decrees that payment obligations to the contributors of bank pension funds, those who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution within three years after the release date of this law; however, the initial three-year transfer period was extended for two years (i.e. until 8 May 2013) by a Cabinet decision dated 14 March 2011, which was published in the Official Gazette dated 9 April 2011 and numbered 27900. By the Law “Emendating Social Security and General Health Insurance Act”, which was published in the Official Gazette dated 8 March 2012 and numbered 28227, the Cabinet’s authority to extend this period for two years was raised to four years (i.e. until 8 May 2015), and then the Cabinet extended this period for one year by Cabinet decision dated 8 April 2013 (published in the Official Gazette dated 3 May 2013 and numbered 28636) and then further extended for another year by its decision

dated 23 February 2014 (published in the Official Gazette dated 30 April 2014 and numbered 28987). This law also states that:

- through a commission constituted by the attendance of one representative separately from the Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organisation, BRSA and SDIF, one representative from each pension fund and one representative from the organisation employing pension fund contributors, related to the transferred persons, the cash value of the liabilities of a pension fund as of the transfer date will be calculated by considering its income and expenses in terms of the lines of insurance within the context of the related law, and a technical interest rate of 9.8 per cent. will be used in the actuarial calculation of the value in cash, and
- after the transfer of the pension fund, the fund's beneficiaries' unfunded social rights and payments will continue to be covered by the pension funds and the employers of the pension fund contributors.

In line with the new law, the Bank's pension fund had an actuarial valuation made for the aforementioned pension fund as of 31 December 2015 and there was no operational or actuarial liability indicated for the Bank in the actuarial report.

By the emendating Act No. 6645, which was published in the Official Gazette dated 23 April 2015 and numbered 29335, the Cabinet was authorised to decide the transfer date to the Social Security Institution.

### **Interest Income and Expenses**

Interest income and expenses are recognised on an accrual basis by using the effective interest method (the rate that equalises the future cash flows of a financial asset or liability to its present net book value) in conformity with TAS 39 ("Financial Instruments: Recognition and Measurement"). In accordance with the relevant legislation, realised and unrealised interest accruals on NPLs are reversed and interest income related to these loans is recorded as interest income only when it is collected.

### **Fee and Commission Income and Expenses**

Fee and commission income and expenses are recorded either on an accrual basis or by using the effective interest rate method. Income earned in return for services rendered contractually or due to operations such as the sale or purchase of assets on behalf of a third party are recognised in income accounts in the period of collection.

### **Foreign Currency Transactions and Translation**

Transactions in currencies other than Turkish Lira are recorded by the Group at the rates of exchange prevailing on the dates of such transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date and non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined (the book value of non-monetary items measured in terms of historical cost are not retranslated). As a significant portion of the Group's assets and liabilities are denominated in (or indexed to) foreign currencies, this retranslation may result in volatility in the Group's financial results and financial statements.

### **Key Performance Indicators**

The Group calculates certain ratios in order to measure its performance and compare it to the performance of its main competitors. The following table sets out certain key performance indicators for the Group for the indicated dates/periods, which indicators are (among others) those used by the Group's management to manage its business:



**As of (or for the year ended) 31 December**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Ratios</b>			
Net interest margin <sup>(1)(2)</sup> .....	4.0%	4.2%	3.6%
Cost-to-income ratio <sup>(3)</sup> .....	26.7%	24.3%	20.2%
Free capital ratio <sup>(4)</sup> .....	12.9%	13.0%	11.5%
Tier I ratio <sup>(5)</sup> .....	17.4%	17.5%	15.3%
Total capital adequacy ratio <sup>(6)(9)</sup> .....	16.6%	18.3%	16.0%
Coverage ratio <sup>(7)</sup> .....	100.0%	100.0%	100.0%
Return on average total assets <sup>(1)</sup> .....	2.5%	2.5%	2.2%
Return on average shareholders' equity <sup>(1)(8)</sup> .....	15.4%	16.8%	15.6%

Notes:

- (1) Averages calculated using quarter-end amounts.
- (2) Consolidated net interest income as a percentage of consolidated average interest-earning assets. Reserves held at the Central Bank have been excluded from interest-earning assets. Trading income is included in net interest income.
- (3) "Cost" includes total operating expenses. "Income" includes operating income. Total operating income is net of insurance expense and total operating expense does not include insurance expense.
- (4) Total shareholders' equity minus fixed assets, investment property, investments in equity participations and net NPLs as a percentage of total assets.
- (5) The Tier I ratio is: (a) the "Tier I" capital (i.e. the result of the "core capital", which primarily is comprised by the share capital, profit reserves, profit and provisions for possible losses) as a percentage of (b) the aggregate of the value at credit risk, value at market risk and value at operational risk. Capital adequacy ratios are based upon BRSA regulations. See "*Capital Adequacy*" below, including with respect to calculations made after 1 January 2014.
- (6) The total capital adequacy ratio is: (a) the result of "Tier I" capital plus "Tier II" capital (i.e. the "supplementary capital", which comprises general provisions, subordinated debt, unrealised gains/losses on available-for-sale assets and revaluation surplus (reduced by certain items such as leasehold improvements and prepaid expenses)) minus items to be deducted from capital (the "deductions from capital", which comprises items such as unconsolidated equity interests in financial institutions and assets held-for-resale but held longer than five years) as a percentage of (b) the aggregate of the value at credit risk, value at market risk and value at operational risk. Capital adequacy ratios are based upon BRSA regulations. See "*Capital Adequacy*" below, including with respect to calculations made after 1 January 2014.
- (7) Total amount of specific provisions as a percentage of NPLs.
- (8) Net income for the period as a percentage of average shareholders' equity.
- (9) The capital adequacy ratios for 31 December 2014 and 2015 are calculated in accordance with Basel III rules, which came into effect on 1 January 2014

**Analysis of Results of Operations for the years ended 31 December 2013, 2014 and 2015**

The table below sets out the Group's income statement for the periods indicated.

**For the year ended 31 December**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands, except where indicated)</i>		
<b>Interest Income</b> .....	657,490	819,918	1,098,725
Interest Income on Loans.....	393,569	505,160	669,151
Interest Received from Reserve Deposits.....	—	53	1,235
Interest Received from Banks.....	20,236	16,219	13,614
Interest Received from Money Market Placements.....	13,997	14,320	95,693
Interest Received from Marketable Securities Portfolio	229,151	283,930	318,736
Financial Assets Held-for-Trading.....	1,149	1,823	2,957
Financial Assets at Fair Value Through Profit and Loss	—	—	—
Available for-Sale Financial Assets.....	228,002	282,107	286,924
Investments Held-to-Maturity.....	—	—	28,855
Finance Lease Income.....	306	65	1
Other Interest Income.....	231	171	295
<b>Interest Expense</b> .....	(175,902)	(291,295)	(500,183)
Interest on Deposits.....	—	—	—
Interest on Funds Borrowed.....	(96,217)	(122,986)	(194,642)
Interest on Money Market Borrowings.....	(79,638)	(160,230)	(212,466)
Interest on Securities Issued.....	—	(8,025)	(92,869)
Other Interest Expense.....	(47)	(54)	(206)
<b>Net Interest Income/Expense</b> .....	481,588	528,623	598,542
<b>Net Fees and Commissions Income/Expense</b> .....	27,867	29,500	29,547
Fees and Commissions Received.....	32,445	33,631	34,397
Non-cash Loans.....	7,407	9,712	11,488
Other.....	25,038	23,919	22,909
Fees and Commissions Paid.....	(4,578)	(4,131)	(4,850)
Non-cash Loans.....	(858)	(890)	(853)
Other.....	(3,720)	(3,241)	(3,997)
<b>Dividend Income</b> .....	15,715	13,876	10,175
<b>Trading Income (net)</b> .....	(24,735)	41,238	5,780
Securities Trading Gains/Losses.....	4,391	(714)	3,567
Derivative Financial Instruments Gains/Losses.....	(46,359)	(46,889)	(122,013)
Foreign Exchange Gains/Losses.....	(17,233)	88,841	124,226
<b>Other Operating Income</b> .....	25,541	47,684	51,137
<b>Total Operating Income<sup>(1)</sup></b> .....	525,976	660,921	695,181

**For the year ended 31 December**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands, except where indicated)</i>		
<b>Provision for Loan Losses and Other Receivables</b> .....	(47,230)	(61,150)	(78,563)
<b>Other Operating Expenses</b> .....	(140,528)	(160,560)	(140,573)
<b>Net Operating Income</b> <sup>(2)</sup> .....	338,218	439,211	476,045
Profit/Loss on Equity Method .....	31,975	27,136	35,280
Profit/Loss On Net Monetary Position .....	—	—	—
<b>Profit/Loss On Continuing Operations Before Taxes</b> ...	370,193	466,347	511,325
<b>Tax Provisions for Continuing Operations</b> .....	(75,039)	(92,236)	(100,735)
Provision for Current Income Taxes .....	(58,256)	(120,210)	(76,641)
Provision for Deferred Taxes .....	(16,783)	27,974	(24,094)
<b>Net Profit/Loss From Continuing Operations</b> .....	295,154	374,111	410,590
<b>Net Profit/Loss</b> .....	295,154	374,111	410,590
Group's profit/loss .....	303,890	373,408	407,231
Minority shares .....	(8,736)	703	3,359
Earnings/Loss Per Share <sup>(1)</sup> .....	0.197	0.249	0.235

Note:

- (1) Earnings per share are calculated by using the average number of shares of the current period. Presented in Turkish Lira, instead of thousands of Turkish Lira.

**Results of Operations as of and for the years ended 31 December 2014 and 2015**

***Net Interest Income***

The Group's net interest income increased by 13.2 per cent. to TL 598.5 million in the year ended 31 December 2015 from TL 528.6 million in the year ended 31 December 2014. The Group's net interest margin in 2015 was 3.6 per cent. as compared to 4.2 per cent. in 2014. Despite the decrease in the net interest margin, net interest income increased due to an increase in interest earning assets. For further information regarding the factors that resulted in this change in the Group's net interest margins, see "*Interest Income*" and "*Interest Expense*".

***Interest Income***

The Group's interest income is derived from interest on loans, securities and money market placements. In 2015, the Group's interest income increased by 34 per cent. to TL 1,098.7 million from TL 819.9 million in 2014. For 2015, interest income from loans amounted to TL 669.2 million (61 per cent. of total interest income), interest from securities amounted to TL 318.7 million (29 per cent. of total interest income) and interest from money market placements and interest received from banks amounted to TL 110.8 million (10 per cent. of total interest income), compared to TL 505.2 million (62 per cent.), TL 283.9 million (35 per cent.) and TL 30.8 million (4 per cent) respectively, in 2014.

### ***Interest Expenses***

In 2015, the Group's interest expenses increased by 72 per cent. to TL 500.2 million from TL 291.3 million in 2014. This increase was due to increased funding costs stemming primarily from a 34 per cent. growth in the Bank's total funding in line with growth targets, an increase in costs associated with money market transactions and the issuance of notes in October 2014 and April 2015.

### ***Net Fees and Commission Income***

The Group's net fees and commission income stayed flat at TL 29.5 million in 2015. This stemmed from the competitive environment and general economic uncertainty in 2015.

### ***Dividend Income***

The Group's dividend income decreased by 27 per cent. from TL 13.9 million in 2014 to TL 10.2 million in 2015.

### ***Trading Income/(Loss)(Net)***

The Group's trading income is comprised of three components: securities trading, derivative transactions and foreign exchange income. The Group's trading income decreased from a gain of TL 41.2 million in 2014 to a gain of TL 5.8 million in 2015. This decrease was primarily driven by an increase in foreign exchange losses.

### ***Other Operating Income***

The Group's other operating income increased by 7.2 per cent. to TL 51.1 million in 2015 from TL 47.7 million in 2014. This increase was primarily attributable to TL 12.9 million being recognised as a reversing entry made to take into account the Group's payment of a one-off tax fine levied against the Group amounting to TL 22 million in 2014. See "*Business of the Group — Legal Proceedings — Tax Audit*" for additional information.

### ***Provisioning for Loans and other Receivables***

In 2015, the Group's provisioning for loans and other receivables increased by 29 per cent. to TL 78.6 million from TL 61.2 million in 2014. The increase in 2015 was principally attributable to a single NPL which was booked in the first quarter. The Bank's policy is to provide fully (at a rate of 100 per cent.) for all of its non-performing loans rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

The following table shows the Group's provisioning for loans and other receivables as of the indicated dates.

	<b>As of 31 December</b>	
	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>	
<b>Specific Provisions for Loans and Other Receivables</b> .....	5,181	44,681
Group III Loans and Receivables <sup>(1)</sup> .....	4,366	20
Group IV Loans and Receivables <sup>(1)</sup> .....	—	—
Group V Loans and Receivables <sup>(1)</sup> .....	815	44,661
<b>General Loan Provision Expenses</b> .....	21,177	26,283
<b>Provision Expenses for Potential Risks</b> .....	—	—
<b>Marketable Securities Impairment Losses</b> .....	1,501	7,599
Financial Assets at Fair Value through Profit and Loss .....	—	—

	<b>As of 31 December</b>	
	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>	
Financial Assets Available for Sale .....	1,501	7,599
<b>Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Held to Maturity Investments</b> .....	291	—
Investment in Associates.....	291	—
Subsidiaries.....	—	—
Jointly Controlled Entities .....	—	—
Held-to-Maturity Investments.....	—	—
<b>Other</b> .....	33,000	—
<b>Total</b> .....	<u>61,150</u>	<u>78,563</u>

Note:

- (1) For a description of the Loans and Receivables categories, see “*Business of the Group — Loan Classification and Provisioning Policy*”.

### ***Other Operating Expenses***

In 2015, the Group’s other operating expenses decreased by 12 per cent. to TL 140.6 million from TL 160.6 million in 2014. The decrease in 2015 was primarily attributable to a base effect in 2015 stemming from a one-off tax fine levied against the Group amounting to TL 22 million in 2014. See “*Business of the Group — Legal Proceedings — Tax Audit*” for additional information.

### ***Net Profit from Continuing Operations***

The Group’s net profit from continuing operations in 2015 increased by 9.8 per cent. to TL 410.6 million from TL 374.1 million in 2014. The increase in 2015 was in large part due to increased turnover resulting from growth in the Group’s operations.

For 2015, the Bank’s return on average total assets was 2.2 per cent. and the return on its average equity was 17.0 per cent., compared to 2.6 per cent. and 17.7 per cent., respectively, for 2014.

## **Results of Operations as of and for the years ended 31 December 2013 and 2014**

### ***Net Interest Income***

The Group’s net interest income increased by 10 per cent. to TL 528.6 million in the year ended 31 December 2014 from TL 481.6 million in the year ended 31 December 2013. The Group’s net interest margin in 2014 was 4.2 per cent. as compared to 4.0 per cent. in 2013. The increase in the net interest margin resulted mainly from higher yields of CPI-linked securities. For further information regarding the factors that resulted in this change in the Group’s net interest margins, see “*Interest Income*” and “*Interest Expense*”.

### ***Interest Income***

The Group’s interest income is primarily derived from interest on loans and securities. In 2014, the Group’s interest income increased by 25 per cent. to TL 819.9 million from TL 657.5 million in 2013. This increase

was largely driven by a 16 per cent. growth in the Bank's loan book. For 2014, interest income from loans amounted to TL 505.2 million (62 per cent. of total interest income) and interest from securities amounted to TL 283.9 million (35 per cent. of total interest income), compared to TL 393.6 million (60 per cent.) and TL 229.2 million (35 per cent.), respectively, in 2013.

#### ***Interest Expense***

In 2014, the Group's interest expense increased by 66 per cent. to TL 291.3 million from TL 175.9 million in 2013. This increase in 2014 was due to an increase in funding costs, which stemmed primarily from a 20 per cent. growth in the Bank's total funding in line with growth targets, an increase in costs of money market transactions and the stand-alone issuance of notes in October 2014.

#### ***Net Fees and Commission Income***

The Group's net fees and commission income increased by 6 per cent. from TL 27.9 million in 2013 to TL 29.5 million in 2014. This increase was driven by an increase in net fees and commissions generated from non-cash loans.

#### ***Dividend Income***

The Group's dividend income decreased by 12 per cent. from TL 15.7 million in 2013 to TL 13.9 million in 2014. This decrease was primarily due to a lack of dividend income from Takasbank following the Group's divestment of Takasbank during the first quarter of 2014.

#### ***Trading Income/(Loss)(Net)***

The Group's trading income is comprised of three components: securities trading, derivative transactions and foreign exchange income. The Group's trading income increased from a loss of TL 24.7 million in 2013 to a gain of TL 41.2 million in 2014. This increase was primarily driven by an increase in foreign exchange income.

#### ***Other Operating Income***

The Group's other operating income increased by 87 per cent. to TL 47.7 million in 2014 from TL 25.5 million in 2013. This increase was primarily attributable to NPL reversal and asset sales.

#### ***Provisioning for Loans and other Receivables***

In 2014, the Group's provisioning for loans and other receivables increased by 29 per cent. to TL 61.2 million from TL 47.2 million in 2013. The increase in 2014 was principally attributable to the Bank's decision to increase its free provisions, specifically in order to further secure its Group II loans. The Bank's policy is to provide fully (at a rate of 100 per cent.) for all of its non-performing loans rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

The following table shows the Group's provisioning for loans and other receivables as of the indicated dates.

	<b>As of 31 December</b>	
	<b>2013</b>	<b>2014</b>
	<i>(TL thousands)</i>	
<b>Specific Provisions for Loans and Other Receivables</b> .....	26,038	5,181
Group III Loans and Receivables <sup>(1)</sup> .....	25,653	4,366
Group IV Loans and Receivables <sup>(1)</sup> .....	46	—
Group V Loans and Receivables <sup>(1)</sup> .....	339	815

	<b>As of 31 December</b>	
	<b>2013</b>	<b>2014</b>
	<i>(TL thousands)</i>	
<b>General Loan Provision Expenses</b> .....	19,336	21,177
<b>Provision Expenses for Potential Risks</b> .....	—	—
<b>Marketable Securities Impairment Losses</b> .....	1,856	1,501
Financial Assets at Fair Value through Profit and Loss .....	—	—
Financial Assets Available for Sale.....	1,856	1,501
<b>Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Held to Maturity Investments</b> .....	—	291
Investment in Associates.....	—	291
Subsidiaries.....	—	—
Jointly Controlled Entities .....	—	—
Held-to-Maturity Investments.....	—	—
<b>Other</b> .....	—	33,000
<b>Total</b> .....	<u>47,230</u>	<u>61,150</u>

Note:

- (1) For a description of the Loans and Receivables categories, see “*Business of the Group — Loan Classification and Provisioning Policy*”.

### ***Other Operating Expenses***

In 2014, the Group’s other operating expenses increased by 14 per cent. to TL 160.6 million from TL 140.5 million in 2013. The increase in 2014 was primarily attributable to a decrease of impairment losses of TSKB REİT and a one-off tax fine levied against the Group amounting to TL 22 million. See “*Business of the Group — Legal Proceedings — Tax Audit*” for additional information.

### ***Net Profit from Continuing Operations***

The Group’s net profit from continuing operations in 2014 increased by 27 per cent. to TL 374.1 million from TL 295.2 million in 2013. The increase in 2014 was in large part due to increased turnover resulting from growth in the Group’s operations.

For 2014, the Bank’s return on average total assets was 2.6 per cent. and the return on its average equity was 17.7 per cent., compared to 2.8 per cent. and 17.9 per cent., respectively, for 2013.

### **Segmental Analysis**

The primary business line of the Group is banking and advisory services, with other principal business lines including real estate appraisal, a real estate investment trust and brokerage. These business lines are further divided into various sub-business lines based upon business activities as described under “*Business of the Group — Business Activities*”. Under its Banking Services business lines, there are three sub-business lines: corporate banking (including project finance), investment banking and advisory services. For accounting

purposes, however, the Group reports its business in its BRSA Financial Statements under three segments: Corporate Banking, Investment Banking and Others. The Bank's results make up the large majority of the results for these three segments, with the remainder being contributed by the Bank's financial subsidiaries. For a list of the activities undertaken by the Bank's financial subsidiaries, see "Business of the Group — Subsidiaries and Other Affiliates". The Bank does not consolidate the results of its non-financial subsidiaries in the Group's consolidated BRSA Financial Statements on a line-by-line basis and so these results do not appear in the segmental data included therein.

Non-financial subsidiaries are reflected under the "Investments in Associates" and "Investments in Subsidiaries" items in the consolidated BRSA Financial Statements. Non-financial associates and subsidiaries whose equity securities are traded in an active stock exchange are reflected on financial statements with their fair value prices taking into consideration their quoted market prices at the stock exchange. Associates and subsidiaries whose equity securities are not traded in an active stock exchange are recorded at their cost on the acquisition date and these assets are reflected on the financial statements with their acquisition cost less impairment losses, if any. For a list of the Bank's non-financial subsidiaries as of 31 December 2015, see "Business of the Group- Subsidiaries and Other Affiliates".

The following tables set forth certain information regarding the Group's business segments as of the indicated dates:

	<b>As of (or for the year ended) 31 December 2015</b>			
	<b>Corporate Banking</b>	<b>Investment Banking</b>	<b>Other</b>	<b>Total</b>
	<i>(TL thousands)</i>			
Net Interest Income.....	309,709	310,576	(21,743)	598,542
Net Fees and Commissions Income .....	11,523	(23)	18,047	29,547
Other Income .....	843	2,353	93,396	96,592
Other Expense.....	(89,829)	(19,706)	(103,821)	(213,356)
Profit Before Tax .....	232,246	293,200	(14,121)	511,325
Tax Provision.....	—	—	—	(100,735)
<b>Net Profit</b> .....				<b>410,590</b>
Group's Profit/Loss.....	—	—	—	407,231
Non-Controlling Interests .....	—	—	—	3,359
Segment Assets.....	13,564,132	6,456,746	1,049,790	21,070,668
Investment in Associates and Subsidiaries ..	—	—	295,912	295,912
<b>Total Assets</b> .....	<b>13,564,132</b>	<b>6,456,746</b>	<b>1,345,702</b>	<b>21,366,580</b>
Segment Liabilities .....	16,220,868	1,640,878	721,042	18,582,788
Shareholders' Equity .....	—	—	2,783,792	2,783,792
<b>Total Liabilities and Shareholders' Equity</b> .....	<b>16,220,868</b>	<b>1,640,878</b>	<b>3,504,834</b>	<b>21,366,580</b>



**As of (or for the year ended) 31 December 2014**

	<b>Corporate Banking</b>	<b>Investment Banking</b>	<b>Other</b>	<b>Total</b>
	<i>(TL thousands)</i>			
Net Interest Income.....	324,145	213,282	(8,904)	528,623
Net Fees and Commissions Income.....	9,794	1,370	18,336	29,500
Other Income.....	25,782	16,279	245,214	287,275
Other Expense.....	(73,457)	(12,168)	(293,426)	(379,051)
Profit Before Tax.....	286,264	218,863	(38,780)	466,347
Tax Provision.....	—	—	—	(92,236)
<b>Net Profit</b> .....				<b>374,111</b>
Group's Profit/Loss.....	—	—	—	373,408
Non-Controlling Interests.....	—	—	—	703
Segment Assets.....	10,794,549	4,308,787	858,446	15,961,782
Investment in Associates and Subsidiaries ..	—	—	263,919	263,919
<b>Total Assets</b> .....	<b>10,794,549</b>	<b>4,308,787</b>	<b>1,222,365</b>	<b>16,225,701</b>
Segment Liabilities.....	10,856,683	2,219,230	725,537	13,801,450
Shareholders' Equity.....	—	—	2,424,251	2,424,251
<b>Total Liabilities and Shareholders' Equity</b> .....	<b>10,856,683</b>	<b>2,219,230</b>	<b>3,149,788</b>	<b>16,225,701</b>

**As of (or for the year ended) 31 December 2013**

	<b>Corporate Banking</b>	<b>Investment Banking</b>	<b>Other</b>	<b>Total</b>
	<i>(TL thousands)</i>			
Net Interest Income.....	292,135	187,960	1,493	481,588
Net Fees and Commissions Income.....	8,001	2,348	17,518	27,867
Other Income.....	7,614	—	130,512	138,126
Other Expense.....	(72,444)	(31,637)	(173,307)	(277,388)
Profit Before Tax.....	235,306	158,671	(23,784)	370,193
Tax Provision.....	—	—	—	(75,039)
<b>Net Profit</b> .....	<b>—</b>	<b>—</b>	<b>—</b>	<b>295,154</b>
Group's Profit/Loss.....	—	—	—	303,890
Non-Controlling Interests.....	—	—	—	(8,736)
Segment Assets.....	9,000,617	3,353,574	847,534	13,201,725
Investment in Associates and Subsidiaries ..	—	—	237,491	237,491
<b>Total Assets</b> .....	<b>9,000,617</b>	<b>3,353,574</b>	<b>1,085,025</b>	<b>13,439,216</b>
Segment Liabilities.....	8,905,217	1,859,560	656,905	11,421,682

**As of (or for the year ended) 31 December 2013**

	<b>Corporate Banking</b>	<b>Investment Banking</b>	<b>Other</b>	<b>Total</b>
		<i>(TL thousands)</i>		
Shareholders' Equity .....	—	—	2,017,534	2,017,534
<b>Total Liabilities and Shareholders' Equity .....</b>	<b>8,905,217</b>	<b>1,859,560</b>	<b>2,674,439</b>	<b>13,439,216</b>

**Financial Condition**

The tables below set forth the Group's balance sheet data as of the indicated dates.

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
		<i>(TL thousands)</i>	
<b>Assets</b>			
<b>Cash and Balances with the Central Bank .....</b>	345,040	507,794	811,123
<b>Financial Assets At Fair Value Through Profit And Loss (Net) .....</b>	60,248	95,417	209,571
Trading Financial Assets.....	60,248	95,417	209,571
Public Sector Debt Securities.....	8,717	7,887	30,777
Share Certificates .....	988	2,388	2
Derivative Financial Assets Held-for-Trading	40,687	74,874	169,794
Other Marketable Securities.....	9,856	10,268	8,998
<b>Banks .....</b>	421,304	503,981	751,545
<b>Money Market Placements.....</b>	50	105,206	1,080,724
Interbank Money Market Placements.....	—	—	—
Borsa İstanbul Money Market Placements.....	50	104,913	1,080,274
Receivables from Reverse Repurchase Agreements .....	—	293	450
<b>Financial Assets Available For Sale (Net).....</b>	2,973,058	3,517,617	2,972,162
Share Certificates .....	51,029	35,768	38,214
Public Sector Debt Securities.....	2,329,304	3,021,063	2,624,551
Other Marketable Securities	592,725	460,786	309,397
<b>Loans.....</b>	9,049,098	10,866,989	13,633,129
Loans.....	9,049,098	10,866,989	13,633,129
Loans to Risk Group of the Bank.....	290,027	271,858	484,797
Other .....	8,759,071	10,595,131	13,148,332
Non-Performing Loans .....	37,386	18,438	61,017
Specific Provisions (-).....	(37,386)	(18,438)	(61,017)
<b>Held To Maturity Investments (Net).....</b>	—	—	872,602

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
<b>Investments In Associates (Net)</b> .....	236,634	263,300	293,543
Accounted for Under the Equity Method .....	234,988	261,745	291,988
Unconsolidated Associates.....	1,646	1,555	1,555
Non-Financial Investments .....	1,646	1,555	1,555
<b>Investments In Subsidiaries (Net)</b> .....	847	609	609
<b>Entities Under Common Control (Joint Venture) (Net)</b> .....	10	10	1,760
Unconsolidated .....	10	10	1,760
Non-Financial Subsidiaries .....	10	10	1,760
<b>Lease Receivables (Net)</b> .....	4,518	—	—
Finance Lease Receivables .....	4,573	87	98
Unearned Income (-) .....	(55)	(87)	(98)
<b>Derivative Financial Assets for Hedging Purposes</b>	—	—	4,093
<b>Tangible Assets (Net)</b> .....	24,397	26,454	207,027
<b>Intangible Assets (Net)</b> .....	2,249	2,173	2,056
Goodwill .....	1,005	1,005	1,005
Other .....	1,244	1,168	1,051
<b>Investment Property (Net)</b> .....	222,295	224,090	241,293
<b>Tax Assets</b> .....	18,896	21,253	29,624
Current Tax Asset .....	—	2,320	1,825
Deferred Tax Asset .....	18,896	18,933	27,799
<b>Assets Held-For-Sale and Discounted Operations</b> .....	—	—	—
<b>Other Assets</b> .....	80,572	90,808	255,719
<b>Total Assets</b> .....	<u>13,439,216</u>	<u>16,225,701</u>	<u>21,366,580</u>

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
<b>Liability and Equity</b>			
<b>Derivative Financial Liabilities Held-for-Trading</b> .....	57,857	63,576	174,950
<b>Funds Borrowed</b> .....	9,125,037	10,151,582	13,441,831
<b>Money Market Balances</b> .....	1,856,204	2,272,713	2,350,540
Interbank Money Market Takings.....	—	—	—
Borsa İstanbul Money Market Takings .....	251,313	110,219	182,505
Funds Provided Under Repurchase Agreements .....	1,604,891	2,162,494	2,168,035
<b>Debt Securities issued (Net)</b> .....	—	813,824	2,037,571

**As of 31 December**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Bonds .....	—	813,824	2,037,571
<b>Funds</b> .....	5,954	39,081	30,677
Borrower Funds .....	5,954	39,081	30,677
<b>Miscellaneous Payables</b> .....	89,769	96,591	129,298
<b>Lease Payables</b> .....	—	—	—
Finance Lease Payables .....	—	—	—
Deferred Finance Lease Expenses (-).....	—	—	—
<b>Derivative Financial Liabilities for Hedging Purposes</b> .....	—	—	5,799
<b>Provisions</b> .....	157,442	210,296	217,860
General Loan Loss Provision .....	96,583	117,760	144,043
Reserves for Employee Benefits .....	8,676	9,475	10,768
Other Provisions.....	52,183	83,061	63,049
<b>Tax Liability</b> .....	22,660	37,722	48,426
Current Tax Liability .....	22,660	37,722	48,426
<b>Subordinated Loans</b> .....	106,759	116,065	145,836
<b>Shareholders' Equity</b> .....	2,017,534	2,424,251	2,783,792
Paid-in Capital .....	1,300,000	1,500,000	1,750,000
Capital Reserves.....	13,723	124,100	147,322
Share Premium.....	388	413	428
Marketable Securities Value Increase Fund .....	4,041	113,993	(27,755)
Tangible Assets Revaluation Differences .....	8,920	9,320	174,619
Other Capital Reserves.....	374	374	30
Profit Reserves .....	262,400	315,408	362,902
Legal Reserves .....	158,444	175,765	195,072
Statutory Reserves .....	75,641	75,641	75,641
Extraordinary Reserves .....	24,993	61,244	89,478
Other Profit Reserves .....	3,322	2,758	2,711
Profit or Loss .....	365,889	417,290	458,078
Prior Years' Profit/Loss .....	61,999	43,882	50,847
Current Year Profit/Loss .....	303,890	373,408	407,231
Non-controlling interests.....	75,522	67,453	65,490
<b>Total Liabilities and Equity</b> .....	13,439,216	16,225,701	21,366,580

**Assets**

As of 31 December 2015, the Group had total assets of TL 21.4 billion, a 31.7 per cent. increase from TL 16.2 billion as of 31 December 2014. The increase was largely due to a 25.5 per cent. increase in loans.

### ***Cash and Balances with the Central Bank***

As of 31 December 2015, the amount of the Group's cash and balances with the Central Bank was TL 811 million, a 59.7 per cent. increase compared to TL 508 million as of 31 December 2014. The Group started to hold higher levels of foreign exchange-denominated reserves due to utilising the Reserve Option Mechanism, which gives Turkish banks the option to hold foreign exchange or gold reserves in place of a fraction of their Turkish Lira reserve requirements.

### ***Loans and Leasing Receivables***

Loans and advances to customers represent the largest component of the Group's assets. As discussed below, there are several important characteristics of the Group's loan portfolio, including diversification based upon sector, type of borrower, maturity and currency. In the medium term, the Bank plans to focus on infrastructure, renewable energy, energy and resource efficiency, PPPs (mostly in healthcare and education sectors) and SME loans. During the medium term, the Bank aims to maintain its market share while improving its profitability, asset quality and cost efficiency and sustaining efficient capital. See "*Business of the Group — Strategy*".

As of 31 December 2015, the Group had loans and leasing receivables net of allowance for possible losses of TL 13.6 billion (63.8 per cent. of total assets), an increase of 25.5 per cent. compared to TL 10.9 billion (67.0 per cent.) as of 31 December 2014 (TL 9.1 billion and 67.4 per cent., respectively, as of 31 December 2013). The Group's portfolio of cash total loans and advances to customers, less allowance for possible losses, increased by 25.5 per cent. as of 31 December 2015 compared to year-end 2014, which itself reflected a 20 per cent. increase compared to year-end 2013. The increases in 2014 and 2015 were driven mainly by the growth in foreign currency-denominated loans due to the depreciation of Turkish Lira. In 2015, when the impact of the depreciation in foreign exchange is excluded, the increase in foreign currency-denominated loans diminished to 8 per cent. and the Turkish Lira-denominated loan book stayed flat.

In addition to loans, the Group had outstanding guarantees amounting to TL 1.2 billion and letters of credit amounting to TL 0.6 billion as of 31 December 2015 (TL 1.0 billion and TL 0.5 billion, respectively, as of 31 December 2014).

As of 31 December 2015, the average effective interest rates charged to borrowers on loans were 4.7 per cent. for U.S. Dollars, 3.5 per cent. for Euros and 12.0 per cent. for Turkish Lira (4.4 per cent., 3.8 per cent. and 10.6 per cent. as of 31 December 2014 and 4.2 per cent., 3.8 per cent. and 9.4 per cent. as of 31 December 2013).

### ***Sector of Loans***

The following table shows the distribution of the Group's loan portfolio by sector as of the dates indicated:

	As of 31 December					
	2013		2014		2015	
	Amount	%	Amount	%	Amount	%
	<i>(TL thousands, except percentages)</i>					
<b>Agriculture</b> .....	5,309	0.06	2,636	0.02	1,503	0.01
<b>Industry</b> .....	5,587,415	61.71	6,622,703	60.94	8,416,355	61.73
Mining and Quarrying .....	77,713	0.86	93,640	0.86	100,310	0.81
Manufacturing .....	1,967,666	21.73	1,926,128	17.72	2,549,365	18.70
Electricity, Gas, Water .....	3,542,036	39.12	4,602,935	42.36	5,756,680	42.23

	As of 31 December					
	2013		2014		2015	
	Amount	%	Amount	%	Amount	%
	<i>(TL thousands, except percentages)</i>					
<b>Construction</b> .....	106,350	1.17	144,499	1.33	187,169	1.37
<b>Services</b> .....	3,211,837	35.48	3,939,270	36.25	4,932,111	35.67
Wholesale and Retail Trade.....	23,876	0.26	125,535	1.16	295,610	2.17
Hotel and Restaurant Services.....	271,558	3.00	542,574	4.99	592,962	4.35
Transportation and Communication..	577,717	6.38	720,666	6.63	857,678	6.29
Financial Institutions.....	1,330,129	14.69	1,577,258	14.51	1,792,400	13.15
Real Estate and Rental Services.....	906,372	10.01	841,041	7.74	1,121,609	8.23
Self-Employed Services.....	18,966	0.21	22,683	0.21	21,097	0.15
Educational Services.....	13,819	0.15	48,762	0.45	123,843	0.91
Health and Social Services.....	69,400	0.77	60,751	0.56	126,912	0.93
<b>Other</b> .....	142,705	1.58	157,881	1.45	95,991	0.70
<b>Performing Loans<sup>(1)</sup></b> .....	9,053,616	100.00	10,866,989	100.00	13,633,129	100.00
Leasing Receivables.....	4,518	—	0	—	0	—
Non-performing Loans.....	37,386	—	18,438	—	61,017	—
Total Loans and Advances to Customers.....	9,091,002	—	10,885,427	—	13,694,146	—
Allowance for Loan Losses.....	37,386	—	18,438	—	61,017	—
<b>Net Loans and Advances to Customer</b> .....	9,053,616	—	10,866,989	—	13,633,129	—

Note:

(1) Performing Loans include Leasing Receivables.

### *Currency of Loans*

As of 31 December 2015, foreign currency risk-bearing loans comprised 92 per cent. of the Group's loan portfolio (of which U.S. Dollar- and Euro-denominated obligations were the most significant), compared to 90 per cent. as of 31 December 2014 and 94 per cent. as of 31 December 2013.

The following table sets out an analysis by currency of the exposure of the Group's loan portfolio (including interest and other accruals) as of the dates indicated:

	As of 31 December					
	2013		2014		2015	
	Amount	%	Amount	%	Amount	%
	<i>(TL thousands, except percentages)</i>					
<b>Cash Loans</b>						
<b>Turkish Lira</b> .....	576,184	6.37%	1,080,690	9.90%	1,069,447	7.84%
<b>Foreign Currency<sup>(1)</sup></b> .....	8,472,914	93.63%	9,786,299	90.10%	12,563,682	92.16%

**As of 31 December**

	<b>2013</b>		<b>2014</b>		<b>2015</b>	
	<i>(TL thousands, except percentages)</i>					
U.S. Dollars .....	4,914,340	54.31%	6,201,710	57.10%	7,661,022	56.19%
Euro .....	3,558,574	39.33%	3,584,589	33.00%	4,902,660	35.96%
Other .....	—	—	—	—	—	—
<b>Total Cash Loans</b> .....	<b>9,049,098</b>	<b>100.00%</b>	<b>10,866,989</b>	<b>100.00%</b>	<b>13,633,129</b>	<b>100.00%</b>
<b>Non-cash Loans</b>						
<b>Letters of Guarantee</b> .....	1,015,387	70.00%	956,972	65.90%	1,196,747	67.13%
Turkish Lira .....	505,921	35.00%	431,847	29.70%	390,799	21.92%
Foreign Currency .....	509,466	35.00%	525,125	36.10%	805,948	45.21%
<b>Acceptance Credits</b> .....	—	—	—	—	19,027	1.07%
Turkish Lira .....	—	—	—	—	—	—
Foreign Currency .....	—	—	—	—	19,027	1.07%
<b>Letters of Credit</b> .....	438,033	30.00%	496,097	34.10%	566,890	31.80%
Turkish Lira .....	—	—	—	—	—	—
Foreign Currency .....	438,033	30.00%	496,097	34.10%	566,890	31.80%
<b>Other Guarantee</b> .....	—	—	—	—	—	—
Turkish Lira .....	—	—	—	—	—	—
Foreign Currency .....	—	—	—	—	—	—
<b>Total Non-cash Loans</b> .....	<b>1,453,420</b>	<b>100.00%</b>	<b>1,453,069</b>	<b>100.00%</b>	<b>1,782,664</b>	<b>100.00%</b>
<b>Total Loans</b> .....	<b>10,502,518</b>	<b>100.00%</b>	<b>12,320,058</b>	<b>100.00%</b>	<b>15,415,793</b>	<b>100.00%</b>

Note:

(1) Foreign currency loans include foreign currency indexed loans.

### **Securities Portfolio**

The Group's securities portfolio comprises trading securities (i.e. debt and equity securities that the Group principally holds for the purpose of short-term profit taking, which are reflected on the balance sheet as "financial assets at fair value through profit or loss") and investment securities (i.e. held-to-maturity securities and available-for-sale securities). The Group also enters into purchases (or sales) of securities under agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price (i.e. "repos"). Securities sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the related security portfolio as appropriate. The Group's portfolio of marketable securities consists primarily of Turkish government securities (including bonds, treasury bills and eurobonds) denominated in Turkish Lira, U.S. Dollars and Euro.

As of 31 December 2015, the size of the Group's aggregate securities portfolio increased by 9.8 per cent. to TL 3.9 billion from TL 3.5 billion as of 31 December 2014, which in turn increased 18.2 per cent. from TL 3.0 billion as of 31 December 2013. In 2013 and 2014, the composition of the Bank's assets was weighted in favour of the Bank's loan portfolio rather than its securities portfolio. However, in 2015, in addition to the growth of its securities portfolio, the Bank substantially increased its investment in short-term money market

placements in order to benefit from higher yields, as compared to government debt securities, as a result of heightened market volatility. The Bank intends to reallocate its investments into longer-term instruments once market conditions favour such an approach.

As of 31 December 2015, the Group's securities portfolio constituted 18 per cent. of the Group's total assets, compared to 21.6 per cent. and 21.9 per cent., respectively, as of 31 December 2014 and 2013. The Bank's management's strategy is to seek to maintain the size of the Group's securities portfolio within a range of 17 per cent. to 22 per cent. of the Group's total assets.

Pursuant to market practice, the Group pledges securities to acquire funding under security repurchase agreements. The securities so pledged amounted to TL 2.3 billion as of 31 December 2015, TL 1.5 billion as of 31 December 2014 and TL 1.2 billion as of 31 December 2013, comprising 60 per cent., 31 per cent. and 44 per cent., respectively, of the Group's securities portfolio on such dates. Such securities are included in the tables in this section. The remaining repurchase agreements are used to fund other Turkish Lira-denominated assets such as Turkish Lira-denominated loans and money market transactions.

The following tables set out breakdowns of securities (on a book-value basis) held by the Group as of the dates indicated:

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Held-to-maturity portfolio.....	—	—	872,602
Available-for-sale portfolio.....	2,973,058	3,517,617	2,972,162
Trading portfolio.....	19,561	20,543	39,777
<b>Total securities</b> .....	<b>2,992,619</b>	<b>3,538,160</b>	<b>3,884,541</b>

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Turkish Lira-denominated securities.....	2,614,553	2,979,172	2,879,314
Foreign currency-denominated and indexed securities.....	378,066	558,988	1,005,227
<b>Total securities</b> .....	<b>2,992,619</b>	<b>3,538,160</b>	<b>3,884,541</b>

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Turkish government debt securities <sup>(1)</sup> .....	2,338,021	3,028,950	3,527,930
Other marketable debt securities.....	602,581	471,054	318,395
Equity shares.....	52,017	38,156	38,216



**As of 31 December**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
<b>Total securities</b> .....	2,992,619	3,538,160	3,884,541

Note:

(1) Government debt securities include government bonds, treasury bills and eurobonds.

***Investment Securities***

As noted above, investment securities comprise held-to-maturity securities and available-for-sale securities. Held-to-maturity securities are financial assets with fixed or determinable payments and fixed maturities that the Group intends and has the ability to hold to maturity. Available-for-sale securities are financial assets that are not held-for-trading purposes or held-to-maturity. Available-for-sale instruments include certain debt and equity investments. The Group classifies investment securities depending upon the intention of management at the time of the purchase thereof, though such can be re-classified if the intention of management later changes.

As of 31 December 2015, the size of the Group's investment portfolio increased by 9.8 per cent. to TL 3.9 billion from TL 3.5 billion as of 31 December 2014, an increase of 18.2 per cent. from TL 3.0 billion as of 31 December 2013. These increases in the Group's investment portfolio were driven by the Group's strategy to seek to keep between 17 per cent. and 22 per cent. of its assets in its securities portfolio in order to adhere to its developmental banking mission while maintaining an appropriate asset and liquidity balance.

As of 31 December 2015, the Group did not hold debt securities of any one issuer that (in the aggregate) had a book value in excess of 10 per cent. of the Group's shareholders' equity, other than securities issued by the Turkish government. As of such date, the Group's TL 3.5 billion of Turkish government securities represented 127 per cent. of the Group's shareholders' equity.

*Held-to-Maturity Portfolio*

The Group's portfolio of held-to-maturity securities consists of Turkish government bonds and eurobonds. As of 31 December 2013 and 2014, the Group did not choose to hold any securities in its held-to-maturity portfolio due to the liquidity position of the Bank. In 2015, the Group booked TL 0.9 billion of its securities portfolio corresponding to 22 per cent. under its held-to-maturity portfolio, primarily in order to manage the effect of the depreciation of the Turkish Lira on its balance sheet.

*Available-for-Sale Portfolio*

The Group's portfolio of available-for-sale securities consists of Turkish government bonds and treasury bills, Turkish private sector bonds and eurobonds, foreign eurobonds and equity shares. The following table sets out certain information relating to the Group's portfolio of available-for-sale securities as of the dates indicated:

	<b>As of 31 December 2015</b>	
	<i>(TL thousands, except percentages)</i>	
Turkish government debt securities <sup>(1)</sup> .....	2,624,551	88.3%

**As of 31 December 2015**

	<i>(TL thousands, except percentages)</i>	
Other marketable debt securities <sup>(2)</sup> .....	309,397	10.4%
Equity shares .....	38,214	1.3%
<b>Total available-for-sale portfolio</b> .....	<b>2,972,162</b>	<b>100%</b>

**As of 31 December**

	<b>As of 31 December</b>					
	<b>2013</b>		<b>2014</b>		<b>2015</b>	
	<i>(TL thousands, except percentages)</i>					
Turkish government debt securities <sup>(1)</sup> ....	2,329,304	78%	3,021,063	85.9%	2,624,551	88.3%
Other marketable debt securities <sup>(2)</sup> .....	592,725	20%	460,786	13.1%	309,397	10.4%
Equity shares .....	51,029	2%	35,768	1%	38,214	1.3%
<b>Total available-for-sale portfolio</b> .....	<b>2,973,058</b>	<b>100%</b>	<b>3,517,617</b>	<b>100%</b>	<b>2,972,162</b>	<b>100%</b>

Notes:

- (1) Government debt securities include government bonds, treasury bills and eurobonds.
- (2) Includes private sector debt securities and mutual funds.

As of 31 December 2015, the size of the Group's available-for-sale securities portfolio decreased by 16 per cent. to approximately TL 2.9 billion from approximately TL 3.5 billion as of 31 December 2014, an increase of 18 per cent. as compared to approximately TL 3.0 billion as of 31 December 2013. In 2013 and 2014, the Bank's management chose to increase the Bank's securities portfolio due to the prevailing market conditions and the asset growth strategy of the Bank. As of 31 December 2015, the size of the Group's available-for-sale portfolio decreased by a further 16 per cent. to TL 2.9 billion as a result of the transfer of TL 0.9 billion of securities to the Group's held-to-maturity portfolio, which was done primarily in order to manage the effect of the depreciation of the Turkish Lira on its balance sheet.

The average interest rates on the Group's available-for-sale securities portfolio as of 31 December 2015 were: (a) for Turkish Lira-denominated securities, 10.38 per cent. (9.72 per cent. and 9.51 per cent., respectively, for the years ended 31 December 2014 and 2013), (b) for U.S. Dollar-denominated securities, 4.87 per cent. (5.88 per cent. and 6.73 per cent., respectively, for the years ended 31 December 2014 and 2013), and (c) for Euro-denominated securities, 5.62 per cent. (5.6 per cent. and 5.45 per cent., respectively, for the years ended 31 December 2014 and 2013).

The average interest rates on the Group's held to maturity securities portfolio as of 31 December 2015 were 10.04 per cent. for Turkish Lira-denominated securities and 6.0 per cent. for U.S. Dollar-denominated securities.

***Trading Securities***

As noted above, trading securities are debt and equity securities that the Group principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments under Turkish law. All trading derivatives in a net receivable position

(positive fair value) are reported as trading assets, whereas all trading derivatives in a net payable position (negative fair value) are reported as trading liabilities. The Group's portfolio of trading securities only comprises Turkish government debt.

After initial recognition, securities that are classified as held-for-trading are measured at estimated fair value. Changes in the estimated fair value are included in the Group's BRSA Financial Statements of income included elsewhere in this Base Prospectus within gains less losses from securities. In determining estimated fair value, trading securities are valued at the last trade price (if quoted on an exchange (e.g. BİST)). When market prices are not available, fair value is determined by the internal rate of return method.

The following tables set out a breakdown of the Group's trading portfolio as of the dates indicated:

	As of 31 December					
	2013		2014		2015	
	<i>(TL thousands, except percentages)</i>					
Turkish government debt securities <sup>(1)</sup> ....	8,717	45%	7,887	38,4%	30,777	77,4%
Other marketable debt securities.....	9,856	50%	10,268	50%	8,998	22,6%
Equity shares .....	988	5%	2,388	11,6%	2	0%
Total trading portfolio.....	19,561	100%	20,543	100%	39,777	100%

Note:

(1) Government debt securities include government bonds, treasury bills and eurobonds.

As of 31 December 2015, the size of the Group's trading securities portfolio increased by 93.6 per cent. to approximately TL 39.8 million from approximately TL 20.5 million as of 31 December 2014, an increase of 5 per cent. as compared to approximately TL 19.6 million as of 31 December 2013. The changes in the trading securities portfolio are attributable to the actions taken by the Group to benefit from price or rate changes and to meet demand from clients.

The average interest rate on the Group's trading securities portfolio as of 31 December 2015 was 10.0 per cent. (9.7 per cent. and 10.61 per cent., respectively as of 31 December 2014 and 2013) for Turkish Lira-denominated securities. The Group did not have any U.S. Dollar-denominated or Euro-denominated securities as of 31 December 2014 or 31 December 2013.

### Liabilities

As of 31 December 2015, the Group had total liabilities of TL 18.6 billion, an increase of 34.6 per cent. from TL 13.8 billion as of 31 December 2014. This increase was primarily attributable to the Group's growth strategy to finance the investment needs of its corporate clients.

As of 31 December 2015, the Group had TL 2.4 billion in funding through repos and TL 15.5 billion in borrowings.

### Shareholders' Equity

As of 31 December 2015, the Group's shareholders' equity amounted to 13.0 per cent. of the Group's total assets, compared to 14.9 per cent. as of 31 December 2014. Both retained profit and mark to market gains and losses from available for sale investments contributed to the change in shareholders' equity. Total shareholders' equity was TL 2.0 billion, TL 2.4 billion and TL 2.8 billion as of 31 December 2013, 2014 and 2015, respectively.

### ***Off-Balance Sheet Arrangements***

The aggregate amount of off-balance sheet arrangements, comprising guarantees, letters of credit and similar obligations, totalled TL 1.8 billion as of 31 December 2015 and the TL 1.5 billion as of 31 December 2014. Additional information regarding the Group's off-balance sheet arrangements is set forth in "*Contingencies and Commitments*" below.

### **Capital Adequacy**

Each of the Bank and the Group is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the guidelines adopted by the Basel Committee on Banking Regulations and Supervision Practices of the Bank for International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures (commitment and contingencies). In accordance with these guidelines, each of the Bank and the Group must maintain a total capital ratio in excess of 8 per cent. calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4 per cent. higher than the legal capital ratio.

Within the context of the implementation of the Basel III framework in Turkey, on 1 January 2014, the Regulation on Equities of Banks published in the Official Gazette No. 26333 dated 1 November 2006 (the "2006 Equity Regulation") regarding the capital of the banks through the end of 2013 was replaced by the 2013 Equity Regulation. Under the 2013 Equity Regulation, Tier I capital is divided into core Tier I capital and additional Tier I capital. In connection with such classification, the regulation amending the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, which also entered into effect on 1 January 2014, introduced new ratios for the evaluation of capital adequacy. Under the provisions of these amendments, the minimum required total capital ratio remains at 8 per cent. while the core capital adequacy ratio and Tier I capital adequacy ratio are 4.5 per cent. and 6 per cent., respectively. A regulation amending the 2013 Equity Regulation, which revises the principles of write-down mechanisms in relation to Tier I and Tier II instruments and amends the composition of Tier II instruments, was published in the Official Gazette on 6 September 2014. Each of the Bank and the Group currently satisfies the capital requirements of the BRSA.

The BRSA published the 2016 Capital Adequacy Regulation, which entered into force on 31 March 2016, at which time it will replace the 2012 Capital Adequacy Regulation. The 2016 Capital Adequacy Regulation sustains the capital adequacy ratios introduced by the former regulation, but changes the risk weights of certain items. The BRSA also amended certain other regulations and communiqués as published in the Official Gazette dated 23 October 2015 and numbered 29511 and 20 January 2016 No. 29599 (also entering into force on 31 March 2016). See "*Turkish Regulatory Environment – Capital Adequacy*".

As of 31 December 2015, 2014 and 2013, the Group's total capital adequacy ratio was 16.0 per cent., 18.3 per cent. and 16.6 per cent. respectively (14,9 per cent, 18.1 per cent. and 18.2 per cent. respectively, for the Bank). The Bank intends to maintain its (and the Group's) capital ratios in excess of those required by both Turkish law and internal risk limits determined by Board of Directors (see "*Risk Management*").

The following table sets out information on the Group's capital and its capital adequacy ratios as of the indicated dates; it being understood that: (a) the capital adequacy levels as of 31 December 2013 are calculated on the basis of Basel II, which became applicable as of 1 July 2012, and (b) the capital adequacy levels as of 31 December 2014 and 2015 are made in accordance with Basel III.

**As of 31 December**

	<b>2013</b>	<b>2014<sup>(1)</sup></b>	<b>2015<sup>(2)</sup></b>
	<i>(TL thousands, except percentages)</i>		
Paid-in capital .....	1,300,000	1,500,000	1,750,000
Paid-in capital inflation adjustments .....	374	374	374
Profit reserves .....	262,400	315,408	362,902
Profit .....	365,889	417,290	458,078
Tier I Capital (I) .....	2,009,466	2,414,594	2,764,596
Tier II Capital (II).....	138,282	140,810	144,043
Deductions (III).....	(235,344)	(21,622)	(14,850)
Own Funds (I+II-III).....	1,912,404	2,533,742	2,893,789
Risk Weighted Assets (including market and operational risk) .....	11,540,660	13,820,038	18,090,325
<b>Capital Ratios:<sup>(2)</sup></b>			
Tier I Ratio .....	17.4%	17.5%	15.3%
Total Capital Adequacy Ratio <sup>(3)</sup> .....	16.6%	18.3%	16.0%

Notes:

- (1) As of 1 January 2014, capital is calculated within the scope of the “Regulation on Measurement and Evaluation of Capital Adequacy Ratios of Bank” as amended by the “Regulation Amending Regulation on Measurement and Evaluation of Capital Adequacy Ratios of Banks” published in the Official Gazette no. 28756 dated 5 September 2013”
- (2) Calculated in accordance with BRSA regulations.
- (3) The Group’s own funds as a percentage of its risk-weighted assets.

The increases in the Group’s capital in each of these periods represented the growth in the Group’s retained earnings.

**Non-Financial Subsidiaries**

As of 31 December 2015, the non-financial subsidiaries of the Bank were TSKB Gayrimenkul Değerleme A.Ş., Terme Metal Sanayi ve Ticaret A.Ş., Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. and Sürdürülebilir Danışmanlık A.Ş. The following tables set forth certain information regarding these non-financial subsidiaries. For a discussion of the differences between the BRSA Financial Statements and the IFRS Financial Statements, see Appendix 1 — “*Overview of Significant Differences Between IFRS and BRSA Accounting Principles*”.

These non-financial subsidiaries are not consolidated in the consolidated BRSA Financial Statements; however, they are shown under the “Investments in Associates” and “Investments in Subsidiaries” line items at their book values in the consolidated BRSA Financial Statements. If dividends are received from these non-financial subsidiaries, then such dividends are reflected in the applicable period’s income statement of the consolidated BRSA Financial Statements.

**TSKB Gayrimenkul Değerleme A.Ş.**

	<b>As of (or for the year ended) 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Total Assets .....	10,832	13,340	14,152
Total Liabilities .....	2,432	3,277	2,522
Profit/(loss) for the period .....	2,182	2,564	1,660

**Sürdürülebilir Danışmanlık A.Ş.**

	<b>As of (or for the year ended) 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Total Assets .....	373	422	720
Total Liabilities .....	42	42	66
Profit/(loss) for the period .....	29	48	275

**Terme Metal Sanayi ve Ticaret A.Ş.**

	<b>As of (or for the year ended) 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Total Assets .....	13,980	14,453	15,589
Total Liabilities .....	10,439	10,819	11,976
Profit/(loss) for the period .....	24	93	75

Note:

(1) Financial data current as of 30 September 2015.

**Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş.**

	As of (or for the year ended) 31 December		
	2013	2014	2015
	(TL thousands)		
Total Assets .....	10,946	11,568	11,500
Total Liabilities .....	141	1,920	174
Profit/(loss) for the period .....	(1,670)	(1,176)	(235)

**Liquidity and Funding**

The Group's principal sources of funding are loans from developmental organisations, of which a total of approximately 66 per cent. is provided by the World Bank Group and the European Investment Bank. As of 31 December 2015, 76.8 per cent. (84.3 per cent. as of 31 December 2014) of the Group's foreign currency-denominated borrowings were sourced from international banks and DFIs. For its other funding, the Bank's strategy has been largely to utilise money market funds (including repos), issuances of debt securities, bilateral borrowings and syndicated loans, although this approach is subject to change, depending upon market opportunities and changes in prevailing rates and other funding sources. For further discussion on the Group's risk management policies relating to funding, see, "Risk Management — Liquidity and Funding".

As of 31 December 2015, the Group's total foreign currency-denominated borrowings constituted 72 per cent. of its consolidated assets (68 per cent. as of 31 December 2014). 74.9 per cent. of the Bank's long-term funds were guaranteed by the Turkish Treasury as of 31 December 2015. Development and investment banks (such as the Bank) are exempt from reserve requirements for their funding guaranteed by the Turkish Treasury.

The tables below set out the Group's principal sources of funding as of the dates indicated:

	As of 31 December								
	2013			2014			2015		
	TL	Foreign Currencies	Total	TL	Foreign Currencies	Total	TL	Foreign Currencies	Total
	(TL thousands)								
Funds Borrowed .....	74,275	9,157,521	9,231,796	227,919	10,039,728	10,267,647	255,612	13,332,055	13,587,667
Repos and Money Market Funds .....	1,609,973	246,231	1,856,204	2,032,878	239,835	2,272,713	2,305,992	44,548	2,350,540
Debt Securities .....	—	—	—	—	813,824	813,824	—	2,037,571	2,037,571

The Group's loans constituted in aggregate approximately 73.1 per cent., 74.4 per cent. and 80.8 per cent. of its total liabilities as of 31 December 2015, 2014 and 2013, respectively. As of 31 December 2015, the Group's loans amounted to TL 13.6 million, an increase of 32.3 per cent. from TL 10.2 million as of 31 December 2014, itself an increase of 11.2 per cent. from TL 9.2 million as of 31 December 2013.

For tables setting out the maturity structure of the Group's loans with a breakdown of the source of loans for the years ended 31 December 2013, 2014 and 2015, see Note II.3.a in Section Five of the Group's BRSA Financial Statements attached hereto.

The remaining sources of funds for the Group are repos and money market funds, which accounted for 13.8 per cent., 14 per cent. and 11 per cent. of the Group's total liabilities as of 31 December 2013, 2014 and 2015, respectively, and issuances of debt securities, which accounted for 9.5 per cent. as of 31 December 2015.

The tables below set out the Group's funding from banks and other institutions with regard to the kind of institution that provides the funding as of the dates indicated:

	As of 31 December					
	2013		2014		2015	
	TL	Foreign Currencies	TL	Foreign Currencies	TL	Foreign Currencies
	<i>(TL thousands)</i>					
Funds borrowed from financial institutions and organisations .....	—	8,437,131	—	9,290,172	—	11,590,433
Funds borrowed from the domestic banks and institutions .....	74,275	271,197	227,919	236,572	186,611	306,291
Funds borrowed from foreign banks, institutions and funds .....	—	342,434	—	396,919	69,001	1,289,495
Subordinated Loans .....	—	106,759	—	116,065	—	145,836
<b>Total</b> .....	<b>74,275</b>	<b>9,157,521</b>	<b>227,919</b>	<b>10,039,728</b>	<b>255,612</b>	<b>13,332,055</b>

The Bank's short-term funding, including syndicated loans, bilateral loans and money market transactions, represented 6.35 per cent. of its outstanding funding base as of 31 December 2015. The table below sets out the Group's funds borrowed based upon their maturity as of the dates indicated:

	As of 31 December					
	2013		2014		2015	
	TL	Foreign Currencies	TL	Foreign Currencies	TL	Foreign Currencies
	<i>(TL thousands)</i>					
Short-term (1 year or less).....	74,275	388,941	227,919	367,148	59,544	56,360
Medium and Long-term.....	—	8,768,580	—	9,672,580	196,068	13,275,695
<b>Total</b> .....	<b>74,275</b>	<b>9,157,521</b>	<b>227,919</b>	<b>10,039,728</b>	<b>255,612</b>	<b>13,332,055</b>

Short-term borrowings from foreign banks principally include syndicated and bilateral loans along with money market transactions. Details of the Group's short-term borrowings as of 31 December 2015 (all of which with maturity dates before the date of this Base Prospectus have since been repaid in full) are as follows:

Outstanding Principal	Final Maturity
U.S. \$6 million bilateral loan .....	4 January 2016
U.S. \$35 million bilateral loan .....	4 January 2016
U.S. \$20 million bilateral loan .....	4 January 2016
TL 7 million bilateral loan.....	4 January 2016



<b>Outstanding Principal</b>	<b>Final Maturity</b>
TL 45 million bilateral loan.....	4 January 2016
TL 75 million bilateral loan.....	4 January 2016
EUR 5 million bilateral loan .....	24 June 2016
EUR10 million bilateral loan .....	14 January 2016
U.S. \$3 million bilateral loan .....	9 February 2016
EUR 213 million syndicated loan.....	11 July 2016
U.S. \$17.5 million syndicated loan .....	11 July 2016

Many of the Group's financings include provisions permitting the applicable creditors to require the accelerated repayment of the applicable indebtedness, including as a result of a breach of a financial or other covenant or the occurrence of a change of control. The Group monitors its compliance with its obligations under its financing arrangements in order to seek to avoid any such acceleration.

As of the date of this Base Prospectus, the Bank's management believes that the Bank's and the Group's liquidity is sufficient for its present requirements for at least the next 12 months from the date of this Base Prospectus.

#### **Contingencies and Commitments**

*Guarantees.* The Group offers its customers products such as guarantees and letters of credit to meet its customers' needs for commercial banking services, frequently in connection with the customers' export and import activities. These products do not appear on the Group's balance sheet. For the breakdown of contingencies and commitments, see the Group's BRSA Financial Statements attached hereto.

As of 31 December 2015, the Group had issued letters of credit amounting to TL 567 million and guarantees amounting to TL 1,197 million.

The table below sets forth the Group's total off-balance sheet guarantees and sureties as of the indicated dates.

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Letters of guarantee.....	1,015,387	956,972	1,196,747
Acceptance credits .....	—	—	19,027
Letters of credit .....	438,033	496,097	566,890
Other guarantees <sup>(1)</sup> .....	—	—	—
<b>Total</b> .....	<b>1,453,420</b>	<b>1,453,069</b>	<b>1,782,664</b>

Note:

(1) Includes endorsements.

*Derivatives.* The Group enters into forward, swap and option transactions to provide hedging services for itself and its clients. The table below sets forth the Group's total derivative transactions, by currency, as of the dates indicated.

**As of 31 December 2015**

	Buy			Sell		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
	<i>(TL thousands)</i>					
Forward foreign exchange contracts .....	23,898	180,556	204,454	23,946	178,688	202,634
Currency swaps.....	748,975	1,969,096	2,718,071	878,170	1,798,598	2,676,768
Interest rate swaps.....	22,428	3,572,012	3,594,440	22,428	3,572,012	3,594,440
Currency options.....	526,886	711,313	1,238,199	526,886	711,313	1,238,199
Interest rate options.....	—	—	—	—	—	—
Others .....	150	89,210	89,360	—	—	—

**As of 31 December 2014**

	Buy			Sell		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
	<i>(TL thousands)</i>					
Forward foreign exchange contracts .....	19,252	5,632	24,884	1,480	23,382	24,862
Currency swaps.....	343,098	1,082,357	1,425,455	251,978	1,099,516	1,351,494
Interest rate swaps.....	23,688	2,562,792	2,586,480	23,688	2,562,792	2,586,480
Currency options.....	343,260	401,258	744,518	340,809	401,604	742,413
Interest rate options.....	—	—	—	—	—	—
Others .....	—	—	—	—	74,677	—

**As of 31 December 2013**

	Buy			Sell		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
	<i>(TL thousands)</i>					
Forward foreign exchange contracts .....	213,289	81,192	294,481	19,461	283,362	302,823
Currency swaps.....	195,646	427,251	622,897	33,050	595,548	628,598
Interest rate swaps.....	24,696	1,230,314	1,255,010	24,696	1,230,314	1,255,010
Currency options.....	187,344	205,442	392,786	183,644	209,840	393,484
Interest rate options.....	—	9,245	9,245	—	9,245	9,245
Others .....	—	—	—	—	—	—

*Other Contingencies and Commitments.* In addition to guarantees and commitments, the Group has other contingencies and commitments, the most material of which are derivatives and the commitments to fund loans to customers. The following table summarises all of the Group's off-balance sheet contingencies and commitments as of the dates indicated; for further detail, please see the Group's consolidated BRSA Financial Statements.

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Guarantees and sureties.....	1,453,420	1,453,069	1,782,664
Loan funding and other commitments.....	3,314,691	3,346,798	5,026,305
Derivatives	5,163,579	9,561,263	20,246,465
<b>Total Contingencies and Commitments.....</b>	<b>9,931,690</b>	<b>14,361,130</b>	<b>27,055,434</b>

### **Property, Plant and Equipment**

The table below sets forth the components of the Group's consolidated property and equipment as of the indicated dates.

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Buildings.....	39,890	38,870	197,289 <sup>(1)</sup>
Vehicles.....	1,404	1,426	1,604
Other <sup>(2)</sup> .....	27,141	31,267	31,541
Depreciation.....	44,038	45,109	23,407
Net book value.....	<b>24,397</b>	<b>26,454</b>	<b>207,027</b>

Notes:

- (1) Since the third quarter of 2015, the Group has changed its accounting policy and adopted a revaluation method pursuant to TAS 16 with respect to the valuation of immovable properties that are included in tangible fixed assets. As a result of valuations obtained from independent appraisal firms authorized by the CMB and BRSA, a cost amount of TL 150,059 thousand is shown under 2015 additions and a reversal of accumulated depreciation amount of TL 24,983 thousand is shown under 2015 disposals. The pre-adjustment net book value of immovable properties that are included in tangible fixed assets as of 31 December 2015 was TL 47,230.
- (2) Leasing intangible assets, leasehold improvements, office equipment, furniture and fixtures are shown under "Other".

## BUSINESS OF THE GROUP

### Overview

The Bank is a Turkish banking institution organised as a joint stock company under the Turkish Commercial Code (No. 6102). The Bank is the first privately owned development and investment bank in Turkey and, as of 31 December 2015, held a 19.4 per cent. share in total assets among Turkish development and investment banks according to the Turkish Banks Association. The Bank, largely in cooperation with DFIs, is principally involved in promoting the development of the Turkish economy by providing long-term funds for the domestic and international investments of Turkish companies, primarily through foreign currency-denominated loans. As well as supporting private sector investments (mostly in industrial sectors), part of the Bank's original and continuing mandate and strategy is to assist domestic and foreign capital owners to finance the development of new businesses in Turkey and to contribute to improvements in Turkish capital markets.

The Group is also involved in capital market brokerage services, portfolio management and corporate finance advisory services. The Group's investment banking activities include advisory services for public offerings, bond issuances and mergers and acquisitions. The Group's strategic advisory activities include providing company appraisal services, feasibility studies and restructuring services. The Group also provides advisory services to domestic and foreign corporations, including locating strategic or financial partners and advising on company mergers and privatisations. The Bank operates in three main business segments: (a) Corporate Banking, which includes the Project Finance and Corporate Marketing departments, (b) Investment Banking and (c) Advisory Services. The Bank has two branches, one in Ankara and the other in İzmir, as well as its principal İstanbul office.

The Bank is the first Turkish-owned bank certified to ISO 14001 (the International Organisation for Standardisation's certificate for Environment Management Systems) based upon its environmental management system. The Bank has a large portfolio of loans to resource efficiency, renewable energy and sustainable tourism projects; however, the Bank is focused on further diversifying its loan portfolio. With its numerous environmental and renewable-energy related projects, the Bank is also the first and only Turkish bank to be granted the "Financial Times Sustainable Emerging Markets Bank of the Year" award for Eastern Europe, which it won three years in a row between 2008 and 2010.

In 2015, the Bank was awarded the Highest Corporate Report Transparency rating given to a bank by Transparency International. As the first carbon neutral bank in Turkey, the Bank was also awarded the "CDP 2015 Climate Transparency Leadership Award of Turkey" by the Carbon Disclosure Project. Within the scope of the 2015 United Nations Climate Change Conference ("COP21"), the Bank signed the declaration on the transition to a low carbon economy with the members of the Association of European Long Term Investors ("ELTI") and has signed on to the voluntary principles comprising the Climate Action initiated by the International Development Finance Club ("IDFC"), a network of national, regional and international development banks. In May 2015, the Bank hosted the third annual meeting of the National Financial Institutions of the G20 countries, also known as the D20. At the 2016 Corporate Management Awards organized by the Corporate Governance Association of Turkey ("TKYD"), the Bank received a rating of 9.52 in the BIST Corporate Governance Index, becoming the organisation with the second highest corporate management rating.

As of 31 December 2015, the Group had total assets of TL 21.4 billion, an increase of 31 per cent. from TL 16.2 billion as of 31 December 2014, itself a 21 per cent. increase from TL 13.4 billion as of 31 December 2013. As of 31 December 2015, the Group had total shareholders' equity of TL 2.8 billion, an increase of 15

per cent. from TL 2.4 billion as of 31 December 2014, itself an increase of 20 per cent. from TL 2.0 billion as of 31 December 2013.

For the year ended 31 December 2015, the Group's net profit was TL 407.2 million, a 9 per cent. increase from TL 373.4 million for the year ended 31 December 2014, itself a 23 per cent. increase from TL 303.9 million for 2013. For the year ended 31 December 2015, the Group's net interest income was TL 598.5 million, a 13 per cent. increase from TL 528.6 million for the year ended 31 December 2014, itself a 9.8 per cent. increase compared to TL 481.6 million for 2013. The Group's total operating income was TL 526.0 million in 2013, TL 660.9 million in 2014 and TL 695.2 million in 2015, while its net period profit from continuing operations was TL 295.2 million in 2013, TL 374.1 million in 2014 and TL 410.6 million in 2015.

As of 31 December 2015, the Group's total capital adequacy ratio was 16.00 per cent. and its Tier I capital adequacy ratio was 15.3 per cent., both as calculated in accordance with Basel III rules that came into effect on 1 January 2014. As of the same date, the Group's shareholders' equity was TL 2,784 million, its liquid asset ratio (being the total amount of cash and balances with banks, money market placements, trading securities and available-for-sale securities divided by the Group's total assets) was 26.3 per cent.

The Bank's shares have been quoted on the BİST since 1986. As of 31 December 2015, 50.33 per cent. of the Bank's shares were held by İşbank (40.85 per cent. directly with the remainder held through subsidiaries, including 5.80 per cent. of the shares being held by Camiř Yatırım), 8.38 per cent. of the shares were held by Vakıfbank, 39.3 per cent. was traded publicly on the BİST (59.3 per cent. of which was owned by foreign investors) and the remaining shares were owned by other institutional shareholders.

### **Strengths**

The Bank's management believes that the Group has a number of key strengths that enable it to compete effectively in the Turkish banking sector:

#### ***Strong Relationships with the World Bank and other DFIs***

Since its founding, the Bank has worked in close cooperation with international institutions, such as the World Bank ("IBRD"), the European Investment Bank ("EIB"), European Investment Fund ("EIF"), Council of Europe Development Bank ("CEB"), Kreditanstalt für Wiederaufbau ("KfW"), Islamic Development Bank ("IDB"), French Development Agency ("AFD"), International Finance Corporation ("IFC"), European Bank for Reconstruction and Development ("EBRD"), Japan Bank for International Cooperation ("JBIC") and the Austrian Development Bank ("OeEB").

The DFIs have provided the Bank a strong funding base and a sustainable tenor advantage in comparison to commercial and other banks operating in Turkey. The long-lasting relationship of the Bank with these DFIs and the longer tenor of their loans to the Bank have contributed to the Bank's ability to obtain, and thus provide, stable funding even in the periods of economic instability.

As of 31 December 2015, 72.3 per cent. of the Group's long-term funds, which accounts for 58 per cent. of the Group's funding base, was provided with the benefit of a guarantee by the Turkish Treasury. While the World Bank (which, in accordance with its constitutional documents, is only entitled to lend to institutions that benefit from a sovereign guarantee), EIB, CEB, IDB and JBIC provide funding under a guarantee from the Turkish Treasury, the Bank also borrows without a state guarantee from the AFD, IFC, OeEB, EBRD and most recently from KfW after its having provided funding only with a guarantee.

In coordination with DFIs, the Bank has financed or is currently financing new projects in a range of different areas, including energy efficiency, resource efficiency, renewable energy, logistics, sustainable tourism, export support, agribusiness, infrastructure and environment. In 2013, the Bank strengthened its funding base by

signing six new funding agreements with DFIs totalling U.S.\$880 million and by rolling over its syndicated loan.

In 2014, the Bank obtained U.S.\$960 million in funding through DFIs. Of that amount, U.S.\$220 million was sourced from the IDB, in the form of a restricted mudarabah agreement under the guarantee of the Turkish Treasury, in order to finance renewable energy and energy efficiency projects. In July 2014, the Bank signed a loan agreement with the World Bank under the guarantee of the Turkish Treasury for an amount of U.S.\$250 million for the World Bank's "Innovative Access to Finance" programme. Through this programme, the Bank aims to extend loans to participation banks and factoring companies, which will subsequently lend such funds to the final beneficiaries (SMEs and Export Oriented Enterprises). The Bank's management considers the "Innovative Access to Finance" programme to be important as such loans enable the intermediary institutions to access long-term funds.

In addition to the access of the Bank to DFI funding, the Bank is focused on improving its relations with international banks and generating an increased volume of free funds. For example, the Bank signed an OPIC-guaranteed loan agreement with an international correspondent bank without a guarantee from the Turkish Treasury. In October 2014, the Bank signed a loan agreement with AFD without a guarantee from the Turkish Treasury, the proceeds of which will be utilised to support sustainable tourism investments and innovative renewable energy projects in Turkey. In October 2014, the Bank also secured funding from KfW and EBRD, without a guarantee from the Turkish Treasury, in the amounts of EUR150 million and EUR50 million, respectively, to finance resource efficiency projects. In December 2014, the Bank signed a loan agreement for an amount of EUR100 million with EIB for supporting resource efficiency and pollution abatement projects in Turkey.

In November 2014, the Bank established the Development Finance Institutions Department to develop the Bank's relationships with DFIs globally, a role previously undertaken by the Financial Institutions Department. The Financial Institutions Department currently manages the Bank's relationships with international financial institutions ("IFIs") and correspondent banks with the ultimate goal of securing untied loans to fund the Bank's operations.

In 2015, the Bank obtained U.S.\$340 million in funding through DFIs. In March 2015, the Bank signed a loan agreement with JBIC under the guarantee of the Turkish Treasury for an amount of U.S.\$150 million in order to finance renewable energy and energy efficiency projects. In May 2015, the Bank signed a loan agreement with EIB for the financing of SMEs and mid caps, or companies with a market capitalisation between U.S.\$2 and U.S.\$10 billion, under the guarantee of the Turkish Treasury for an amount of EUR 100 million, which was supplemented in February 2016 by an additional EUR 100 million. In September 2015, the Bank signed a U.S.\$75 million loan agreement with IFC for the financing of renewable energy, energy efficiency and resource efficiency projects in Turkey.

The Bank is also strengthening its relationship with EIF, as evidenced by its signing a guarantee agreement with EIF with a maximum portfolio guarantee amount of EUR 20 million in order to help financing innovative SMEs and small mid caps, which are defined as companies that have less than 500 employees and are not SMEs.

#### ***Relationship with İşbank Provides Access to Significant Expertise***

As of 31 December 2015, İşbank Group held 50.33 per cent. (40.85 per cent. directly by İşbank) of the Bank's outstanding shares and it has the power to elect six members to the Bank's Board of Directors, which corresponds to the majority of the Board. The Chairman of the Board of Directors is the General Manager of İşbank. While the representatives of İşbank do not interfere with the Bank's business, the Group benefits from its Board members' significant expertise in developing the Bank's strategy and business as well as in accessing information regarding the Bank's borrowers or potential borrowers that also work with İşbank,

which has the largest market share in total deposits, Turkish Lira-denominated deposits and demand deposits among private sector banks as of 31 December 2015 (sources: BRSA and Interbank Card Center).

### ***Strong Capital Structure with Conservative Match-Funding Policy***

The Group has a strong capital structure, with shareholders' equity of TL 2,784 million, a total capital adequacy ratio of 16 per cent. and a Tier I capital adequacy ratio of 15.3 per cent. as of 31 December 2015. In line with its capital strength, the Group maintains a strong match-funding policy with DFIs. As a result, the Group was less affected than many other global financial institutions by the reduction of liquidity and increased cost of funding that occurred during the recent global financial crisis.

### ***Recognised and Trusted Banking Brand in Turkey***

The Bank's management believes that the Bank is one of the most widely recognised, respected and trusted banks in Turkey; it has been in business since 1950, weathering Turkey's often turbulent financial markets and establishing a long-standing focus on prudent risk management and a record of financial stability. The Bank was established under the laws of the Republic of Turkey in 1950 with the support of the World Bank, the Turkish government, the Central Bank and commercial banks as the first development and investment bank in Turkey. The strength of the Bank's brand and customer base has enabled the Group to become a Turkish market leader in development-related projects as well as a trusted banking partner for customers during the financial crisis.

### ***Diversified Loan Portfolio***

By focusing on building a diversified portfolio of loans by types of loans, industry sector and borrower concentration, the Group has historically generated strong returns. The Bank increased its loan portfolio in U.S. Dollar equivalents from 31 December 2010 to 31 December 2015 at a compound annual growth rate of 9 per cent. The Group's strong credit and risk management know-how have supported the growth of its loan portfolio and, in the Bank's management's opinion, contributed to the healthy diversification of the portfolio.

The Bank's loan portfolio is diversified in terms of loan type. As of 31 December 2015, 54 per cent. of the Bank's total loan portfolio was comprised of loans to project finance, 40 per cent. to corporate marketing and 6 per cent. to APEX loans. The Bank's loan portfolio is also diversified among sectors, with the largest shares in energy production and finance representing 33 per cent. and 12 per cent. of the Bank's loan portfolio as of 31 December 2015. In the energy production sector, renewable energy projects include hydro, wind, geothermal, biomass and solar power plant projects. with more than two-thirds of these projects already in operation. The share of energy and resource efficiency loans in the Bank's loan book was 10 per cent. as of 31 December 2015.

Although development and investment banks (such as the Bank) are not subject to credit limits determined by the BRSA, the Bank has sought to limit exposure to any single borrower and no exposure to a single borrower was greater than 25 per cent. of its equity as of 31 December 2015. The share of the Bank's receivables from the top 20 cash loan customers in the overall cash loan portfolio was 33.8 per cent. as of such date. The Bank's loan contracts generally contain clauses permitting the Bank to make adjustments in the applicable interest rates from time to time, subject to the applicable laws and regulations, thereby further limiting interest rate risk.

### ***Prudent Risk Management***

Complementing the Bank's diversified loan portfolio, the Bank's management believes it has instilled a prudent and effective risk management culture at all levels of the Group, beginning with careful customer selection to support a quality asset base. The Bank monitors credit quality on an ongoing basis. As the global financial crisis impacted Turkey and the Group's customers, the Group introduced new risk management tools starting from 2008 such as a redeveloped internal rating model for corporate loan customers, software for

market risk management, and software for asset and liability management. The Bank also introduced new risk management tools such as applying credit limits to certain industry sectors that have been highly affected by global turmoil, researching potential customers' relationships and credit histories with other banks and becoming more selective in extending new credit lines. During 2015, the Bank grew its loan portfolio by 5.1 per cent. while maintaining NPL ratios of 0.4 per cent. and 0.2 per cent. and 0.4 per cent. as of 31 December 2013, 2014 and 2015, respectively, which were lower than the Turkish banking sector's NPL ratios of 2.8 per cent., 2.9 per cent. and 3.1 per cent. respectively (source: BRSA).

The Bank's management believes that the Group's focus on enhanced internal controls and risk management systems, as well as its ability to maintain a diverse loan portfolio, will enable the Group to maintain the high quality of its loan portfolio in the future as the Group seeks to continue to grow its business.

#### ***Independent Process for Appraising Projects***

The Bank evaluates projects internally through its Economic Research, Financial Analysis and Engineering Departments along with its Loan and Loan Monitoring departments. The Bank's dedicated Financial Analysis Department assesses the cash flow projections, as well as the microeconomic and sectoral risks and opportunities, of potential projects that the Bank is considering funding. In addition to financial analysts, the Bank has maintained for many years an internal team of engineers with practical experience in chemical, electrical, civil and other engineering projects. This team, comprised of engineers who have from five to 14 years of experience, provides the Bank with a significant advantage over its commercial bank competitors who have to seek external experts to analyse the technical plans of projects being contemplated for a project loan.

#### ***Strong Focus on Employee Training and Development; Highly Skilled Workforce***

The Bank's management believes that a key element of the Group's success has been its emphasis on the quality, training and development of its employees and its turnover rate (i.e. employee resignations excluding retirees) is considered to be low (for example, the Group had a turnover rate of 6.37 per cent. during 2015). The Group's dedicated and well-trained employees form a cornerstone of its focus on superior customer service and long-standing customer relationships and also provide the Group with a competitive advantage over its competitors, particularly in a growing market where there is a high demand for skilled personnel. Historically, the Group has sought to maximise the opportunity for career development for its employees, with all positions typically filled through internal promotions and appointments.

#### ***Maintain High Standards of Corporate Governance and Business Ethics***

The Bank's management believes that the Group's internal corporate governance structure reflects the best market practices of the Turkish and international banking sectors. The Group has established corporate governance principles and complies with applicable laws and regulations for sustainable banking, and the Bank's management perceives execution of such principles as an essential component of responsible banking. The Bank's management believes that compliance with corporate governance principles is important for the Bank to create, protect and maintain value for its shareholders. The Bank's corporate governance structure also develops communication channels and platforms in order to reinforce communication with its stakeholders, particularly the Group's customers, employees and shareholders.

The Group established these corporate governance practices to improve management's efficiency and to further protect the interests of the Group's stakeholders, including its customers and shareholders. The Bank prepares a "Corporate Governance Principles Compliance Report" each year, which is a report by the Bank's Board of Directors about the compliance of the Bank's corporate governance practices with the corporate governance principles of the CMB.



Since 2009, the Bank has received corporate governance rating from SAHA Kurumsal Yönetim ve Kredi Derecelendirme A.Ş., a company authorised by the CMB to rate companies' compliance with corporate governance principles. Since having been first rated and included in the BIST Corporate Governance Index of the BİST in 2009, the Bank has maintained its place in the top three companies with the highest corporate governance ratings and has been recognized for its success by the Corporate Governance Association of Turkey, from which it received the second highest corporate governance rating in Turkey in 2015 with a rating of 9.52 (out of 10).

### ***The Bank's Regulatory Burden is Lower than that of its Universal Banking Competitors***

The Bank's regulatory burden is generally lower than that of universal banking competitors since the bank is a development and investment bank, subject to certain different rules and operating in different business lines, most importantly due to the absence of a retail banking business. For instance, the recent regulatory changes introduced in Turkey target only retail banks and thus do not directly affect the Bank; however, most of the Bank's competitors have a retail banking business and their regulatory burden is thus significantly higher than that borne by the Bank. As noted above, the Bank is also exempt from maintaining reserves with the Central Bank for its liabilities that are guaranteed by the Turkish Treasury. This lower regulatory burden results in less administrative costs for the Bank, thereby allowing it to act more responsively to its clients' needs.

### **Strategy**

The Bank's vision is to maintain sustainable growth in Turkey by adding value to the Turkish economy (principally through supporting the private sector with medium and long-term financing), which reflects the Bank's goal of being the pioneering bank in Turkey's sustainable development. The Bank aims to exhibit and deploy more aggressively its knowledge and potential in all of its all core business lines. The Bank is focused on expanding its client base and increasing its allocations in line with the needs of the Turkish market, which offers sustainable growth potential in the mid- and long-term.

The Bank's principal strategies to achieve this vision include: developing sectoral diversification in its loan portfolio, maintaining its access to medium and long-term funding from DFIs with competitive terms and conditions, diversifying its funding base, improving its synergies with its subsidiaries (including to increase its fee-generating capabilities) and constantly strengthening its strong personnel base (including in its Financial Analysis Department and Engineering Department).

In this context, the Bank finances projects in a broad range of Turkish industries, including energy efficiency, resource efficiency, renewable energy, logistics, PPPs, sustainable tourism, food and infrastructure. Although energy production loans continue to represent a large share of the Group's loan book, corresponding to 33 per cent. of its total loans as of 31 December 2015, the Bank plans to reorient some of this focus towards other sectors, such as infrastructure, sustainable tourism, resource efficiency, energy efficiency, environmental projects, innovation and PPPs in the health and education sectors. In terms of renewable energy, the Bank's portfolio includes hydro (currently representing a majority of its renewable energy loan portfolio), wind, geothermal, biomass and solar power plant projects and the Bank intends to become more diversified by focusing on future wind, geothermal, biomass and solar projects.

In terms of project finance, the Bank has been involved in projects in a variety of areas, such as energy efficiency, sustainable tourism, and electricity and gas distribution. In the Bank's loan book, the share of project finance loans represented 54 per cent., corporate loans 40 per cent. and APEX loans (which are channelled to leading banks and leasing companies, usually to finance SMEs indirectly) 6 per cent. of the Bank's loan portfolio as of 31 December 2015 (7 per cent. as of 31 December 2014).

While expanding the loan portfolio, the Bank emphasises the importance of maintaining asset quality and avoiding risky loans. In line with this strategy, existing loans are analysed and monitored closely and to date

the Bank has been successful in maintaining its asset quality. While allocating funds, the Bank also continues to adhere strictly to its environmental protection standards, which is one of the building blocks of its mission, vision and strategy.

Maintaining its access to medium and long-term funding from DFIs with competitive terms and conditions is a principal strategy of the Bank, and the Bank works to ensure that its lending practices do not compromise its funding opportunities with DFIs (for example, the Group avoids lending even non-DFI-sourced funds to certain sectors, such as gambling and ammunition, that are not viewed favourably by the DFIs). This funding enables the Bank to increase its lending capacity, especially in project finance.

While the Bank anticipates that its relationships with DFIs will continue to be its largest source of funding by far, the Bank is seeking to diversify its funding resources (e.g. by issuing eurobonds, for instance through its October 2014 stand-alone issuance of notes for an amount of U.S.\$350 million) in order to fund its targeted 2016 loan growth of 12 per cent. in foreign exchange-adjusted terms.

In 2013, the Bank's management decided to further concentrate on corporate banking and boost synergies not only with its subsidiaries but also among its different business lines, with a principal aim being to boost the Group's fee and commission income. To this end, the Group intends to focus further on its advisory services in mergers and acquisitions, assisting companies to find financial as well as strategic partners and providing customers with strategic advisory services in the form of financial restructuring and feasibility studies. To support this strategy, the Bank restructured the capital markets brokerage services that it used to offer directly, but now offers to the Group's retail clients through its subsidiary Yatırım Finansman. As a result of this strategic development, the Bank does not have any retail clients as of the date hereof, as its active retail clients have transferred their portfolios to this subsidiary.

The Bank's well-qualified personnel are a significant factor behind its long-term success and part of its strategy. In addition to recruiting experienced professionals for senior positions, the Bank's strategy is to develop leaders from within its own highly-qualified employees and to fill positions through internal promotions and assignments as much as possible. As a part of this strategy, the Bank continues to recruit new qualified graduates.

## **History and Development**

The Bank was established under the laws of the Republic of Turkey in 1950 with the support of the World Bank, the Turkish government, the Central Bank and commercial banks as the first development and investment bank of the Republic of Turkey. Initially, the Bank supported the World Bank's development programmes in Turkey and has since then expanded its cooperation to other DFIs such as the EIB, EIF, CEB, KfW, AFD, IFC, JBIC, IDB, EBRD and, most recently, OeEB. The Bank's ordinary shares have been listed on the BİST since 1986.

The Bank is headquartered in İstanbul and (with its Group) provides a range of banking services for corporate customers, including corporate banking, investment banking, capital markets operations and advisory services. The Bank's articles of incorporation provide for the following activities:

- providing assistance in all sectors of the economy, primarily in the industrial sector, for setting up new plants and expanding, modernising and developing the activities of existing plants;
- providing assistance in the implementation of projects and activities that will be carried out abroad by entrepreneurs directly or as joint ventures;
- encouraging and assisting local and foreign capital enterprises in undertaking investments in Turkey and participating in the capital of companies that are already established or will be established in Turkey; and

- assisting the development of capital markets in Turkey and encouraging and promoting the private ownership of securities issued by industrial enterprises.

The Bank was established in İstanbul with the Council of Ministers resolution numbered 3/11203 and was registered with the İstanbul Chamber of Commerce on 31 May 1950 under registration number 42527. The Bank is a development and investment bank under the Banking Law and is duly organised and incorporated and validly existing as a joint stock company (*anonim şirket*) under the Turkish Commercial Code (No. 6102). The duration of operation of the Bank as a joint stock company is unlimited.

### **Business Activities**

The Group provides a range of banking services and presents its group structure under three principal business lines: corporate banking, investment banking and advisory services, each as described below:

- corporate banking activities: the corporate banking activities include corporate loans, syndicated loans, non- cash loans (including letters of guarantee, guarantees and acceptances), foreign trade operations and project finance, acquisition finance and working capital finance;
- investment banking activities: the investment banking activities include: (a) portfolio management, marketable securities brokerage activities, cash flow management, corporate finance, public offerings of stocks, advising on privatisations, mergers and acquisitions, purchase and sale of assets, issuance of debt instruments and providing strategic advisory services and (b) offering treasury services, such as a fixed income business (asset and liability management and bond offering), futures and options brokerage, interest rate swaps, currency and cross currency swaps, swaptions and caps, floors, foreign exchange, repo transactions and other structured products; and
- advisory services: the advisory services consist of strategic consultancy (including appraisals of companies, brands and licenses), real estate appraisal and environmental advisory services.

For accounting purposes, the Bank reports the Group’s business in its BRSA consolidated financial statements under three segments: Corporate Banking, Investment Banking and Others. The Bank’s results make up the large majority of the results for these three segments, with the remainder being contributed by the Bank’s subsidiaries and associates. The Bank does not consolidate the results of its non-financial subsidiaries and associates in the BRSA consolidated financial statements on a line-by-line basis and so these results do not appear in the segmental data included therein; however, they are shown under the “Investments in Associates” and “Investments in Subsidiaries” items at their book values. For a list of the non-financial subsidiaries and associates, see “*Business of the Group — Subsidiaries and Other Affiliates — Non Financial Subsidiaries*”.

### **Banking Units**

#### ***Corporate Banking***

The Bank’s Corporate Banking business provides services to companies ranging from large corporates to SMEs. The unit consists of two main departments, the Project Finance Department and the Corporate Marketing Department. The Corporate Banking business unit’s long-term strategy is to enhance its customer franchise and to broaden its product portfolio in order to diversify revenue sources and to contribute to the Group’s sustainable and profitable growth.

A significant portion of the Corporate Banking business involves extending loans to corporate customers. The Bank primarily offers the following types of loans to its corporate customers: revolving loans, discount loans, foreign currency-indexed loans, foreign currency-denominated loans, letters of guarantee, spot loans and investment and project finance loans. In addition to its loan products, the Corporate Banking unit, in coordination with the Investment Banking unit, also seeks to provide tailored products that are designed to offset customers’ exposures to interest, maturity and currency risks, including through the use of customised

investment vehicles, forward and futures contracts, swaps and options that take into account the goals, risk tolerance levels, cash flows and other unique concerns of the customer.

### ***Project Finance Department***

A significant portion of the Bank's corporate loan portfolio relates to its project finance activities. The Bank has played a key role in a number of major project finance deals in Turkey, including the financing of infrastructure and energy deals, privatisations and capital expenditure financing in electricity and gas distribution, airport and port deals and mergers and acquisitions. As of 31 December 2015, the Project Finance Department accounted for TL 7.4 billion of loans (54 per cent. of the Group's total loans), 95 per cent. of which was foreign currency-denominated and the remaining 5 per cent. of which was Turkish Lira-denominated. The Bank selectively extends financing for high-volume private sector investments, privatisations and merger and acquisition projects, while remaining committed to its risk-sensitive approach. The Bank granted loans related to financing electricity production, electricity distribution, infrastructure, sustainable tourism, real estate and health sector PPP projects with a total loan value of U.S.\$580 million in 2015.

The Bank provides project finance with full recourse to project assets and limited or full recourse to the sponsors. Only selected transactions adhering to international standards that have very limited bankability concerns may be financed on a pure non-recourse basis. The Bank aims to expand its client base and build-up its portfolio in the short term for project finance projects.

The Bank's project finance activities have received the following awards from the publication Euromoney: "European Transport Deal of the Year" in 2007 for Mersin Port Project; "Geothermal Deal of the Year" in 2008 for the Gürmat GPP Project; "Hydroelectric Power Deal of the Year" in 2010 for the Boyabat Dam and Hydro Electric Power Plant Project; "European Utilities Deal of the Year" in 2010 for the Uludağ Elektrik Dağıtım A.Ş. (UEDAŞ) and Çamlıbel Elektrik Dağıtım A.Ş. (ÇEDAŞ); Privatisation Finance, "European Transport Privatisation Deal of the Year" in 2011 for the İDO (İstanbul Fast Ferries) Project; "Structured Finance Deal of the Year" in 2015 for Etlik integrated health campus PPP Project; "Award for Natural Resource Finance Deal of the Year"; and "Emea Finance: Best Privatisation Deal" for Yeniköy Kemerköy Thermal Power Plants Privatisation Project in 2015.

The Bank's project finance activities also provide the Group with cross-selling opportunities for its derivative products and other banking services. These activities provide a significant contribution to the Group's business volumes.

### ***Corporate Marketing Department***

The Corporate Marketing Department provides a range of corporate banking products and services including, but not limited to, corporate loans, non-cash loans (including letters of guarantee, guarantees and acceptances), foreign trade operations, risk management products, wholesale loans and working capital loans. As of 31 December 2015, the Corporate Marketing Department accounted for TL 5.4 billion of loans (40 per cent. of the Group's total loans), 91 per cent. of which was sourced from DFIs and other free sources and the remaining 9 per cent. was funded by the Bank's equity and TL-denominated secured funding.

The Bank's non-cash loans are predominantly made through the Corporate Marketing Department. The total size of non-cash loans supplied by the Bank reaching U.S.\$616 million as of 31 December 2015, with significant portions of this amount represented by letters of guarantee provided by the Bank. In 2015, the Bank allocated the bulk of non-cash loans to clients operating in the electricity distribution, electricity production and iron-steel industries.

*APEX (Wholesale) Banking.* Through the Corporate Marketing Department, the Bank remains the leader and model implementer of APEX banking. APEX loans allow the Bank to reach SMEs and offer them funds that

are secured from international agencies, particularly from the World Bank in the form of Export Finance Intermediation Loans (“EFIL Loans”) and from the CEB and EIB. The purpose of EFIL Loans is to support companies in their efforts to increase exports and create new job opportunities, whereas the APEX funding from the CEB and the EIB is principally used to finance SME loans.

APEX funds received by the Bank are then on-lent to local financial institutions for them to make loans for the specific purpose specified by the funding organisation. In this manner, the funds can be raised by the Bank under the guarantee of the Turkish treasury and on-lent to other financial institutions who cannot raise funds that benefit from such a guarantee. Within the scope of APEX banking, the Bank currently collaborates with 13 financial companies, which are comprised of financial leasing companies and commercial banks.

As of 31 December 2015, the total outstanding volume of loans supplied by the Bank through APEX banking reached U.S.\$274 million, accounting for 6 per cent. of the Bank’s total loan portfolio. The Bank is a preferred business partner of the World Bank in Turkey within the scope of EFIL Loan programmes. Since 2004, the Bank has been actively involved in four EFIL Loan programmes, each of which was completed by 30 June 2014. Through participating in these programmes, the Bank provided a total of more than U.S.\$1 billion to approximately 610 companies. Furthermore, the Bank signed a loan agreement with the World Bank under the guarantee of the Turkish Treasury for an amount of U.S.\$250 million for the World Bank’s “Innovative Access to Finance” programme. See “— *Strengths – Strong Relationship with the World Bank and other DFIs*”.

### ***Investment Banking***

The Bank provides capital market services and investment banking services through its Treasury and Corporate Finance departments and its subsidiary Yatırım Finansman. The Bank offers these services and products with competitive pricing to a number of domestic and international companies. For the year ended 31 December 2015, the Investment Banking business unit generated TL 22.9 million of fees and commissions, accounting for 56.5 per cent. of the Group’s total fees and commissions (TL 23.9 million and 62.5 per cent., respectively, in 2014).

### ***Treasury Department***

The Bank’s Treasury Department (in coordination with its financial subsidiaries) offers a diverse range of treasury products to its corporate and investment banking customers with competitive pricing. These include advanced derivative products, such as options, forward contracts, interest rate swaps, cross currency and currency swaps, swaptions and caps, floors, as well as more traditional treasury products such as foreign exchange, repo transactions and fixed- income securities.

The Turkish Treasury issues bonds both domestically and internationally. Its domestic issuances include zero coupon bonds and coupon bonds. Coupon bonds include inflation-linked bonds, fixed coupon bonds, floating rate notes and lease certificates. All types of Turkish Treasury issuances can be sold and purchased by the Group’s customers without any restriction. Repo and reverse-repo transactions for various maturities are executed on an electronic platform in the BİST Debt Securities Market. OTC reverse repo transactions are also offered to the Bank’s customers.

In addition to securities transactions made on behalf of its customers, the Group manages its own portfolio of securities. As of 31 December 2015, the Group’s total securities portfolio was valued at TL 3.9 billion, as compared to TL 3.5 billion and TL 3.0 billion as of 31 December 2014 and 2013, respectively.

As of 31 December 2015, the Bank’s securities portfolio was comprised of Turkish Lira-denominated floating rate securities (50 per cent.), Turkish Lira-denominated zero-coupon and fixed securities (24 per cent.), foreign currency-denominated zero-coupon and fixed securities (26 per cent.). Moreover, 76 per cent. of the

Bank's total securities portfolio was classified as "available-for-sale" and 22 per cent. of the Bank's total securities portfolio was classified as held-to-maturity as of 31 December 2015.

### ***Corporate Finance Department***

In its Corporate Finance Department, the Bank operates in the four principal areas described below:

- *public offerings*: benefiting from its extensive experience and vested relationship with relevant parties, the Bank contributes to the development of the Turkish capital markets by providing advisory and other services in the equity offerings of Turkish companies, which services it has provided since the establishment of the predecessor of the BİST;
- *issuance of debt instruments*: the Bank provides services in relation to the issuance of debt instruments via public offerings or private placements, benefiting from its widespread network by bringing together domestic and international companies with the right strategic and/or financial investors;
- *mergers & acquisitions*: the Bank finds financial as well as strategic partners for companies and coordinates the acquisition process within the scope of its mergers and acquisitions advisory services; and
- *strategic advisory*: the Bank: (a) assists companies that seek to build-up their capital and know-how, expand into new markets or undertake large-scale investments, (b) advises on the procurement of financing for projects and acquisitions, (c) advises buyers and sellers in real estate or asset sales (such as the sale of an electricity distribution company) and privatisations and (d) performs related appraisal, financial restructuring and feasibility studies.

The Bank is also a founding investor in the Turkish Growth and Innovation Fund, which was established in 2015 by the Undersecretariat of the Treasury, the Small and Medium Enterprises Development Organization of Turkey ("KOSGEB"), EIF and the Bank to support innovative, technology-orientated companies by providing them with access to venture capital. The Undersecretariat of the Treasury, KOSGEB and EIF have each made a contribution of EUR 60 million commitment and the Bank a contribution of EUR 20 million to the Turkish Growth and Innovation Fund, which will be advised by EIF. The Turkish Growth and Innovation Fund will succeed the İstanbul Venture Capital Initiative (iVCi) as Turkey's next generation of Funds of Funds.

### ***Advisory Services***

The Group provides advisory services to its customers, principally in the areas of strategic consulting, real estate appraisal and environmental advisory services. The strategic consulting work includes undertaking appraisals of companies, brands and licenses, providing project valuation and feasibility services, financial structuring, sectoral analysis and project finance consultancy. The Group, principally through its subsidiaries, provides real estate appraisal and related services, such as appraisals of machinery and equipment and collateral.

Consistent with the Bank's long history of being in the vanguard of environmental sustainability issues, the Group also offers environmental sustainability consultancy. These services seek to assist the Group's clients to implement internationally accepted sustainability methods through improvements to business management and production processes. The Group provides assistance relating to evaluations of the environmental and social impact of projects, including the impact on climate and natural resources, and also provides technical and other support for renewable energy and other sustainability efforts.

The advisory services business generates fees and commissions for the Group, amounting to TL 5.2 million for 2015 (TL 5.5 million for 2014). While not a large share of the Group's revenues, the advisory services

business provides many benefits to the Group, including strengthening its relationships with clients and supporting the goals of its DFI partners.

### **Subsidiaries and Other Affiliates**

Since its establishment in 1950, the Bank has played an important role not only in the Turkish financial sector but also in certain industrial sectors in Turkey. As of 31 December 2015, the Bank had direct equity interests in eight companies operating in finance and other sectors. As of 31 December 2015, the total book value of the Bank's investment in subsidiaries and other affiliates was TL 278.7 million (including non financial subsidiaries and affiliates, such amount was TL 1.9 million). The Bank does not have any current intention to sell any of such holdings.

### **Financial Subsidiaries and Associates**

The Bank has direct and indirect financial services subsidiaries active in the following sectors: brokerage and custody, real estate investment trust asset management, venture capital, leasing and factoring. Financial services subsidiaries enrich the product and service range that the Bank offers to its customers through its various business lines and create cross and complementary product delivery and sales opportunities.

The following table sets forth details of the Bank's financial subsidiaries and associates as of 31 December 2015.

As of 31 December 2015						
Field of Activity	Bank's Direct Share	Group's Share	Assets <sup>(1)</sup>	Shareholders' Equity	Market Share	
<i>(U.S.\$ thousands)</i>						
<b>Group Company</b>						
Yatırım Finansman Menkul Değerler A.Ş. ....	House	95.78%	98.51%	191,763	25,468	1.8% <sup>(3)</sup>
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ....	REIT	59.00%	72.48%	146,165	91,944	N/A
İş Finansal Kiralama A.Ş. <sup>(2)</sup> .....	Leasing	28.56%	57.33%	1,927,751	255,063	N/A
İş Faktoring A.Ş. ....	Factoring	21.75%	100.00%	683,508	34,484	N/A
	Venture Capital Inv.					
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. <sup>(2)</sup> .....	Trust	16.67%	68.78%	89,442	88,120	N/A

Notes:

- (1) Total Assets (as of 31 December 2015 derived from the Public Disclosure Platform's website).
- (2) Consolidated amounts.
- (3) According to equity trading volume in the nine months ended 30 September 2015 (Source: Turkish Capital Markets Association).

### **Brokerage**

The Bank directly owned 95.78 per cent. of the share capital of Yatırım Finansman as of 31 December 2015. Yatırım Finansman commenced operations on 15 October 1976 as the first capital market corporation of Turkey. Yatırım Finansman's founders were 13 large banks, lead by the Bank and İşbank. Yatırım Finansman's principal capital market activities are equity-related businesses and asset management, and Yatırım Finansman also has the authority to provide investment consultancy, portfolio management and repo services. Yatırım Finansman acted as an intermediary for the first private sector bond issuance in Turkey and provided consultancy services to the BİST. Yatırım Finansman opened a branch at the Bank's head office in Fındıklı, İstanbul, in order to create synergies with the Bank and offer services more efficiently.

According to data provided by the BİST, Yatırım Finansman had a market share of 2.63 per cent. in BİST equity transactions for the year ended 31 December 2015. According to data provided by the BİST, Yatırım Finansman was 12th among licensed brokerage firms in Turkey in terms of equity trading volume as of 31 December 2015. Yatırım Finansman's consolidated net sales and net profit figures for the year ended 31 December 2015 were TL 913 million and TL -1,951 thousand, respectively (TL 923 million and TL -645 thousand respectively, for the year ended 31 December 2014) while its consolidated assets and equity as of 31 December 2015 amounted to TL 555 million and TL 74 million, respectively (TL 719 million and TL 75 million, respectively, as of 31 December 2014). The volume of assets under Yatırım Finansman's management decreased from TL 719 million as of 31 December 2014 to TL 555 million as of 31 December 2015. In addition, Yatırım Finansman was the sixth largest licensed brokerage firm in Turkey in terms of its paid-in capital, which was TL 63.5 million as of 30 September 2015 (source: Union of Turkish Brokerage Firms).

### ***Real Estate Investment Trust***

TSKB REIT, founded in 2006, is a real estate investment trust in which the Bank had a direct equity shareholding of 59.00 per cent. and the Group had a 72.48 per cent. share as of 31 December 2015. According to the Public Disclosure Platform of the BİST, TSKB REIT was the 23rd largest real estate investment trust in Turkey as of 31 December 2015, with an asset value of U.S.\$146 million. The real estate portfolio of TSKB REIT, from which the company earns rental income, is comprised mainly of office space and commercial properties, such as a shopping centre located in İstanbul. TSKB REIT also acquired 50 per cent. of the Divan Hotel, which is located in central Adana.

### ***Leasing***

İş Leasing was established in 1988 as a joint venture among the Bank, Société Générale and the IFC. The latter two entities sold their interests in 1995 and, as of 31 December 2015, the Bank held a 28.56 per cent. direct equity interest, İşbank held 27.79 per cent. and the remaining shares are traded on the BİST. As of 31 December 2015, the consolidated total assets and equity of İş Leasing amounted to TL 5,581 million and TL 738 million, respectively (TL 4,580 million and TL 667 million, respectively, as of 31 December 2014). Net current leasing receivables amounted to TL 3,249 million as of the same date (TL 2,786 million as of 31 December 2014). As of 31 December 2015, the distribution of leased assets by equipment category as a percentage of total leased assets in the company's portfolio were as follows: real estate (36 per cent.), machinery equipment (26 per cent.), work and construction equipment (15 per cent.), transport (6 per cent.) and other sectors (17 per cent.).

### ***Factoring***

The Bank had a 21.75 per cent. direct share and (through İş Leasing) a 22.34 per cent. indirect share in İş Faktoring as of 31 December 2015. The company had TL 1,979 million in total assets and TL 100 million in equity as of 31 December 2015 (TL 1,455 million and TL 76 million, respectively, as of 31 December 2014), while its factoring receivables amounted to TL 1,946 million as of the same date (TL 1,433 million as of 31 December 2014). İş Faktoring is fully consolidated under İş Leasing.

### ***Venture Capital Investment Trust***

İş Girişim is a venture capital investment trust established in 2000 pursuant to CMB rules and, as of 31 December 2015, was Turkey's third largest private equity fund in terms of market value according to the CMB. As of 31 December 2015, the Bank held a direct equity share of 16.67 per cent. in İş Girişim, reflecting a paid-in capital amount of TL 12.4 million.

Being one of the most active and one of the very few local private equity houses, İş Girişim partners with Turkish companies to help them compete both domestically and internationally in their respective industries



by sourcing acquisitions, enhancing operational efficiencies, facilitating new market expansions and designing the optimal capital structure to support them during the execution of their strategies.

İş Girişim's net profit for 2015 was TL 773 thousand (TL 14.6 million for 2014). İş Girişim's assets and equity as of 31 December 2015 amounted to TL 259 million and TL 255 million, respectively (TL 269 million and TL 264 million, respectively, as of 31 December 2014).

#### ***Non-Financial Subsidiaries and Associates***

In addition to its subsidiaries and associates in the financial sector, the Bank holds equity stakes in companies whose businesses (such as companies engaged in real estate appraisal and real estate consulting) are outside of its core operations. In the past, the Bank has invested in a number of diversified companies as part of the promotion and development of Turkish industry and in areas in which its management believes investments provide a competitive rate of return. The Bank's non-financial subsidiaries represented 0.009 per cent. and 0.012 per cent. of its total assets as of 31 December 2015 and 31 December 2014, respectively.

The Bank did not receive dividend income from its non-financial subsidiaries during the year ended 31 December 2015 (during the year ended 31 December 2014, total dividend income received from non-financial subsidiaries amounted to TL 945 thousand which constituted 0.25 per cent. of the Bank's net income). As of 31 December 2015, TSKB Gayrimenkul Değerleme A.Ş. was the sole significant long-term strategic non-financial subsidiary of the Bank. The non-financial subsidiaries of the Group are not consolidated in the income statement of the consolidated BRSA Financial Statements; however, they are shown under the "Investments in Associates" and "Investments in Subsidiaries" line items at their book values.

The following table sets forth certain information, as of 31 December 2015, about the non-financial companies in which the Bank owns 15 per cent. or more of the outstanding share capital. None of these investments represented more than 0.07 per cent. of the Bank's assets as of such date.

Company	Bank's Direct Shareholding	Shares owned by the Bank and the Bank's affiliates	Sector
TSKB Gayrimenkul Değerleme A.Ş.....	99.99%	99.99%	Real Estate Appraisal
Sürdürülebilir Danışmanlık A.Ş.....	—	97.00%	Consultancy
Terme Metal Sanayi ve Ticaret A.Ş.....	17.83%	18.76%	Metal Industry
Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. ....	10.05%	10.05%	Warehousing

#### **Information Technology**

The Bank's technology operations and initiatives are managed by its Information Technology Department (IT). This department employs IT professionals dedicated to installing, maintaining and operating the Bank's software applications, management information system and security system. There is a continuous effort to implement and operate best practices according to COBIT, which is a leading IT governance standard. All operational data and software are stored on Microsoft-based computer systems. The Microsoft brand back office product family, including such software as Windows Server, SQL Server, Net Framework and Exchange Server, is used for core business areas and Microsoft-based servers have been chosen as the strategic growth platform for new emerging lines of business and business process management applications.

The Bank uses a third party, Turkcell Superonline, to provide data storage services and disaster recovery solutions for the Bank's critical systems. All critical data relating to the Bank's operations and communications are continuously backed up and disaster recovery mechanisms are tested regularly. Turkcell Superonline's data centre is located on the Asian side of İstanbul.

The Group's IT infrastructure is being continuously monitored and improved in order to maintain the Group's competitive position in the Turkish banking sector.

## **Lending Policies and Procedures**

### ***Credit Approval and Monitoring***

The credit approval procedure for corporate customers starts with the evaluation of the project and the credit application. Project or credit evaluation is comprised of an analysis of the project's and/or the company's: (a) economic, (b) technical, (c) financial, (d) managerial and organisational, (e) informational and (f) legal criteria. These criteria, which complement each other, form the basis of the loan evaluation reports that are ultimately submitted for approval to the Credit Evaluation Committee. The Bank's Financial Analysis Department and Engineering Department lead the process in preparing a loan evaluation report. Intelligence reports are also prepared by the Intelligence Unit, which gathers information to be used therein from outside sources. The Loans Department then conducts a thorough evaluation of the reports in line with the credit policies of the Bank and presents the project and proposed loan conditions to the Credit Evaluation Committee. If the amount of the proposed loan, together with the amounts of any outstanding loans already extended by the Bank to the applicant, does not exceed a total amount of U.S.\$2 million for a single company and U.S.\$5 million for a group of companies, and the Credit Evaluation Committee provides its approval unanimously, the proposal will not be submitted to the Board of Directors for final approval. On the other hand, if the amount of the proposed loan, together with the amounts of any outstanding loans already extended by the Bank to the applicant, exceeds a total amount of U.S.\$2 million for a single company and U.S.\$5 million for a group of companies, then the proposal will be submitted to the Board of Directors for its final approval following a unanimous decision of the Credit Evaluation Committee.

For interbank loans, the Economic Research Department prepares the counterparty evaluation reports and presents the results to the Loans Department and, if unanimous approval is obtained in the Credit Evaluation Committee, the proposals higher than U.S.\$2 million for a single counterparty and U.S.\$5 million for a group are submitted to the Board of Directors for approval.

The Bank aims to reduce the risk profile of its loan portfolio by implementing a detailed monitoring process. The companies for which the Bank provides financing, as well as the sectors of such companies, are analysed periodically. The purpose of this follow-up is to ensure that sponsored investments are completed in a timely manner and that the conditions thereof are satisfactory. Such close monitoring enables the Bank to identify and help solve any problems that may arise during the implementation and operational stages of projects.

The Bank requires its borrowers to be audited by either an independent audit company acceptable to the Bank or its own accountants in accordance with the Auditing Procedures and Principles and requires such financials to be delivered to the Bank during the term of the loan. During the investment period, in general, either a third party technical advisor prepares a progress report or the Technical Analysis Team of the Bank conducts an investment monitoring report to follow up on the progress of the borrower's investment. During the borrower's operational period, financial covenants and the amount of cash flows in the pledged accounts help the Bank monitor the financial performance of the company/project and hedges the default risk with mechanisms such as an assignment of receivables and share pledges among other collateral. As common practice, the Bank evaluates the financial statements of the companies periodically. The Loan Monitoring Department periodically prepares monitoring reports or requests reports from the Technical Analysis departments (namely, the Financial Analysis Department and Engineering Department). Additionally, the

borrowers are subject to annual rating analyses based upon their year-end financials. In case of a downgrade, the reasons for the downgrade are investigated by the Financial Analysis Department, and the Rating Committee makes the final determination as to whether to take any precautions. Furthermore, the Bank is also required by Turkish banking regulations to prepare certain reports, such as those documenting the 200 largest loans in its portfolio, which it utilises as part of its internal monitoring process.

In order to detect deteriorating positions in its loan portfolio, the Bank also monitors behavioural indicators in a timely and efficient manner. Such indicators include information from the Central Bank's Risk Centralisation division regarding changes in the financial indebtedness of the borrowers or defaults on their liabilities and commitments (e.g. unpaid principal or interest, unpaid checks, protested drafts or bonds and unpaid commissions). All customers are monitored monthly for these indicators. The Bank's management believes that this has been a helpful process for both decision-making on new credit assignments to existing customers and for taking actions to prevent a borrower default.

### ***Concentration Limits***

Although development and investment banks (such as the Bank) are not subject to credit limits determined by the BRSA, the Bank has certain internal concentration limitations for its loan portfolio that are even more stringent than those set by BRSA regulations. The Bank's internal regulations differ from the BRSA regulations in certain other ways; for instance, in the Bank's internal approach, borrowers are divided into different limit categories and exposure to borrowers in each category is limited to a specific percentage of the Bank's own funds.

When the Bank's portfolio contains large credit exposures, whether extended directly or indirectly, to: (a) a single company, (b) a group of affiliated companies, (c) a special industry or sector or (d) a foreign country or a group of foreign countries, the Board of Directors imposes limits in order to prevent excessive concentration risk.

The Bank's internal concentration limits are as follows:

- total credit exposure to companies that fall within the definition of large credit exposures should not exceed eight times the Bank's capital;
- the maximum risk-based credit limit for a single company or group of companies may not exceed 25 per cent. of the Bank's capital;
- the maximum credit risk to a specific sector may not exceed 40 per cent. of the total credit portfolio (including APEX loans) for the energy production industry and 25 per cent. of the total credit portfolio (excluding APEX loans) for other industries;
- the maximum limit for the sum of letters of guarantee that can be accepted from a bank and APEX lending to that bank may not exceed 1.5 times such bank's capital;
- the maximum limit for APEX lending to a non-bank financial company may not exceed 35 per cent. of the Bank's capital; and
- the maximum limit for loans to related parties may not exceed 25 per cent. of the Bank's capital (for this limit, exposures and the Bank's capital are monitored on a consolidated basis).

It should be noted that APEX loans are excluded from such calculations unless stated otherwise.

The following table shows the BRSA legal limits for each of the major concentrations as of the date hereof:

	<b>Turkish legislation</b>
A borrower's indebtedness/own funds <sup>(1)</sup> .....	25%
A group of borrower's indebtedness/own funds <sup>(1)</sup> .....	25%
The Bank's own risk group's indebtedness/own funds <sup>(1)</sup> .....	20%
Total of large loans cannot exceed the own funds over <sup>(1)(2)</sup> .....	800%

Notes:

- (1) Own funds calculated as the total of Tier I capital and Tier II capital as required by the BRSA in the capital adequacy calculation regulation.
- (2) Large loans are the loans made available to a real or legal person (or risk group) that equals or exceeds 10 per cent. of a bank's own funds.

### ***Loan Classification and Provisioning Policy***

The Bank classifies its total loan portfolio in accordance with current Turkish banking regulations in its financial statements. Pursuant to these regulations, banks are required to classify their loans and receivables in one of the following groups:

*Standard Loans and Other Receivables (Group I)* – All loans and receivables are fully collectible or expected to be paid in full in a timely manner where the debtor is financially strong. Loans that are paid in due time or within 30 days of their due date are classified in this group.

*Closely Monitored Loans and Other Receivables (Group II)* – In the event that a deterioration in the financial condition or cash flow of the debtor is evidenced, or there is sufficient proof or risk that repayment will not be made in a timely manner and in accordance with the conditions as set forth in the applicable loan agreement, loans and receivables must be allocated to this group. Nevertheless, in order to be classified in this group, there must be an expectation that such loans or receivables will be repaid in full. It is not required to provide any specific reserve for this group of loans. Loans that are not paid within 30 days of their due date, but that do not meet the requirements to be classified in Group III regarding the length of the default in payment, are classified in this group.

*Loans and Other Receivables with Limited Collectability (Group III)* – In the event that the principal and/or accrued interest on a loan or receivable is not paid within a period of 90-180 days following its due date, then such loan or receivable must be allocated to this group.

*Loans and Other Receivables with Remote Collectability (Group IV)* – In the event that the principal and/or accrued interest on a loan or receivable is not paid within a period of 180 days to one year following its due date but there is still an expectation that the debtor may get additional financing by way of a merger, capital increase or cash injection, then such loan or receivable must be allocated to this group.

*Loans and Other Receivables Considered as Losses (Group V)* – In the event that there is no likelihood of collection on a loan or receivable, or the principal and/or accrued interest thereon is not paid or not expected to be paid within one year following its due date, such loan or receivable must be allocated to this group.

In the event that a loan is not expected to be paid within 90 days of the due date or the net equity of the debtor and the security provided is not sufficient for the repayment of a loan or receivable, it can be directly classified as an NPL without considering any unpaid period.

Pursuant to these regulations, all loans and receivables in Groups III, IV and V above and the collection of whose principal and/or accrued interest payments thereon have remained unpaid for 90 days following their due dates are classified as NPLs. Furthermore, if: (a) the Bank's management has reason to believe that the borrower will default or (b) a guarantee is not paid within 90 days following the date of indemnification, the Bank has to classify the unpaid loan and all other loans of the same borrower as non-performing regardless of whether they have reached maturity.

Loans are classified and followed in line with the provisions of the Regulation on Provisions and Classification of Loans and Receivables. Such legal requirements impose minimum provisions depending upon the category of the NPL, including special provisions in the amounts of at least 20 per cent., 50 per cent. and 100 per cent., respectively, being required to be set aside for loans and receivables in Groups III, IV and V. See "*Turkish Regulatory Environment — Loan Loss Reserves*". Specific provisions are allocated by the Group for the total amount of loans and other receivables that are deemed to be non-performing, without being restricted by the minimum legal requirements stated in such regulation. The Bank's policy is to provide fully (at a rate of 100 per cent.) for all of its NPLs rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

As of 17 July 2014, Turkish regulations also require Turkish banks to provide: (a) a general loan loss reserve calculated at 1 per cent. of their total standard cash loan portfolio (except for export loans and SME loans, for which the general loan loss reserve is calculated at 0 per cent. and 0.5 per cent., respectively) plus 2 per cent. of their watch-list cash loan portfolio and comprising any loan that is considered to be a cash loan pursuant to the applicable banking law provisions and (b) a general reserve calculated at 0.2 per cent. of their total standard non-cash loan portfolio (i.e. letters of guarantee, acceptance credits, letters of credit, undertakings and endorsements) (except for export loans and SME loans, for which the general loan loss reserve is calculated at 0 per cent. and 0.1 per cent., respectively) plus 0.4 per cent. of their watch-list non-cash loan portfolio. Furthermore, regulations as of such date also require banks to provide general reserves equal to: (i) 5 per cent. of their standard cash loan portfolio (except 0 per cent. for export loans and 2.5 per cent. for SME loans) and watch list cash loan portfolio whose loan conditions will be amended in order to extend the first payment schedule, (ii) 4 per cent. for standard and 8 per cent. for watch list consumer loans other than housing loans, all applicable for the banks whose consumer loans to total loans ratio is above 25 per cent. or those having a ratio of non-performing consumer loans (other than housing loans) to consumer loans (other than housing loans) above 8 per cent., and (iii) 10 per cent. for standard and watch list consumer loans (other than housing loans) whose loan conditions will be amended in order to extend the first payment schedule and for those banks whose consumer loans to total loans ratio is above 25 per cent. or those having a ratio of non-performing consumer loans (other than housing loans) to consumer loans (other than housing loans) above 8 per cent.

See also "*Turkish Regulatory Environment — Loan Loss Reserves*".

#### ***Portfolio Supervision and Non-Performing Loans ("NPLs")***

The Bank's Loan Monitoring Department provides monthly reports to the Bank's senior management detailing all aspects of its credit activity, including the number of new problem loans, the status of existing NPLs and collections. The Bank's senior management pays close attention to the timeliness of debt repayments and the classified loans and contingent liabilities. Prompt action is taken by the appropriate departments having responsibility for supervising and monitoring loan repayments if any principal or accrued interest repayment problems arise. Any overall deterioration in the quality of the Group's loan portfolio or

increased exposure relating to off-balance sheet contingent liabilities is brought to the attention of the Bank's Board of Directors by such departments.

The determination of whether a repayment problem has arisen is based upon a number of objective and subjective criteria, including: changes to the borrower's turnover in accounts held by the Group, changes to the borrower's economic and financial activity giving rise to the suspicion that a loan is not being used for its original purpose, applications to amend the loan terms or repayment schedules, failure of the borrower to fulfil the terms and conditions of its loan agreement and refusal of the borrower to co-operate in supplying current information.

Where a loan becomes impaired due to a delay in the repayment of its principal or interest by more than 90 days, the Bank classifies the loan as an NPL and classifies it under Group III as set out in the Turkish regulations. Accrued but uncollected interest must be deducted from revenue records. Interest on such loans cannot be recorded as income unless collected. Furthermore, restructured loans are transferred to the "Renewed and Restructured Loans Account" according to collection performance as defined in the related decree (other loans that are not classified as NPLs may also be restructured).

The Bank has generally given priority to the recovery of NPLs through negotiations and initiating legal proceedings as opposed to sales, resulting in a history of high recovery rates. The Bank currently prefers to use negotiations to work out NPLs rather than resort to legal proceedings, as the latter constitutes a lengthier and costlier process. The Bank's Loan Monitoring Department is in charge of monitoring and negotiating NPLs, as well as initiating legal proceedings when necessary. As of the date of this Base Prospectus, negotiations are being carried out with a few Group II and Group III companies with an aim to restructure their loans in accordance with their cash flows by means of asset and/or share sales.

The entire principal amount of NPLs is added to provisions. The Group generally does not write-off NPLs, regardless of the amount of time they have been outstanding. When a loan is placed on non-performing status, interest income ceases to accrue. An NPL is restored to accrual status when all arrears have been paid and it is considered likely that the customer will continue timely performance. An NPL may also be restored to accrual status if it is determined that the repayment of principal and interest is reasonably assured on collection, such as in the case when all amounts due under a loan are fully collateralised by cash or marketable securities and actions have commenced to foreclose on the collateral; however, more typically, the Group seeks to collect on NPLs and close its commitments. The following table sets forth details of the movements in the Group's NPL portfolio as of each of the indicated dates.

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL millions)</i>		
Balance at the beginning of the period.....	15,624	37,386	18,438
Additions <sup>(1)</sup> .....	24,027	10,808	44,098
Recoveries <sup>(2)</sup> .....	(2,078)	(29,713)	(1,490)
Portfolio Sale.....	—	—	
Write-off <sup>(2)</sup> .....	(187)	(43)	(29)
Balance at the end of the period.....	37,386	18,438	61,017

Notes:

- (1) Including foreign currency effect.
- (2) Excluding portfolio sales.

As of 31 December 2015, restructured performing loans constituted 0.7 per cent. of the Bank's total performing loan portfolio. The ratio of renewed and restructured NPLs to total NPLs as of 31 December 2013, 2014 and 2015 was 25 per cent., 19 per cent. and 9 per cent., respectively. The following table sets forth details of the Group's renewed and restructured non-performing loan accounts as of each of the indicated dates.

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL millions)</i>		
Renewed and restructured loan accounts .....	9,515	3,433	5,395

*Loan Portfolio Quality.* The Group's ratios of non-performing loans to total cash loans and to total cash and non-cash loans were 0.41 per cent. and 0.37 per cent., 0.17 per cent. and 0.16 per cent., 0.45 per cent. and 0.40 per cent. respectively, as of 31 December 2013, 2014 and 2015. The following table sets forth details of the Bank's NPL ratios as of each of the indicated dates.

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Total NPL (TL thousands).....	37,386	18,438	61,017
Coverage Ratio <sup>(1)</sup> .....	100.0	100.0	100.0
NPL Ratio.....	0.4	0.2	0.4

Note:

- (1) Total amount of specific provisions divided by NPLs.

As of 31 December 2015, the Bank's NPL ratio was 0.4 per cent. (0.2 per cent. as of 31 December 2014), significantly lower than the sector average of 3.1 per cent. according to the BRSA.

*NPL Loan Portfolio by Loan Type.* The following table sets forth the Bank's NPLs by loan type as of the dates indicated:

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Corporate .....	12,352	14,452	19,348
Other/SMEs/Miscellaneous Receivables .....	25,034	3,986	41,669
<b>Total</b> .....	<b>37,386</b>	<b>18,438</b>	<b>61,017</b>

The following table sets out certain information relating to the Group's provisions for losses on cash and non-cash credit exposure, which form a majority of the general loan loss provisions, as of the dates indicated:

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
Cash .....	85,162	105,479	128,670
Non-cash commitments and contingencies .....	2,798	2,719	2,721
Others .....	8,623	9,562	12,652
<b>Total</b> .....	<b>96,583</b>	<b>117,760</b>	<b>144,043</b>

### ***Collateral***

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, there are five categories of collateral as set out in the table below.

<b>Category of Collateral</b>	<b>Types</b>	<b>Evaluation Ratio</b>
1	Treasury bonds, cash, deposits, etc. ....	100%
2	Mortgages, promissory notes based upon real commercial transactions, equities, corporate bonds, bank guarantees, etc.....	75%
3	Personal guarantees, export documents, movable pledges, etc. ....	50%
4	Others .....	25%
5	Unsecured loans .....	—

### **Related Party Transactions**

All related party transactions of the Bank are subject to the same approval procedures as those applicable to its other customers. In general, the related party transactions of the Bank include loans, marketable securities and derivative transactions.

Although development and investment banks (such as the Bank) are exempt from BRSA's requirements for exposures to related parties, the Group is within the limits imposed on commercial banks by Turkish banking regulations. Under the Banking Law, the total amount of loans to be extended by a bank to its risk group must not be more than 20 per cent. of its equity. The Bank closely follows such regulatory requirements and internally applies its own set of restrictions in accordance with the Bank's policies and the covenant report ratios. As of 31 December 2015, the Bank's total net exposure to its risk group totalled TL 485 million, an amount corresponding to 17 per cent. of its equity.

In addition, the Banking Law limits the total amount of loans to be made available by banks to their shareholders, irrespective of whether they are dominant partners or own qualified shares (excluding those that have less than a 1 per cent. share in the capital of a bank), and to persons who have indirect loan relations with such shareholders that amount to 50 per cent. or more of their own funds. With a negligible amount of exposure to its shareholders and their risk group as of 31 December 2015, the Bank is well within the limits set by the BRSA.



## Employees and Benefits

As of 31 December 2015, the Bank had 332 employees. The following table sets forth the number of employees as of the indicated dates.

	<u>Employees</u>
31 December 2013 .....	314
31 December 2014 .....	334
31 December 2015 .....	332

The Bank focuses on ensuring that employees have a suitable level of education for operational effectiveness and a career at the Bank. As of 31 December 2015, 1 per cent. of the Bank's employees (excluding service staff) had only a secondary or lower school education, 66.3 per cent. were graduates of universities and 32.7 per cent. had postgraduate degrees.

Historically, the Bank has sought to maximise the opportunity for career development for its employees, with as many positions filled through internal promotions and assignments as possible. The Bank's personnel turnover rate (i.e., resignations excluding retirements) is very low, amounting to 6,26 per cent., 6.23 per cent. and 6.37 per cent. in 2013, 2014 and 2015, respectively. As of 31 December 2015, the Bankers (excluding service staff) had, on average, 7,6 years of experience in the Bank and an average age 35,2 years.

Employees of the Bank participate in the Bank's mandatory pension fund, of which every employee of the Bank is a member. The Bank and its employees contribute to such pension fund; each employee contributes to the pension fund with a certain percentage of his/her monthly salary and the Bank contributes an additional fixed amount for each employee. For pension funds such as this, Law No. 5754, which was published in the Official Gazette dated 8 May 2008 and numbered 26870, decrees that payment obligations to the contributors of bank pension funds (i.e., those who receive salaries or income from these funds and their rightful beneficiaries) will be transferred to the Social Security Institution within three years after the release date of this law; however, the authorisation to decide the transfer date to the Social Security Institution has been given to the Cabinet by the emending Act No. 6645, which was published in the Official Gazette dated 23 April 2015.

## Legal Proceedings

In the normal course of its business, the Bank is party to certain legal proceedings, whether as plaintiff or defendant, but the Bank's management does not believe that any such proceedings, individually or taken together, are likely to have a material adverse effect on the business of the Group or on the results of its operations or financial condition.

## Tax Audit

In line with other investigations of foundations established by financial institutions, the Tax Audit Committee (Vergi Denetim Kurulu) inspectors conducted an investigation into the payments made both by the Bank and its employees to Türkiye Sınai Kalkınma Bankası Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı (the "TSKB Personnel Supplementary Pension Fund"), which is a foundation established according to Turkish Commercial Law and Civil Law. The tax auditors claimed that payments made by the Bank into the fund should have been considered as wages for its employees and should have been included in the employees' tax base; therefore the Bank was subject to taxes and penalties for a total amount of TL 22 million for the years 2008, 2009, 2010 and 2011, which was fully paid as of 31 July 2014. The Bank's management believes that the Bank's practice was in compliance with the applicable legislation and that there is no legal basis for the tax administration's assessments. The Bank appealed to the tax courts to cancel these tax

notifications and a substantial part of such court proceedings has been finalised, with some of the resulting decisions determined in favour of the Bank and others determined against the Bank.

One of the banks that was ordered to pay taxes and penalties by the tax courts in respect of similar proceedings to those involving the Bank appealed to the Constitutional Court of Turkey (“Constitutional Court”). The Constitutional Court found in favour of the applicant bank and ordered compensation in respect of the taxes and penalties paid by the applicant bank in a decision published in the Official Gazette on 21 February 2015 and numbered 29274. The Bank’s management believes that the Constitutional Court’s decision is relevant to certain of the rulings made against the Bank by the tax courts, and the Bank is therefore considering appealing these rulings to the Constitutional Court for these rulings to be reversed.

### **Anti-Money Laundering Policies**

Turkey is a member country of the Financial Action Task Force (“FATF”) and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. Minimum standards and duties include customer identification, record keeping, reporting of suspicious activity, employee training, an audit function and designation of a compliance officer. Suspicious transactions must be reported to the Turkish Financial Intelligence Unit, Financial Crimes Investigation Board. In Turkey, all banks and their employees are obliged to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money-laundering.

The main provisions of the applicable law include regulation of: (a) client identification, (b) reporting of suspicious activity, (c) training, internal audit and control, risk management systems and other measures, (d) periodical reporting, (e) information and document disclosure, (f) retention of records and data, (g) data access systems to public records, (h) protection of individuals and legal entities and (i) written declaration of beneficial owners by transacting customers, among other provisions. Suspicious transactions must be reported to the Turkish Financial Intelligence Unit, which is the Financial Crimes Investigation Board.

To ensure that the Bank is not used as an intermediary in money laundering and other criminal activities, an anti-money laundering (“AML”) policy aimed at combating the financing of terrorism, which is to be followed by all employees, has been approved by the Board (the most recent of such policies having been adopted on 31 July 2014). This policy has been prepared and issued for the purpose of guiding the practices of the Bank pursuant to anti-laundering legislation and regulations. It describes and outlines the Bank’s know-your-customer procedures, appointment of the compliance officer, monitoring principles and reporting procedures for suspicious transactions, principles related to freezing assets, periodic reporting, retention of data and employee training. All of the Bank’s subsidiaries must comply with the Bank’s programmes, policies and procedures.

The Bank adopted the Code of Banking Ethics published by the Turkish Banks Association by its Board of Directors’ resolution dated 16 March 2006 and further adopted new forms of the Code of Banking Ethics as revised by the Turkish Banks Association on 15 September 2010 and 25 September 2014. The Code of Banking Ethics is also applicable to the Board of Directors. Turkish and English versions of the Code of Banking Ethics are available on the Bank’s website.

### ***Client Identification***

Under Turkish AML regulations, banks must verify the identification documents and other information provided by their permanent clients. The Bank’s policy is that, as with other parties covered by these regulations, all necessary measures should be taken in order to determine whether a transaction is being carried out for the benefit of a third party and, if so, to identify that third party. Moreover, all financial institutions are required by these regulations to identify the beneficial owner of an account. It is also

compulsory for banks to identify each natural person or legal entity that owns more than 25 per cent. of a legal entity.

The Bank's internal policies and systems prohibit the opening of anonymous accounts or the provision of services to entities who fail to provide sufficient identification.

### ***Monitoring Suspicious Transactions***

The Bank uses an in-house software system designed to detect unusual transactions and transactions that exhibit signs of money laundering and terrorism financing. The Bank's Internal Control Department analyses the alerts generated by the software and files suspicious transaction reports to the Financial Crimes Investigation Board. Several scenarios have been incorporated into the software of the Bank to improve the detection of suspicious transactions. Additionally, all foreign-currency transfers are separately monitored on a daily basis by the Bank's Internal Control Department. The software system also screens the Bank's customers and transactions according to watch lists of individuals, companies or geographic locations issued by authorities such as OFAC, the EU and the United Nations. If any party to a transaction falls within any of the watch lists, the system creates an alert, on the basis of which the Bank then decides whether to approve the transaction or not. Employees are also encouraged to report suspicious transactions in written form to a compliance officer. The Group also has in place an anti-bribery policy.

### **Compliance with Sanctions Laws**

OFAC administers regulations that restrict the ability of U.S. persons to invest in, or otherwise engage in business with, Specially Designated Nationals ("SDNs") and persons listed on OFAC's "sectoral sanctions" list, and similar rules have been put in place by other U.S. government agencies (including the State Department), the EU, the United Kingdom, the United Nations and Turkey. The Bank maintains policies and procedures designed to ensure that it complies with all such laws, regulations and orders (including those of OFAC and the FATF) regarding doing business with, maintaining accounts for, or handling transactions or monetary transfers for such sanctions targets ("Sanctions Targets").

Before opening an account for, or entering into any transaction with, a customer, the Bank ensures that such customer is not listed as a Sanctions Target. In addition, the names of all customers and all incoming and outgoing transactions are continuously and automatically screened against the various lists of Sanctions Targets. Accordingly, the Bank's current policies restrict the Bank from engaging in any prohibited business investments and transactions with Sanctions Targets, including those in and affiliated with Iran, Russia and Syria.

### **Credit Ratings**

Each of the Bank's credit ratings from Moody's and Fitch as of the date of this Base Prospectus is set out below. Each of these rating agencies is established in the European Union and is registered under Regulation (EU) No. 1060/2009, as amended. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

#### **Moody's (23 October 2015)**

Baseline Credit Assessment (BCA)	ba2
Outlook	Negative
<b>Foreign Currency (issuer)</b>	
Long-Term Maturity	Baa3
Outlook	Negative
Short-Term Maturity	P-3

**Domestic Currency (issuer)**

Long-Term Maturity	Baa3
Outlook	Negative
Short-Term Maturity	P-3

**Fitch (15 October 2015)**

Long-Term Maturity Foreign Currency (issuer)	BBB- (Stable)
Short-Term Maturity Foreign Currency (issuer)	F3
Long-Term Maturity National Currency (issuer)	BBB (Stable)
Short-Term Maturity National Currency (issuer)	F3
Support Note	2
National Support Note	BBB-
National Note	AAA
National Note Outlook	Stable

## **RISK MANAGEMENT**

### **General**

The Bank's management believes that assessment and control of risk is critical to the Group's success. The Bank closely identifies, measures, monitors and manages the risks arising from the Group's operations. The Bank monitors and manages the mismatch of maturities, the size and degree of interest rate and exchange rate exposure and its counterparty credit quality in order to minimise the effect of these risks on profitability. The Bank's current system of risk control and risk management has been in place since 2002. The Group's system of risk control and risk management is reviewed and modified as necessary and is integrated into the Group's internal systems for planning, management and control.

The Bank continues to maintain and further develop its risk management system, which has been established both to meet its internal risk management needs and to comply with its legal and regulatory requirements, including the Basel criteria and the BRSA's regulations. Risk management personnel are also involved in risk, control and compliance analysis processes of the Bank's new products and services. The process comprises not only new but also expanded or modified products and services that may have significant effect on the Bank's risk profile. During this process, the "Internal Systems" group conducts risk, control and compliance due diligence and, throughout the process, Risk Management personnel are responsible for ensuring that all potential risks that may affect the Bank's business strategy and risk profile are analysed and conveyed to the related parties.

### **Internal Systems**

The Bank's "Internal Systems" group is comprised of the Bank's Board of Internal Auditors, the Internal Control Department and the Risk Management Department. This system has been structured based upon management's assessment of best market practices in Turkey and internationally and in accordance with the principles and organisational set-up required by Turkish regulations.

The Bank applies sophisticated risk management methods and techniques available in the international banking arena. Risk management is a dynamic process for the Group, evolving alongside developments in international practices and regulations.

The Board of Internal Auditors and the Internal Control and Risk Management Departments report to the Board of Directors through the Executive Vice President in charge of Internal Systems, who then reports to the Audit Committee. The Audit Committee comprises of two Board members.

### **Board of Internal Auditors**

The Board of Internal Auditors aims to ensure that the activities of the Bank are fully and efficiently implemented in compliance with all applicable laws and corporate regulations. It also serves to secure the accuracy, reliability, completeness and timeliness of all financial and management information.

The scope of the audit process covers all activities and units of the Group. The branches, head office units, consolidated subsidiaries, information technology and banking processes are periodically audited in accordance with the Bank's internal audit plan, which is based upon risk-based methodology and approved by the Board of Directors. Other than these periodic, risk-based audits, the Bank also performs special audits upon the request of the Board of Directors or the Audit Committee.

The audit process includes both the on-site and off-site examination of all material information, accounts, records and documents and all other factors that may affect the operations of the Bank. The Board of Internal

Auditors also assesses the adequacy and effectiveness of the internal control, risk management and compliance systems.

### **Internal Control Department**

The Internal Control division focuses on the internal control system of the Bank, which is structured within the BRSA framework. The Internal Control department controls all branches, the head office operations departments that are directly related to the Bank's main banking activities and all subsidiaries that are subject to consolidation.

The Internal Control division aims to examine, monitor, design and co-ordinate the Bank's internal control activities to enable banking activities to be carried out along the objectives, principles and provisions laid down by the Bank's management, and the legislation and regulations in effect, in a secure and efficient manner. Controls on compliance with the relevant laws and regulations, controls on assets, limits, approval and authorisation, IT controls and controls on financial reporting systems are implemented in accordance with the charter of the Internal Control division, with the objective of achieving a strong and efficient internal control system in relation to the Bank's banking operations.

Internal controllers conduct on-site control activities in the Bank's offices (including information systems divisions). On-site controls are supported with centralised computer-assisted control activities.

The duties and responsibilities of the AML Compliance Officer is set out in Turkey's law on the prevention of laundering the proceeds of crime and other relevant regulations. The activities and controls in relation to the prevention of money laundering and the financing of terrorism are executed in compliance with applicable legislation, regulation and standards, as well as the Bank's internal policies. The results of the compliance activities are also regularly evaluated by the Audit Committee through the annual reports.

### **Risk Management Department**

The Risk Management Department is responsible for measuring, monitoring, analysing and reporting on both financial and non-financial risks. The Risk Management department covers credit risk management, asset liability risk management, market risk management, operational risk management and the management of other risks. The Risk Management department reports to the Audit Committee regularly and to the Board of Directors on a monthly basis.

### **Treasury Department**

The Bank's Treasury department is responsible for managing and implementing the Bank's asset and liability positions on a day-to-day basis with a special emphasis on Turkish Lira and foreign currency liquidity, ensuring the availability of funds for all products and services provided by the Bank.

The Treasury department's activities are held in the domestic and international money, currency and capital markets. The Treasury department also has the responsibility of determining and publishing the fund transfer pricing ("FTP") of the Bank on a daily basis.

The Treasury department consists of four desks concentrating on different activities: (a) the Foreign Exchange and Money Markets Desk, (b) the Fixed Income Desk, (c) the Derivatives and Structured Products Desk and (d) the Treasury Marketing Unit Desk. All treasury transactions are required to comply with the Bank's treasury policies as established by the Bank's Board of Directors. Treasury transactions are controlled and reported by the Treasury Control Unit, which includes a member who is also within the Budget Control Department.

The Treasury department's activities include, among others, the following:

- (a) managing the Bank's liquidity position;

- (b) managing the Bank’s Turkish Lira- and foreign currency-denominated fixed income portfolio;
- (c) daily trading in order to enable the Bank to benefit from any advantageous market opportunities;
- (d) managing the Bank’s net foreign currency position, ensuring that its remains within the limits set by the Turkish banking authorities and the risk appetite of the Bank as set by its Board of Directors;
- (e) managing the composition of any long or short foreign currency position;
- (f) determining the Bank’s Turkish Lira/foreign currency rates, which are used in pricing Turkish Lira/foreign currency transactions for clients;
- (g) pricing money market transactions and the determination and publishing of the FTP of Turkish Lira- and foreign currency-denominated loans;
- (h) utilising derivative instruments, such as currency and interest rates swaps and forward, futures and options transactions, for hedging the Bank’s portfolio and other general hedging purposes; and
- (i) developing new products according to changing market conditions and institutional client needs.

### **Asset and Liability Management**

The main responsibility of the Treasury Department is to manage the Bank’s assets and liabilities in accordance with the strategies set by the Asset and Liability Committee (“ALCO”). ALCO is responsible for forming and overseeing the implementation of the asset and liability management strategy of the Bank and its objective is to structure the Bank’s balance sheet in view of liquidity needs and market risk (both interest rate and exchange rate risks), while ensuring that the Bank has adequate capital and is using its capital to maximise net interest income. ALCO generally meets monthly, or more frequently if necessary, to review the Bank’s risk exposure, set the Bank’s policy for risk exposure (arising from its positions in respect of loans and investment securities in terms of market risk, together with risks arising from inflation rates, the Bank’s liquidity position, the Bank’s capital adequacy and the macro-economic environment including domestic and international political and economic events), determine the Bank’s strategies for interest rate levels and maturities and the pricing of loans. ALCO also supervises the implementation process relating to these decisions.

ALCO is chaired by the Bank’s Chief Executive Officer and also includes the Executive Vice President in charge of the Treasury, Financial Institutions and Development Finance Institutions Departments. The other Executive Vice Presidents who attend ALCO meetings are those in charge of the following functions: corporate banking, project finance, financial control, corporate compliance, budget planning and investor relations. The other members of the committee are heads of departments who are responsible for treasury, financial institutions, development finance institutions, corporate banking, project finance and budget planning and investor relations.

Considering the Bank’s strategy and the competitive environment, ALCO takes decisions to be implemented by the appropriate departments of the Bank for the optimal management of the Bank’s balance sheet and cash flows, and then monitors the actual results.

### **Composition of the Group’s main assets and liabilities**

The Group’s main assets are comprised of cash, loans and securities. As of 31 December 2015, the Group’s total assets increased to TL 21,367 million from TL 16,226 million as of 31 December 2014. The following table sets forth details of the composition of the Group’s main assets and liabilities by currency as of the indicated dates:

**As of 31 December**

	2013		2014		2015	
	(TL)	(Foreign Currency)	(TL)	(Foreign Currency)	(TL)	(Foreign Currency)
<b>Assets</b>						
Cash and Banks .....	1.4%	7.4%	6.9%	6.9%	1.5%	10.3%
Loans <sup>(1)</sup> .....	15.2%	87.8%	21.6%	87.2%	16.3%	81.9%
Securities Portfolio .....	69.2%	4.3%	59.9%	5.5%	39.4%	7.1%
Others .....	14.2%	0.5%	11.6%	0.4%	42.8%	0.7%
<b>Total Assets</b> .....	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Liabilities</b>						
Funds Borrowed <sup>(2)</sup> .....	42.6%	99.1%	45.6%	98.5%	44.6%	98.7%
Others .....	57.4%	0.9%	54.4%	1.5%	55.4%	1.3%
<b>Total Liabilities</b> .....	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Notes:

- (1) Foreign currency index loans are represented in the foreign currency column.
- (2) Including interbank and repo funds and issued bonds.

The following table sets forth the composition of the Group's main assets and liabilities by maturity as of 31 December 2015:

	Less than or equal to one month	Greater than one month and less than or equal to three months	Greater than three months and less than or equal to 12 months	Greater than 12 months	Undistributed	Total
	(TL Thousands)					
<b>Assets</b>						
Cash and Banks .....	1,562,667	1	—	—	—	1,562,668
Loans <sup>(1)</sup> .....	511,474	633,430	2,631,399	9,856,826	—	13,633,129
Securities Portfolio .....	34,901	90,197	493,793	2,524,628	38,214	3,181,733
<b>Total Assets</b> .....	<b>3,009,583</b>	<b>908,862</b>	<b>3,125,192</b>	<b>13,258,149</b>	<b>1,064,794</b>	<b>21,366,580</b>
<b>Liabilities</b>						
Funds Borrowed <sup>(2)</sup> .....	2,862,845	175,010	1,803,151	13,134,772	86,176	17,975,778
Others .....	42,206	26,880	54,369	87,971	3,179,376	3,390,802
<b>Total Liabilities</b> .....	<b>2,905,051</b>	<b>201,890</b>	<b>1,857,520</b>	<b>13,222,743</b>	<b>3,179,376</b>	<b>21,366,580</b>

Notes:

Derivative Financial Assets Held-for-Trading amounting to TL 209,571 thousand are included in the securities portfolio.

- (1) Including factoring receivables.
- (2) Including debt securities, interbank and repo funds.

As part of its internal asset and liability management policy, the Bank seeks to structure its securities and loan portfolios such that the borrowing side matches the lending side in terms of total Turkish Lira/foreign



currency exposures or fixed rate/floating rate exposures in order to minimise risk. The Bank also utilises derivative transactions in order to hedge itself against interest rate risk and foreign currency risk, as well as liquidity risk.

### **Market risk**

Market risk is defined as the risk of loss in the trading portfolio of the Bank arising from movements in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads that may affect the Bank's assets, income or the value of its holdings of financial instruments. The objective of market risk management is to monitor and control market risk exposures within acceptable parameters, while optimising the return on risk.

The level of market risk to which the Bank is subject can be measured by either the "Standard Method" or the "Value at Risk Method". The "Standard Method" is used for legal requirements and the "Value at Risk Method" is used for internal reporting purposes. The "Value at Risk Method" is highly consistent with local Turkish regulations as adopted from internationally accepted practices, but the Bank uses the "Standard Method" due to legal reporting requirements.

Using the Standard Method, market risk measurements are carried out on a monthly basis. The results of these measurements are included in the Bank's public regulatory reports as well as in internal reports, which are addressed to the Bank's Board of Directors and senior management.

The Value at Risk ("VaR") Method is used to measure market risk in terms of interest rate risk, exchange rate risk, equity risk and volatility risk on a daily basis and is a part of the Bank's daily internal reporting procedure. Back-testing is carried out to determine the reliability of the daily market risk measurements under the VaR Method.

The total VaR amount was calculated as TL 1,067 thousand (0.04 per cent. of the Bank's equity) as of 31 December 2014 and TL 1,757 thousand (0.07 per cent. of the Bank's equity) as of 31 December 2015.

In order to support the VaR model that measures the loss that may occur under ordinary market conditions, analyses are developed and performed based upon generally accepted scenarios. The potential impact of these scenarios on the value of the Bank's trading book is determined and the results are reported to the Bank's Board of Directors and senior management.

The ALCO, comprising members of senior management of the Bank, manages market risk by monthly meetings based upon reports prepared by the risk management and related executive departments. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, match the interest and duration structure of its assets and liabilities, and keep a sufficient level of liquid assets. The limits, which are established for managing market risk within the framework of the Bank's asset and liability management risk policy, are monitored by the Audit Committee and reviewed in accordance with current market conditions.

### **Interest Rate Risk**

A significant component of the Bank's asset and liability management risk policy is the management of interest rate risk. Interest rate risk is the possibility of loss in relation to the structural position arising from adverse movements in interest rates. The Bank is exposed to interest rate risk due to mismatches in the maturity or re-pricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets or liabilities mature or re-price in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A positive gap denotes asset sensitivity and normally means that an increase in interest rates would

have a positive effect on net interest income, while a decrease in interest rates would have a negative effect on net interest income.

The potential effects of interest rate risk on the Bank's assets and liabilities, market developments, general economic environment and expectations are regularly addressed in ALCO meetings where further measures to reduce risk are implemented when necessary.

While interest rate risk in trading book is managed through VaR limits, interest rate risk in the banking book is monitored and controlled by the limit established on the ratio of structural interest rate risk to regulatory capital. Structural interest rate risk is quantified by calculating the change in the Bank's economic value of equity under standardised interest rate shocks (i.e. plus 2 per cent. for foreign currency and 5 per cent. for local currency). The interest rate risk limits determined by the Board of Directors are monitored by the Risk Committee in accordance with the Bank's asset and liability management policy. Furthermore, scenario analyses that are developed based upon future predictions are conducted for managing interest rate risk.

The following table sets forth the Group's "re-pricing" gap, which is the difference between the interest rate sensitivity of assets and the interest rate sensitivity of liabilities, as of 31 December 2015:

	Less than or equal to one month	Greater than one month and less than or equal to three months	Greater than three months and less than or equal to 12 months	Greater than 12 months	No Interest	Total
	<i>(TL Thousands)</i>					
<b>Cash balances and balances with the Central Bank</b>	565,428	—	—	—	245,695	811,123
Balances with banks .....	734,646	—	—	—	16,899	751,545
Trading securities .....	23,811	35,528	95,085	54,766	381	209,571
Interbank funds sold .....	895,490	185,234	—	—	—	1,080,724
Securities available for sale loans .....	400,458	297,496	921,268	1,314,726	38,214	2,972,162
Loans <sup>(1)</sup> .....	2,069,051	4,096,269	5,490,171	1,908,641	68,997	13,633,129
Held-to-maturity investments .....	168,466	508,599	38,129	157,408	—	872,602
Other assets .....	4,819	1,098	3,227	—	1,026,580	1,035,724
<b>Total assets</b> .....	4,862,169	5,124,224	6,547,880	3,435,541	1,396,766	21,366,580
Interbank funds borrowed .....	2,349,479	1,061	—	—	—	2,350,540
Miscellaneous payables .....	—	—	—	—	129,298	129,298
Debt securities issued .....	—	—	—	2,037,571	—	2,037,571
Funds borrowed from other financial institutions .....	3,756,234	4,477,916	2,712,656	2,640,861	—	13,587,667
Other liabilities .....	54,685	43,100	86,427	27,214	3,050,078	3,261,504
<b>Total liabilities</b> .....	6,160,398	4,522,077	2,799,083	4,705,646	3,179,376	21,366,580
Asset/liability gap .....	(1,298,229)	602,147	3,748,797	(1,270,105)	(1,782,610)	—
Off-balance sheet gap .....	(378,023)	(91,039)	430,571	(7,796)	—	(46,287)
<b>Total gap</b> .....	(1,676,252)	511,108	4,179,368	(1,277,901)	(1,782,610)	(46,287)

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Note:

(1) Includes factoring receivables.

## **Liquidity risk**

In general, liquidity risk is the risk that an entity will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable. Liquidity risk is a substantial risk in Turkish markets, which have historically exhibited significant volatility.

The Bank's principal sources of funding are loans from multilaterals and other lenders. The average maturity of the corporate loans made by the Bank is shorter than the average maturity of the funding that the Bank receives from multilaterals. As a result of the Bank's long-term, wholesale funding base, the Bank's liquidity gap is usually negative for its obligations with a maturity period of one to seven days due to its short-term repo transactions. Thereafter, the liquidity gap generally becomes positive due to the Bank's securities portfolio and loan instalments. For the Bank's obligations with a maturity period from one week to ten years (other than short term repo transactions with maturity periods of four to five years), the liquidity gap turns negative due to the long-term funding nature of the Bank's funding.

In order to meet the liquidity requirements that may emerge from market fluctuations, considerable attention is paid to the need to preserve liquidity and efforts in this respect are supported by projections of Turkish Lira and foreign currency cash flows. Based upon cash flow projections, prices are differentiated for different maturities and measures are taken accordingly to meet liquidity requirements. Moreover, potential alternative sources of liquidity are determined where required for extraordinary circumstances. Foreign currency, total liquidity adequacy and liquidity coverage ratios, which are subject to legal reporting requirements, are also used to monitor liquidity on an ongoing basis.

Within the framework of the Bank's asset and liability management risk policy, internal limits established for liquidity risk management are monitored by the Audit Committee and, in the case of extraordinary situations where prompt action is required to be taken due to unfavourable market conditions, emergency measures and funding plans related to liquidity risk are put into effect.

The major objectives of the Bank's asset and liability management risk policy are to ensure that sufficient liquidity is available to meet its commitments to its clients, to satisfy the Bank's other liquidity needs and to ensure compliance with the capital adequacy and other applicable Central Bank regulations. Liquidity risk arises in the general funding of the Bank's financing and trading activities and in the management of investment positions. It includes the risk of increases in funding costs and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

As of 31 December 2015, the Group's borrowings were 2 per cent. Turkish Lira-denominated. The funds supplied from DFIs are denominated in foreign currencies (principally U.S. Dollars and Euro) and such funds are also provided by the Bank to its borrowers as foreign currency-denominated loans. Thus, only a very moderate foreign exchange mismatch for loans exists. In general, the foreign exchange short position of the Bank is either at low levels or the Bank has a foreign exchange long position.

The following table sets forth the original maturity profile of the Group's borrowings (including accrued interest that may be payable thereon) as of each of the indicated dates:

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>No term</b> .....	—	—	—
Turkish Lira-denominated .....	—	—	—
Foreign currency-denominated .....	—	—	—
<b>Up to three months</b> .....	551,813	683,795	687,315
Turkish Lira-denominated .....	74,275	227,819	70,478
Foreign currency-denominated.....	477,538	455,976	616,837
<b>Greater than three months and less than or equal to 12 months</b> .....	849,876	960,942	1,803,151
Turkish Lira-denominated .....	—	—	41,612
Foreign currency-denominated.....	849,876	960,942	1,761,539
<b>Over 12 months</b> .....	7,830,107	8,622,910	11,097,201
Turkish Lira-denominated .....	—	—	143,522
Foreign currency-denominated.....	7,830,107	8,622,910	10,953,679
<b>Total borrowings</b> .....	9,231,796	10,267,647	13,587,667
Turkish Lira-denominated .....	74,275	227,819	255,612
Foreign currency-denominated.....	9,157,521	10,039,828	13,332,055

## Currency Risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that a bank is subject to due to the exchange rate movements in the market.

The Bank effectively hedges its foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

ALCO meets regularly to manage exchange rate and parity risks in accordance with the Bank's asset and liability management risk policy. The Bank manages foreign currency risk through monthly ALCO meetings by evaluating the positions taken by the Bank's Treasury Department.

The general net foreign currency positions of Turkish banks are also regulated by the BRSA and this figure, in absolute terms, cannot exceed 20 per cent. of the relevant bank's shareholder equity.

Both the Standard Method and VaR Method are used in order to measure currency risk. Using the Standard Method, currency risk measurements are carried out on a monthly basis and the results are used for calculating the regulatory capital requirement of the Bank. Risk measurements within the context of the VaR Method are performed on a daily basis using historical and Monte Carlo simulation methods. Furthermore, scenario analyses are conducted to support the VaR calculations.

The results of these currency risk measurements are reported to senior management and the risks are closely monitored by taking into account current market and economic conditions.

A 10 per cent. weakening of the Turkish Lira against foreign currencies as of 31 December 2015, 2014 and 2013 would have changed profit or loss by the amounts shown in the table below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	<b>As of 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(TL thousands)</i>		
U.S.\$.....	18,026	(5,248)	(6,769)
Euro .....	(36,703)	(9,217)	(11,755)
Other currencies .....	126	120	220
<b>Total</b> .....	<b>(18,551)</b>	<b>(14,345)</b>	<b>(18,304)</b>

## **Credit Risk**

In general, credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank places emphasis mainly on the payment ability and cash generating ability of the borrower in any given transaction, and also obtains sufficient collateral from borrowers including, wherever possible, cash collateral, mortgages or security over other assets. The Bank seeks to manage its credit risk exposure through the diversification of its lending activities to avoid undue concentration of risks with individuals or groups of clients in specific locations or businesses. Development and investment banks (such as the Bank) are not subject to the credit limits imposed by the BRSA; however the Bank's Board of Directors has approved certain principles and internal credit limits based upon an internal rating system developed in-house by the Bank.

The Bank has implemented centralised credit approval processes and loan proposals are evaluated and monitored by the relevant authorised departments (see "*Business of the Group — Lending Policies and Procedures*" and "*Business of the Group — Lending Policies and Procedures — Collateral*" above).

Credit risk arising from treasury transactions is monitored on each business day. Exposure from over-the-counter derivative transactions is subject to daily margin call on counterparty basis under the relevant credit support annex agreements. All of the credit risk arising from over-the-counter derivative transactions is collateralised with cash.

## **Operational Risk**

Operational risk is the risk of loss arising from faults or deficiencies in the regular operations of a bank, including problems with systems, hardware, technology and communication infrastructures, natural disasters, terrorist attacks or earthquakes, as well as with respect to personnel responsibilities for monitoring, controlling, reporting, taking action and being diligent.

The Bank uses the "Basic Indicator Approach" to assess capital for operational risk. Banks using the "Basic Indicator Approach" are required to hold capital for operational risk equal to a fixed percentage (i.e. 15 per cent.) of the average of the previous three years' positive annual gross income (which is defined as net interest income plus net non-interest income). Figures for any year in which the annual gross income is negative or

zero are excluded from both the numerator and denominator when calculating the average. The maximum internal limit for operational risk capital is 10 per cent. of the Bank's total risk-weighted assets. If the limit exceeds 8 per cent., then it is immediately reported to the Bank's senior management with the early warning procedure.

Risks identified as a result of operational risk assessments are reported to the Audit Committee and Board of Directors. In terms of quantitative techniques, the Risk Management department employs a range of diagnostic tools, such as key risk indicators, together with data analysis. Operational error records are used for this purpose.

Risks derived from information technologies are primarily assessed within the scope of the Bank's operational risk management analysis. It is essential that those risks, which could be seen as multipliers of other risks derived from activities of the Bank, are measured, closely monitored and controlled within the framework of the Bank's integrated risk management.

### **Subsidiaries' Risk Management**

The Bank has a group-wide risk policy set by the Bank's Board of Directors. The Risk Management department monitors both internal and legal risk limits and other risks relating to subsidiaries falling within the scope of the group-wide risk policy. In addition to this, the Bank's subsidiaries also have their own internal, sector-specific risk policies, limits and procedures. The Bank's Risk Management department reports to the Audit Committee every three months in order for the Audit Committee to evaluate the Group's risk level on a consolidated basis.

### **Liquidity and Funding**

Funding for the Bank primarily comes from DFIs, syndicated loans, eurobonds, bilateral loans, repo and money market transactions. Loans are the Group's main source of both Turkish Lira and foreign currency funding, with a 97 per cent. share in total liabilities (excluding shareholders' equity) as of 31 December 2015, with TL 18.0 billion.

In terms of Turkish Lira, the primary funding sources currently available for the Bank are the repo and reverse repo market of the BİST, the over-the-counter interbank money market, the interbank money market of the Central Bank, collateralised loans and bill and bond issues. In June 2010, the Bank's Board of Directors authorised the issuance of discounted bonds with a value of up to TL 0.2 billion. In August 2010, the Bank issued zero-coupon bonds with a total value of TL 200 million, but has not since issued further zero-coupon bonds.

As a last resort, the Bank also has the ability to borrow funds through the Central Bank. The Bank's limits for this kind of transaction are determined by the Central Bank and generally carry a maturity of up to one month.

The Bank has been accessing the international markets for syndicated loan facilities since 2005. As of 31 December 2015, the balance of the outstanding syndicated term loan facilities obtained by the Bank was approximately U.S.\$256 million. The Bank also accessed the international debt capital markets for the first time in October 2014 when it issued notes for an amount of U.S.\$350 million due to mature in 2019, followed by another issuance of notes in April 2015 for an amount of U.S. \$350 million due to mature in 2020.

In addition to the above, the Bank has entered into various transactions with DFIs, export credit agencies and other lenders, principally for project financing and the financing of small- to medium- size enterprises in the renewable energy sector, resource and energy efficiency projects, sustainable tourism and certain import

related projects as well as working capital loans. The following tables show the Group's sources of funding as of the indicated dates and their respective changes period over period.

	As of 31 December				
	2013	% Change	2014	% Change	2015
	<i>(TL thousands)</i>				
Repos & Money Market .....	1,856,204	22.4%	2,272,713	3.4%	2,350,540
Funds Borrowed <sup>(1)</sup> .....	9,231,796	11.2%	10,267,647	32.3%	13,587,667
Securities Issued .....	0	—	813,824	150.4%	2,037,571
Other .....	333,682	34.0%	447,266	35.7%	607,010
Equity .....	2,017,534	20.2%	2,424,251	14.8%	2,783,792
<b>Total</b> .....	<b>13,439,216</b>	<b>20.7%</b>	<b>16,225,701</b>	<b>31.7%</b>	<b>21,366,580</b>

Note:

(1) Including subordinated loans.

	As of 31 December		
	2013	2014	2015
	<i>(%) of Total</i>		
Repos & Money Market.....	13.8%	14.0%	11.0%
Funds Borrowed <sup>(1)</sup> .....	68.7%	63.3%	63.6%
Securities Issued.....	0%	5.0%	9.5%
Other .....	2.5%	2.8%	2.9%
Equity.....	15.0%	14.9%	13.0%
<b>Total</b> .....	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note:

(1) Including subordinated loans.

## Capital Adequacy

The Bank is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank for International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures (commitment and contingencies).

Pursuant to the 2006 Equity Regulation, which was replaced by the 2013 Equity Regulation, the Bank's total capital ratio was (through the end of 2014) calculated by dividing: (a) the sum of its "Tier I" capital, which comprises its share capital, reserves, retained earnings, profit and revaluation surplus for the current periods, plus its "Tier II" capital, which comprises general provisions, by (b) the aggregate of its risk-weighted assets and risk-weighted off-balance sheet exposures.

Within the context of the implementation of the Basel III framework in Turkey, the 2006 Equity Regulation was replaced by the 2013 Equity Regulation as noted above. As a result, the calculations regarding capital adequacy for periods from 1 January 2014 are performed in accordance with the 2013 Equity Regulation and other regulations newly enacted and/or amended by the BRSA. In accordance with these guidelines, the Bank must maintain a total capital ratio in excess of 8 per cent. calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4 per cent. higher than the legal capital ratio. As of 31 December 2015, the Bank's regulatory capital adequacy ratio was 14.86 per cent. and the Group's regulatory capital adequacy ratio was 16.00 per cent, each significantly exceeding the minimum legal ratio of 8.0 per cent. See "*Turkish Regulatory Environment — Capital Adequacy*" for additional information.



## MANAGEMENT

In accordance with the Bank's articles of incorporation and the relevant laws of Turkey, the Bank is ultimately controlled by its shareholders through its General Assembly. According to the Bank's articles of incorporation, general resolutions at the General Assembly are adopted by affirmative votes of an absolute majority of the votes present at the meeting; provided that a quorum is attained.

The Bank's business is organised into 28 departments. 25 of these departments are managed by the Executive Committee, which consists of the Chief Executive Officer and the various Executive Vice Presidents. The remainder of the departments – the Board of Internal Auditors, Internal Control, and Risk Management – report to the Board of Directors through the Executive Vice President, who in turn reports directly to the Audit Committee.

### Board of Directors

According to the Bank's articles of incorporation, the Board of Directors consists of at least five members, as elected by the shareholders at the General Assembly, with the exception of the Chief Executive Officer, who is appointed by the Board of Directors. The Chief Executive Officer is by law a member of the Board of Directors. Each director serves for a term of three years. The responsibilities of the Board of Directors include: (a) administration of the Bank's real estate, securities and properties, (b) executing all kinds of agreements and transactions related with the Bank's activities, (c) ensuring the orderly performance of the Bank's internal operations, (d) keeping the books and accounts necessary for the Bank's operations and submitting such books, balance sheet, profit and loss accounts to the General Assembly, (e) issuing a report, reflecting the commercial, industrial and financial status of the Bank, including a summary of the Bank's transactions performed within the year at year-end and (f) implementing the General Assembly resolutions.

Under the Bank's articles of incorporation, the Board of Directors must hold their meetings at least once a month at the address where the Bank's head office is located. They may also hold meetings in any other suitable place; provided that more than one half of the Board members concur.

The presence of a majority of the Board of Directors is required for the validity of a board meeting. Resolutions are adopted by the majority of the members present and, in the event of an equality of votes, the relevant matter is postponed until the subsequent meeting. Should the votes again be equal, the proposal in question is considered as rejected.

Recent amendments to the Turkish Commercial Code allow the appointment of a legal entity as a member of the board of directors of a joint stock company. Under such rules, a legal entity on a board of directors would be represented by a natural person designated by it. Alternatively, natural persons can be members of the board. Notwithstanding this recent change, the BRSA's Board has issued a decision prohibiting the appointment of a legal entity as a member of the board of directors of any joint stock company that it regulates, and thus members of the Bank's board can still only be natural persons.

The business address of each of the members of the Board of Directors is Meclisi Mebusan Cad. No 81 Fındıklı 34427 İstanbul, Turkey. As of the date of this Base Prospectus, the Board of Directors comprises the following:

Name	Position	Year first appointed to the Board
Adnan Bali.....	Chairman	2011
Kemal Serdar Dişli .....	Vice Chairman	2007

<b>Name</b>	<b>Position</b>	<b>Year first appointed to the Board</b>
Suat İnce.....	Board Member & CEO	2016
Halil Aydođan.....	Board Member	2013
Murat Bilgiç .....	Board Member	2005
Yavuz Canevi.....	Board Member	2015
Uygar Şafak Öđün.....	Board Member	2010
Ebru Özşuca .....	Board Member	2014
Z. Hansu Uçar.....	Board Member	2015
Kamil Yılmaz .....	Board Member	2014

### **Adnan Bali (Chairman)**

Born in İslahiye in 1962, Mr. Bali graduated from the Economics Department of the Faculty of Economics and Administrative Sciences of Middle East Technical University. Mr. Bali started his career at İşbank's Board of Inspectors in 1986. Mr. Bali was appointed as Deputy Manager in 1994, Unit Manager in 1997 and the Head of the Treasury Department in 1998. Mr. Bali was positioned as İşbank's Şişli Branch Manager in 2002, Galata Branch Manager in 2004 and Deputy Chief Executive on 30 May 2006. Mr. Bali was appointed as the Chief Executive Officer of İşbank on 1 April 2011. Mr. Bali has been a member of the Bank's Board of Directors since 15 April 2011 and the Chairman of the Board of Directors since 21 April 2011.

### **Kemal Serdar Dişli (Vice Chairman)**

Born in Şanlıurfa in 1964, Mr. Dişli graduated from the Public Administration Department of the Faculty of Economics and Administrative Sciences of Hacettepe University. He began his professional career as an officer at İşbank in 1988 and the same year was appointed as an Assistant Inspector. After serving as the Deputy Manager and the Group Manager in the Accounting and Financial Operations department between 1998 and 2002, he was promoted to be the Region Manager at Marmara Region Directorate, the Manager at the Bursa Branch and the Group Manager of the Corporate Banking and Marketing Department. Mr. Dişli currently serves as the Manager of İşbank's Kozyatađı Corporate Branch and has been a member of the Bank's Board of Directors since 25 May 2007. He also has been a member of the Audit Committee since April 2008 and the Corporate Governance Committee since May 2014.

### **Halil Aydođan (Board Member)**

Born in Afyonkarahisar in 1950, Mr. Aydođan graduated from the Economics Department of İstanbul University and started working for Vakıfbank in 1977. After working in various departments and positions, Mr. Aydođan served as an Assistant General Manager of Vakıfbank between 1996 and 1999 and as the General Manager of Vakıf Finansal Kiralama A.Ş. between 1999 and 2000. Mr. Aydođan was elected as a member of the Parliament twice, during the 22nd and 23rd terms of the Turkish Grand National Assembly. Mr. Aydođan served as the Chairman of Vakıfbank's board of directors between January 2012 and March 2013 and was appointed as the General Manager of Vakıfbank on 29 March 2013. Since 16 December 2013, Mr. Aydođan has been a member of the Bank's Board of Directors.

### **Murat Bilgiç (Board Member)**

Born in Ankara in 1968, Mr. Bilgiç graduated from the International Relations Department of the Faculty of Economics and Administrative Sciences of Middle East Technical University. Mr. Bilgiç completed his master's degree in banking at the University of Birmingham. He joined İşbank as an Assistant Inspector in

1990 and, after serving in various positions at İşbank, became the Regional Manager of the Corporate Loans Department in 2002. Since 2008, he has been working as the Manager of the Corporate Loans Department. Mr. Bilgiç has been a member of the Bank's Board of Directors since 23 March 2005.

**Yavuz Canevi (Board Member)**

Born in Konya in 1939, Mr. Canevi graduated from the Finance and Economics Department of the Faculty of Political Sciences of Ankara University in 1960 and completed a master's degree at the University of Southern California in 1969. After serving as an inspector for the Ministry of Finance from 1960 to 1963, he held a variety of public and private sector positions from 1963 to 1989, when he retired from his position as Treasury Undersecretary. Mr. Canevi has been the Chairman of the Board of Directors at Türk Ekonomi Bankası since 1996 and served as a member of the Bank's Board of Directors between 1993 and 2012. He was re-elected as a member of the Bank's Board of Directors on 26 March 2015.

**Suat İnce (Board Member and Chief Executive Officer)**

Born in Ankara in 1964, Suat İnce graduated from the Economics Department at the Faculty of Economics and Administrative Sciences of Middle East Technical University. Having started his professional career at İşbank as Assistant Inspector on the Board of Inspectors, he was appointed as Assistant Manager of Corporate Loans Underwriting Division in 1995. Between 1997 and 2008, he was positioned as Manager in various units and branches of the bank. He served as Deputy Chief Executive of İşbank between 2008 and 2016. Mr. İnce was elected to the Board of Directors and as the Bank's Chief Executive Officer on 1 April 2016.

**Uygar Şafak Ögün (Board Member)**

Born in Ankara in 1974, Mr. Ögün graduated from the Business Administration Department of Bilkent University in 1995 and began his professional career at İşbank's Board of Inspectors. In 2002, Mr. Ögün completed his master's degree in international banking and finance at the University of Birmingham. Mr. Ögün continued his career at İşbank as the Deputy Manager of the Directorate of Corporate Marketing in 2005 and was appointed as the Deputy Manager of the Board of Inspectors in 2007. Mr. Ögün was appointed as İşbank's Corporate Banking Sales Manager in 2008. Since 29 September 2009, he has been serving as the Manager of İşbank's Corporate Banking, Marketing and Sales Department. Mr. Ögün has been a member of the Bank's Board of Directors since 2 April 2010. He also has been a member of the Corporate Governance Committee and Remuneration Committee since March 2014 and a member of the Audit Committee since December 2014.

**Ebru Özşuca (Board Member)**

Born in Ankara in 1971, Ms. Özşuca graduated from the Economics Department of the Faculty of Economics and Administrative Sciences of Middle East Technical University in 1992. Ms. Özşuca holds a master's degree in international banking from Middle East Technical University and in finance from Southampton University. Having started her professional career at İşbank as an assistant specialist in the Treasury department, she was promoted to assistant manager and subsequently to unit manager of the same department. Between 2007 and 2011, Ms. Özşuca worked as the Head of the Corporate Banking Products Department. In 2011, Ms. Özşuca was appointed as the Head of the Treasury at İşbank. Ms. Özşuca has been a member of the Bank's Board of Directors since 21 April 2014.

**Zeynep Hansu Uçar (Board Member)**

Born in Ankara in 1971, Ms. Uçar graduated from the Department of Business Administration at the Faculty of Economics and Administrative Sciences of Middle East Technical University in 1993. Ms. Uçar started her professional career at İşbank as an assistant specialist in the Subsidiaries Department. Having served as the Unit Manager between 2007 and 2015, she was then promoted as Department Manager of the Subsidiaries

Department. Ms. Uçar has been a member of the Bank's Board of Directors and a member of the Remuneration Committee since 27 November 2015.

### **Prof. Dr Kamil Yılmaz (Independent Board Member)**

Born in Oba in 1964, Mr. Yılmaz graduated from the economics department of Boğaziçi University in 1987 and completed his master's and doctorate degrees in economics in 1990 and 1992, respectively, at Maryland University. Mr. Yılmaz worked at the Research Department of the World Bank between 1992 and 1994 and has been working as an academician at the Faculty of Economics and Administrative Sciences of Koç University since 1994. He also served as a visiting professor of economics at the University of Pennsylvania between the years 2003-2004 and 2010-2011. Having played an active role in the establishment of TÜSİAD (Turkish Industrialists and Businessmen Association) (Türkiye Sanayi ve İşadamları Derneği) Economic Research Forum in 2005, he served as the Forum Director between the years 2007 and 2009. Mr. Yılmaz, who has had various scientific articles and books related with international finance, international trade, macroeconomics and the Turkish economy published in local and international magazines, was honored with the Encouragement Award in Social Sciences and Humanities by the Turkish Academy of Sciences in 2003. He has been serving as an independent board member of İş B Tipi Yatırım Ortaklığı A.Ş. since 2012 and as a member of the Bank's Board of Directors since 25 March 2014. Mr. Yılmaz is an independent board member.

### **Executive Committee**

The Bank's Executive Committee consists of the Chief Executive Officer and the Executive Vice Presidents. The meetings of the Executive Committee are held once a month; however, the Chief Executive Officer may call for a meeting whenever it is necessary. Resolutions of the Executive Committee require unanimous approval. The Executive Committee is responsible for implementing the overall strategy of the Bank formulated by the Board of Directors. Current Members of the Executive Committee are:

<b>Name</b>	<b>Position</b>	<b>Date of Appointment</b>
Suat İnce.....	Chief Executive Officer	2016
Burak Akgüç.....	Executive Vice President	2004
Ömer Eryılmaz .....	Executive Vice President	2006
Çiğdem İçel .....	Executive Vice President	2006
Ufuk Bala Yücel.....	Executive Vice President	2007
Gökhan Çanakpınar.....	Executive Vice President	2012
Ece Börü.....	Executive Vice President	2013
Hakan Aygen .....	Executive Vice President	2013
Aziz Ferit Eraslan*.....	Executive Vice President	2015

\*Mr. Eraslan reports directly to the Audit Committee

Additional information on each of these Executive Vice Presidents is set forth below:

### **Burak Akgüç**

Born in İstanbul in 1964, Mr. Akgüç graduated from the Political Science Department of Boğaziçi University. Mr. Akgüç joined the Bank as a Specialist at the Financial Analysis department in 1991. After serving in a variety of positions, Mr. Akgüç was appointed as the Head of the Loan and Investments Department in 2001. Mr. Akgüç was promoted as an Executive Vice President in 2005 and is currently responsible for the Corporate Banking and Project Finance departments.

### **Ömer Eryılmaz**

Born in Giresun in 1964, Mr. Eryılmaz graduated from the Faculty of Business Administration of İstanbul University and began his professional career at Sınai Yatırım Bankası in 1986. Mr. Eryılmaz was appointed as the Bank's Manager of the Financial Control Department in 1999, the Head of the Risk Management Department in 2002 and the Head of the Board of Internal Auditors in 2003. Mr. Eryılmaz was appointed as the Executive Vice President of the Bank in 2006 and is currently responsible for the Financial Control, Corporate Compliance and Budget, Planning & Investor Relations Departments. He also has been a member of the Corporate Governance Committee since May 2014.

### **Çiğdem İçel**

Born in Eskişehir in 1966, Ms. İçel graduated from the Business Administration Department of Boğaziçi University. Ms. İçel began her professional career as an Assistant Investment Advisor at the Bank's Treasury Department. After serving in a variety of positions, she was appointed as the Head of the Treasury and Correspondent Banking Department in 1998. Ms. İçel was promoted as the Executive Vice President in 2006 and was responsible for the Operations Division, which includes the Loan Operations and Treasury & Capital Markets Operations Departments. Ms. İçel is currently responsible for the Treasury and Human Resources Division, which includes the Treasury, Financial Institutions and Development Finance Institutions.

### **Ufuk Bala Yücel**

Born in İstanbul in 1964, Ms. Yücel graduated from the Political Science Department of Boğaziçi University. Ms. Yücel began her professional career in 1987 and after working in several banks for fifteen years, she joined the Bank as the Head of the Loans Department in 2002. She was appointed as Group Manager in 2007 and as an Executive Vice President in 2008. Ms. Yücel is currently responsible for the Loans and Loan Monitoring Departments.

### **Gökhan Çanakpınar**

Born in Ardahan in 1964, Mr. Çanakpınar graduated from the Department of Business Administration of Middle East Technical University. Mr. Çanakpınar began his professional career at İpekiş Mensucat as System Analyst in 1988 and served as a Project Manager at İşbank for six years. In 1995, he began serving at the Bank as a System Analyst and was appointed as the Head of the Application Development Department in 2000. Mr. Çanakpınar was promoted to be the Director of the Information Technology Unit in 2011. Since 10 January 2012, he has been working as the Executive Vice President responsible for Information Technology and Operations.

### **Ece Börü**

Born in İstanbul in 1966, Ms. Börü graduated from the Management Engineering Department of İstanbul Technical University in 1988. Ms. Börü joined the Bank as an Assistant Specialist in the Financial Controls Department in 1989. She was promoted to be the Head of the Financial Controls Department in 2000 and the Head of the Board of Internal Auditors in 2006. Since 28 November 2013, Ms. Börü has been serving as the Executive Vice President responsible for Enterprise Architecture, Talent Management & Corporate Communication and Human Resources Departments.

### **Hakan Aygen**

Born in Konya in 1965, Mr. Aygen graduated from the Management Engineering Department of İstanbul Technical University. Mr. Aygen started his professional career in 1989 in the non-financial sector and joined the Bank in 1995 as an Assistant Specialist at the Financial Analysis Department. In 1996, Mr. Aygen completed his master's degree in management and organisation at Marmara University. Mr. Aygen was appointed as the Head of the Corporate Finance Department in 2006 and was promoted as the Group Head of the same department in 2011. Following receipt of his doctorate degree in accounting finance from Marmara

University in 2013, Mr. Aygen was promoted as the Executive Vice President on 28 November 2013. He is in charge of Corporate Finance, Financial Analysis, Engineering and Research Departments.

### **Aziz Ferit Eraslan**

Born in İstanbul in 1969, Mr. Eraslan graduated from the Department of Public Administration of Middle East Technical University in 1991 and subsequently completed the Banking School of Ziraat Bank. In 1992, Mr. Eraslan started his professional career at İşbank's Board of Inspectors. He received his master's degree from the Stirling University of Scotland in 1997. At the Accounting Department of İşbank, Mr. Eraslan was appointed as Deputy Manager in 2000 and Group Manager in 2003. Between 2007 and 2012, he was Department Head at İşbank's Accounting Department, which eventually became the Financial Management Department. Between 2013 and 2015, Mr. Eraslan was Chief Executive Officer position at İşbank Russia. In October 2015, he was appointed as Executive Vice President responsible for the Board of Internal Auditors, Risk Management and Internal Control Departments at the Bank.

### **Board Committees**

Pursuant to Commercial Law 6102 and the CMB Corporate Governance Communiqué II-17.1, the Board of Directors has established the Audit Committee, the Corporate Governance Committee, and the Remuneration Committee. The Board of Directors has also established the Sustainability Committee.

*Audit Committee.* The Audit Committee consists of two members that serve on the Board of Directors. The Audit Committee members are selected by the Board of Directors and currently consist of Mr. Kemal Serdar Dişli and Mr. Uygur Şafak Ögün. The Audit Committee informs the Board of Directors of the results of its activities and the measures that are required to be taken by the Bank, and offers its opinions on other matters that it considers to be significant for the Bank to conduct its business in a safe manner.

The Audit Committee is in charge of:

- (a) ensuring that the Bank's internal audit and risk management systems function effectively and efficiently and that the Bank's accounting and reporting systems operate in compliance with the related regulations;
- (b) carrying out the preliminary assessment of external auditors and monitoring on a regular basis the activities of the appointed auditors;
- (c) ensuring that the internal audit functions of subsidiaries that are subject to consolidation are being performed in line with the related regulations;
- (d) reporting and advising to the Board of Directors in relation to the operations and activities of the Bank's internal audit, risk management, internal control units and external auditors and the measures deemed necessary to be taken in order for the Bank to operate in a manner compliant with the relevant external and internal regulations and policies;
- (e) where necessary, gathering information, reports and documents from the relevant units of the Bank or its supporting service providers and independent auditors and, subject to the approval of the Board of Directors, receiving consulting service from persons who are experts in their respective fields;
- (f) evaluating the information and reports received from independent auditors and divisions that fall under the internal systems with respect to their activities; and
- (g) analysing and submitting quarterly internal audit reports to the Board of Directors, which are prepared by the internal auditors according to the Banking Law.

*Corporate Governance Committee.* As per the resolution of the Board of Directors dated 30 September 2009, the Corporate Governance Committee was established for the purpose of assuring that the Bank complies with corporate governance principles. The Corporate Governance Committee consists of two members of the Board of Directors and the Manager of the Investor Relations Department. Mr. Uygur Şafak Ögün, Mr. Kemal Serdar Dişli and Mr. Ömer Eryılmaz are the current members of Corporate Governance Committee, which meets at least four times a year. The committee's principal duties and responsibilities include:

- (a) ensuring that the corporate governance principles are implemented and advising the Board of Directors of the measures deemed necessary to be taken in order for the Bank to operate in a manner compliant with the corporate governance principles;
- (b) coordinating investor relation activities, monitoring the Bank's communication with investors and shareholders within this framework, determining the fundamental principles of the Bank's communication with its investors and shareholders and reviewing these principles periodically;
- (c) collaborating with the Investor Relations Department to advise the Board of Directors with respect to ensuring the continued efficiency of the Bank's communication with its investors and shareholders and preventing and dealing with potential conflicts of interest.
- (d) reviewing the corporate governance compliance report prior to its publication in the annual report and submitting its opinions thereon to the Board of Directors;
- (e) ensuring the independency and efficiency of the Board of Directors by supervising compliance with regulations related with conflict of interests among the committee members, the members of the Board of Directors, the Executive Committee or other employees;
- (f) ensuring that the Bank's public disclosures are in accordance with the relevant laws and regulations and the Bank's information policy principles;
- (g) developing policies, strategies and a transparent system for the purpose of determining, assessing and training the candidates to the Board of Directors;
- (h) implementing the Bank's ethics rules and corporate governance principles internally;
- (i) preparing an assessment report to the Board of Directors;
- (j) advising on independent nominees for the Bank's Board of Directors;
- (k) advising the Board of Directors on the remuneration to be provided to the members of the Board of Directors;
- (l) where necessary, subject to the approval of the Board of Directors, receiving consulting service from persons who are experts in their respective fields; and
- (m) reporting to and advising the Board of Directors in relation to the results of its activities and the measures deemed necessary to be taken in order for the Bank to operate in a manner compliant with the relevant external and internal regulations and policies.

*Remuneration Committee.* As per the resolution of the Board of Directors, dated 27 December 2011, the Remuneration Committee was established for the purpose of executing functions and activities related to monitoring and controlling remuneration implementations of the Bank on behalf of Board of Directors. The Committee has two members of the Board of Directors; Mr. Uygur Şafak Ögün and Ms. Z. Hansu Uçar.

The Remuneration Committee is responsible for establishing a written remuneration policy that is in compliance with the Bank's operations, strategic goals and risk management strategies, reviewing the

remuneration policy at least once a year to ensure its efficiency and submitting a report to and advising the Board of Directors regarding evaluation of the Bank's policy with respect to risk management strategies.

*Sustainability Committee.* As per the resolution of the Board of Directors dated 29 January 2015, the Sustainability Committee was established in order to oversee and coordinate all sustainability-related activities at the Bank. The Committee's mission is to integrate the concept of sustainability into all of the bank's business operations and services by ensuring that all bank employees understand and identify with the concept of sustainability, developing new products and business opportunities in the area of sustainable banking, and increasing the level of sustainability awareness throughout the business community and banking industry in particular. The Sustainability Committee consists of two members of the Board of Directors, Mr. Kamil Yılmaz and Ms. Ebru Özşuca, and two Executive Vice Presidents, Mr. Ömer Eryılmaz and Ms. Çiğdem İçel.

### **Conflicts of Interests**

There are no actual or potential conflicts of interest between the duties of any of the members of the Board of Directors and the Executive Committee and their respective private interests or other duties.

### **Address**

The business address of the Executive Committee members is Meclisi Mebusan Cad. No 81 Fındıklı 34427 İstanbul, Turkey.

### **Remuneration**

Monthly remunerations of the Board members and auditors are determined annually at the Bank's General Shareholders' Meetings and disclosed to the BİST. After the legal reserves and the first dividend have been allocated from the net profit of the Bank, up to 0.5 per cent. of the remaining balance is distributed among the members of the Board of Directors (including the Chief Executive Officer) equally. Pursuant to the CMB's corporate governance principles, independent board members do not receive any dividend payment.

The corporate governance principle numbered 4.6.3 under the Communiqué No. II-17.1 on Corporate Governance (as amended, the "Corporate Governance Communiqué") provides that the remuneration of a company's independent board members cannot consist of dividends, stock options or payment plans based on the company's performance, and requires that such remuneration be at a level that would allow the independent board members to maintain their independence. Therefore, dividends calculated for the independent members of the Board of Directors are recommended to be transferred to the reserves. The aggregate amount of the remuneration paid and benefits in hand granted to the members of the Board of Directors and senior management on a Bank-only basis for the year ended 31 December 2015 was TL 8,202 thousand (TL 7,148 thousand for the year ended 31 December 2014).

### **Corporate Governance**

The Bank recognises the importance of maintaining sound corporate governance practices. The relationship between the Bank's management, shareholders, employees and third parties including customers, legal authorities, suppliers and various other individuals and institutions with whom the Bank does business are based upon fundamental governance principles including integrity, credibility, non-discrimination, compliance, confidentiality, transparency, accountability and sustainability.

### **CMB Corporate Governance Principles**

On 3 January 2014, the CMB issued the Corporate Governance Communiqué to replace the Communiqué on the Determination and Implementation of Corporate Governance Principles Series IV, No. 56 dated 30



December 2011 and Communiqué on the Principles Applicable to Joint Stock Companies Subject to Capital Markets Law Series IV, No. 41 dated 19 March 2008. The Corporate Governance Communiqué provides certain mandatory and non-mandatory corporate governance principles as well as rules regarding related-party transactions and a company's investor relations department. Some provisions of the Corporate Governance Communiqué are applicable to all companies incorporated in Turkey and listed on the BİST, whereas some others are applicable solely to companies whose shares are traded in certain markets of the BİST. The Corporate Governance Communiqué provides specific exemptions and/or rules applicable to banks that are traded on the BİST.

As of the date of this Base Prospectus, the Bank is subject to the corporate governance principles stated in the banking regulations and the regulations for capital markets that are applicable to banks. In case of any non-compliance with any of the non-mandatory principles applicable to the Bank under the Corporate Governance Communiqué, the Bank is required to explain such non-compliance in its annual Corporate Governance Principles Compliance Report, which is published as part of its annual report.

The Corporate Governance Communiqué contains principles relating to: (a) companies' shareholders, (b) public disclosure and transparency, (c) the stakeholders of companies and (d) the board of directors. A number of principles are compulsory, while the remaining principles apply on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalisation and the market value of their free-float shares, subject to recalculation on an annual basis. The Bank is classified as a "2 Group" company.

The Capital Markets Law authorises the CMB to require listed companies to comply with the corporate governance principles in whole or in part and to take certain measures with a view to ensure compliance with the new principles, which include requesting injunctions from the court or filing lawsuits to determine or to revoke any unlawful transactions or actions that contradict these principles.

## OWNERSHIP

The Bank was established in 1950 as a development and investment bank with the mission to finance Turkey's private sector investments.

As of 31 December 2015: (a) the majority shareholder of the Bank, with a 50.33 per cent. shareholding, was İşbank Group (with 40.85 per cent. held directly by İşbank and the remainder held through its subsidiaries, including 5.80 per cent. held by Camiș Yatırım), (b) 8.38 per cent. of the Bank's shares were held by Vakıfbank, (c) 39.3 per cent. of the Bank's shares were traded publicly on the BİST (59.3 per cent. of which was owned by foreign investors) and (d) the remaining shares were owned by other institutional shareholders.

As of 31 December 2015, the share capital of the Bank was TL 1,750,000,000, consisting of 1,750,000,000 fully paid-up shares. Registered shareholdings in the Bank as of 31 December 2015 were as follows:

Shareholder <sup>(1)</sup>	Shares <sup>(2)</sup>	Percentage
İşbank .....	709,252,692.9	40.85% <sup>(3)</sup>
Vakıfbank .....	146,605,949.9	8.38%
Camiș Yatırım .....	101,438,549.1	5.80%
Public Free Float and Others .....	792,702,808.1	44.97%
Total .....	1,750,000,000.0	100.00%

Notes:

- (1) According to data from the Public Disclosure Platform (Kamuyu Aydınlatma Platformu) (KAP) as of 31 December 2015.
- (2) Each share has a nominal value of one Kuruş. One hundred Kuruş are equal to one Turkish Lira.
- (3) İşbank Group holds 50.33 per cent. of the Bank's shares, with 40.85 per cent. of the shares being held directly and the remainder being held by Camiș Yatırım (5.80 per cent.), Milli Reasürans (1.90 per cent.), Anadolu Sigorta (0.89 per cent.) and Anadolu Hayat Emeklilik (0.89 per cent.), the latter three of which are reflected in the table above in "Public Free Float and Others". The calculation of İşbank Group's ownership includes shares purchased by İşbank in the free float of the Bank's shares on the BİST in December 2015.

## Dividends

Dividends are paid by the Bank from its net profit in accordance with its articles of incorporation. Under its articles of incorporation, the Bank is required to allocate 5 per cent. of its net profit towards its legal reserve fund. From the balance of net profit, a "first dividend" is distributed to the shareholders according to the Capital Markets Law. Once the first dividend is provided for, the balance of the net profit is distributed as follows: 5 per cent. for founder shares (limited to TL 200,000 of paid-up capital), up to 0.5 per cent. for the members of the Board of Directors (including the Chief Executive Officer and excluding the Independent Board Member) to be shared among them equally, up to 3 per cent. for the employees of the Bank; provided that such amount does not exceed the equivalent of three salaries. The General Assembly is authorised to decide whether the amount remaining from the net profit after the reserve funds and payments indicated above shall be completely or partially distributed as dividends or reserved as a reserve fund. The Bank's articles of incorporation require that 10 per cent. of the total amount to be distributed to shareholders out of profit is required to be added to the Bank's legal reserve fund.

The Bank distributed, TL 65 million, TL 72 million and TL 52.5 million in cash dividends with respect to 2013, 2014 and 2015, respectively.

## **Preferential rights**

Under the Bank's articles of incorporation, existing shareholders have preferential rights with respect to the purchase of new shares to be issued by the Bank. The duration and conditions of the exercise of these rights is to be determined by the Board of Directors in accordance with the relevant Turkish regulations. To the extent that these preferential rights are not exercised in respect of any new shares within the prescribed period, these shares are to be made available for subscription by the public.

## **Voting rights**

At least one share is needed for participating in any Ordinary or Extraordinary General Assembly. Each share provides one vote to its owner. Votes may be cast by proxy.

In accordance with the Turkish Commercial Law (No. 6102) and the Turkish Code of Obligations (Law No. 6098), each share exercises its voting right in proportion to its total nominal value. Accordingly, each share with a nominal value of 1 Kuruş has 1 share of voting right.

## **Major Shareholders**

### **İşbank**

İşbank was established under the laws of the Republic of Turkey in 1924 at the initiative of Mustafa Kemal Atatürk as the first national bank of Turkey to operate in all kinds of banking activities and to initiate and/or participate in all kinds of financial and industrial sector undertakings. As of 31 December 2015, İşbank was the largest bank in Turkey in terms of total loans, Turkish Lira-denominated loans, foreign currency-denominated loans and total deposits, Turkish Lira-denominated deposits and foreign currency-denominated deposits among private sector banks (source: BRSA), each as measured on a bank-only basis. İşbank Group holds 50.33 per cent. of the Bank's shares (both directly and through its subsidiaries, including Camiș Yatırım) and appoints seven members to the Bank's Board of Directors, including the CEO.

### **Camiș Yatırım**

Camiș Yatırım is a holding company and is a wholly-owned subsidiary of İşbank. As a result, the shares of the Bank held by Camiș Yatırım should also be considered as being indirectly owned and controlled by İşbank.

### **Vakıfbank**

Founded in 1954, Vakıfbank is a full service commercial and retail bank, and as of 31 December 2015, was the seventh largest Turkish bank in terms of assets, loans and deposits and sixth in terms of branch network according to the BRSA, BAT and bank data. Vakıfbank's market share in total assets was 7.8 per cent. as of 31 December 2015 (Source: BRSA and bank data) and its lending market share was 8.2 per cent. as of the same date. Vakıfbank appoints one member to the Board of Directors.

## **Free Float and Other Shareholders**

As of 31 December 2015, 39.3 per cent. of the Bank's total shares were on free float, of which 59.3 per cent. was owned by foreign investors.

The remaining 2.0 per cent. shares are owned by other institutional shareholders.

## RELATED PARTY TRANSACTIONS

The Bank and its qualified shareholders, Board of Directors (including the Chief Executive Officer) and the undertakings that they control individually or jointly, directly or indirectly, or in which they participate with unlimited responsibility or where they are members of board of directors or general manager are considered and referred to as related parties. The Bank enters into transactions with related parties in the ordinary course of its business and on an arm's length basis and will continue to do so in the future. See also "*Business of the Group — Related Party Transactions*".

Restrictions relating to loans extended by the Bank to the members of its Board of Directors are defined in Article 50 of the Banking Law. The Bank does not extend loans to the members of its Board of Directors other than those allowed by the law.

None of the members of the Bank's Board of Directors or executive officers has or has had any interest in any transaction effected by the Bank and that are or were unusual in their nature or conditions or significant to the business of the Bank and that were effected during the current or immediately preceding financial year or were effected during an earlier financial year and remain in any respect outstanding or unperformed. None of these individual transactions are material.

The Banking Law places limits on a bank's exposure to related parties. Under the Banking Law, the total amount of loans extended by a bank to its risk group must not be more than 20 per cent. of its equity. The Bank is not subject to this requirement, as the Bank is a development and investment bank. Nevertheless, the Bank is technically within the limits of the Banking Law in terms of its exposure to its subsidiaries and other affiliates. As of 31 December 2015, the Bank's total net exposure to its risk group totalled TL 485 million, an amount corresponding to 17 per cent. of its equity.

The following table shows the breakdown of the Group's business transactions with related parties as of the dates indicated.

	31 December					
	2013		2014		2015	
	Amount	Percentage of Related Item	Amount	Percentage of Related Item	Amount	Percentage of Related Item
	<i>(TL thousands, except percentages)</i>					
Cash loans .....	290,027	3.2%	271,858	2.5%	484,797	3.6%
Non-cash loans .....	117,675	8.1%	117,676	8.1%	117,734	6.6%
Derivatives .....	—	—	97,317	1.0%	116,656	1.0%

## TURKISH BANKING SYSTEM

*The following information relating to the Turkish banking sector has been provided for background purposes only. The information has been extracted from third-party sources that the Bank's management believes to be reliable but the Bank has not independently verified such information.*

### **Structural Changes in the Turkish Banking System**

The Turkish financial sector has gone through major structural changes as a result of the financial liberalisation programme that started in the early 1980s. The abolition of directed credit policies, liberalisation of deposit and credit interest rates and liberal exchange rate policies as well as the adoption of international best standard banking regulations have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced a significant expansion and development in the number of banks, employment in the sector, diversification of services and technological infrastructure. The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several institutions. The banking sector also experienced a sharp reduction in shareholders' equity in 2001, with the capital for 22 private sector banks declining to U.S.\$4,916 million at the end of 2001 from U.S.\$8,056 million for 28 banks at the end of 2000, according to the Turkish Banks Association.

The Turkish money markets and foreign exchange markets have stabilised since 2001, in large part due to regulatory reform and other governmental actions (including a three-part audit undertaken in 2001 and 2002, after which all private commercial banks were either found to be in compliance with the 8 per cent. minimum capital requirement, transferred to the SDIF or asked to increase their capital level). The transparency of the system has improved along with the establishment of an independent supervisory and regulatory framework and new disclosure requirements. Structural changes undertaken have strengthened the banking sector and resulted in a more level playing field among banks. Certain advantages for state banks were diminished while the efficiency of the system increased in general as a result of consolidation. According to the SDIF's official data, since 1994, a total of 25 private banks have been transferred to the SDIF due to, among other things, weakened financial stability and liquidity, and efforts are continuing on the resolution of the SDIF banks while restructuring and privatisation of the state banks is progressing.

In August 2004, in an attempt to reduce the regulatory costs inherent in the Turkish banking system, the government reduced the rate of the Resource Utilisation Support Fund ("RUSF") applicable on short-term foreign currency commercial loans lent by banks domiciled in Turkey to zero; however, the 3 per cent. RUSF charge for some types of loans provided by banks outside of Turkey with an average repayment term of less than one year remains valid. In addition, effective from 2 January 2013, RUSF rates for cross-border foreign exchange borrowings extended by financial institutions outside of Turkey with an average maturity of between one to two years changed from 0 per cent. to 1 per cent. and those with an average maturity of between two to three years changed from 0 per cent. to 0.5 per cent., while those with an average maturity of three years or more remained at 0 per cent. The government also increased the RUSF charged on interest of foreign currency- denominated retail loans from 10 per cent. to 15 per cent. in order to curb domestic demand fuelled by credit, which was in turn perceived to be adversely affecting Turkey's current account balance. The Council of Ministers set the RUSF charged on consumer credits to be utilised by real persons (for non-commercial utilisation) to 15 per cent. with its decision numbered 2010/974, which was published in the Official Gazette dated 28 October 2010 and numbered 27743.

## The Turkish Banking Sector

The Turkish banking industry has undergone significant consolidation over the past decade with the total number of banks (including deposit-taking banks, investment banks and development banks) declining from 81 in 1999 to 45 on 31 December 2008, which stayed at that level until February 2011 when Fortis Bank A.Ş. merged with Türk Ekonomi Bankası A.Ş. In October 2012, Odea Bank A.Ş. commenced operations and Standard Chartered Bank purchased Credit Agricole Yatırım Bankası Türk Anonim Şirketi. In December 2012, the Burgan Bank Group became Eurobank Tekfen Bank's majority shareholder with its acquisition of a 99.26 per cent. stake as a result of its purchase of shares previously belonging to Eurobank and Tekfen Holding. In January 2013, Eurobank Tekfen Bank began doing business under its new name, Burgan Bank A.Ş., following completion of formalities pertaining to the change of the bank's legal name. After obtaining regulatory approval in May 2015, Industrial and Commercial Bank of China acquired 75.50 per cent. of the shares of Tekstil Bank A.Ş. from GSD Holding A.Ş. In December 2015, National Bank of Greece entered into an agreement with Qatar National Bank regarding the sale of its entire stake in Finansbank A.Ş., which sale was approved by the BRSA on 7 April 2016. In addition, on 20 December 2012, the BRSA resolved to permit the establishment of a new deposit bank to be controlled by Bank of Tokyo-Mitsubishi UFJ Ltd, the operating license for which was given by the Banking Regulation and Supervision Board decision in September 2013. Portigon AG, which ceased its operations in Turkey on August 2013, entered into a liquidation process on 15 November 2013. The BRSA announced its approval of the establishment of Rabobank A.Ş. on 1 August 2014 and its approval of its operating license on 4 September 2014. It also approved the establishment and operation of Ziraat Katılım Bankası A.Ş. on 10 October 2014 and 12 May 2015, respectively. Most recently in February 2016, the BRSA granted permission to Vakıf Katılım Bankası A.Ş. to start operations as a participation bank. A number of banks were transferred to the SDIF and eventually removed from the banking system through mergers or liquidations. The table below shows the evolution of the number of banks in the Turkish banking system as of the end of each indicated year:

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Number of banks <sup>(1)</sup> .....	46	46	45	45	45	44	45	45	47	47

Source: Turkish Banks Association ([www.tbb.org.tr](http://www.tbb.org.tr))

Note:

(1) Total number of banks includes deposit-taking banks, investment banks and development banks, but excludes participation banks (Islamic banks).

As of 31 December 2015, 52 banks (including domestic and foreign banks, including participation banks, but excluding the Central Bank) were operating in Turkey. 34 of these were deposit-taking banks, 13 (including the Bank) were development and investment banks, and five were participation banks, which conduct their business under separate legislation in accordance with Islamic banking principles. Among the deposit-taking banks, three were state-controlled banks, 11 were private domestic banks, one was under the administration of the SDIF and 19 were private foreign banks. On 3 February 2015, the SDIF took over management of Asya Katılım Bankası A.Ş. ("Bank Asya"), a private participation bank. The BRSA announced that this action was taken due to Bank Asya's violation of a provision of the Banking Law that requires banks to have a transparent and open shareholding and organisational structure that does not obstruct the efficient auditing of the bank by the BRSA. On 29 May 2015, the BRSA announced that shareholding rights (except dividends), management and audit of Bank Asya were to be transferred to the SDIF for partial or full transfer, sale or merger of the bank pursuant to Article 71 of the Banking Law; provided that any loss shall be deducted from the shares of the existing shareholders. Following the BRSA's permission granted to Vakıf Katılım Bankası A.Ş. in February 2016 to operate as a participation bank, the number of participation banks operating in Turkey increased to six.

The Banking Law permits deposit-taking banks to engage in all fields of financial activities, including deposit collection, corporate and consumer lending, foreign exchange transactions, capital market activities and securities trading. Typically, major commercial banks have nationwide branch networks and provide a full range of banking services, while smaller commercial banks focus on wholesale banking. The main objectives of development and investment banks are to provide medium-and long-term funding for investment in different sectors.

Deposit-taking Turkish banks' total balance sheets have grown at a compound average growth rate ("CAGR") of 18.6 per cent. from 31 December 2007 to 31 December 2015, driven by loan book expansion and customer deposits growth, which increased by a CAGR of 22.6 per cent. and 16.6 per cent., respectively, between 31 December 2007 and 31 December 2015, in each case according to the BRSA. Despite strong growth of net loans and customer deposits since 2007, the Turkish banking sector remains significantly under-penetrated compared with banking penetration in the eurozone. Loans/GDP and deposits/GDP ratios of the Turkish banking sector were 71.5 per cent. and 60.2 per cent., respectively, as of 31 December 2014 according to BRSA data, whereas the eurozone's banking sector had loan and deposit penetration ratios of 164 per cent. and 157 per cent., respectively, as of the same date based upon the European Central Bank's data.

The following table shows key indicators for the banking sector (deposit banks only) in Turkey as of (or for the period ended on) the indicated dates.

	As of (or for the year ended) 31 December								
	2008	2009	2010	2011	2012	2013	2014	2015	CAGR <sup>(1)</sup>
	<i>(TL millions, except CAGR<sup>(1)</sup>)</i>								
<b>Balance sheet</b>									
Loans.....	338,091	355,285	479,018	621,379	716,307	939,772	1,118,887	1,339,149	22.6%
Total assets.....	683,823	773,357	932,371	1,119,911	1,247,653	1,566,190	1,805,426	2,130,600	18.6%
Deposits.....	435,554	487,909	583,947	656,276	724,296	884,457	987,463	1,171,251	16.6%
Shareholders' equity.....	72,060	98,833	114,979	123,007	157,553	165,954	201,116	228,142	17.1%
<b>Income statement</b>									
Net Interest Income .....	28,245	38,758	35,895	36,056	47,837	52,353	59,705	70,409	14.4%
Net Fees and Commission Income.....	9,611	10,846	11,459	13,345	14,704	17,444	19,355	21,037	13.0%
Total income.....	45,339	57,275	58,955	61,669	73,831	84,397	91,116	102,979	12.6%
Net Profit.....	11,851	18,490	20,518	18,177	21,539	22,473	22,935	23,886	7.4%
<b>Key ratios</b>									
Loans/deposits.....	77.6%	72.8%	82%	94.7%	98.9%	106.3%	116.6%	118.0%	
Net interest margin .....	4.6%	5.4%	4.3%	3.4%	4.1%	3.7%	3.6%	3.5%	
Return on average equity	19.9%	25.2%	22.2%	16.8%	16.8%	15.1%	13.2%	12.0%	
Capital adequacy ratio ..	16.6%	19.3%	17.7%	15.5%	17.3%	14.6%	15.7%	15.0%	

Source: BRSA monthly bulletin ([www.bddk.org.tr](http://www.bddk.org.tr))

Note:

- (1) CAGR is calculated by dividing the ending value by the initial value, raising the result to the power of one divided by the period length and subtracting one from the subsequent result.

## Competition

The Turkish banking industry is highly competitive and relatively concentrated with the top 10 deposit-taking banks accounting for 80.6 per cent. of total assets of deposit-taking banks as of 31 December 2015 according to the BRSA. Among the top 10 Turkish banks, there are three state-controlled banks – Ziraat Bank, HalkBank and Vakıfbank, which were ranked first, sixth and seventh, respectively, in terms of total assets as of 31 December 2015 according to the bank-only financials published in the Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)). These three state-controlled banks accounted for 32.2 per cent. of deposit-taking Turkish banks' performing loans and 33.6 per cent. of customer deposits as of 31 December 2015. The top four privately-owned domestic banks are İşbank, Türkiye Garanti Bankası A.Ş. ("Garanti"), Akbank A.Ş. ("Akbank") and Yapı ve Kredi Bankası A.Ş., which in total accounted for approximately 46.2 per cent. of deposit-taking Turkish banks' performing loans and approximately 45.0 per cent. of customer deposits as of 31 December 2015 according to the BRSA. The remaining banks in the top 10 deposit-taking banks in Turkey include three mid-sized banks, namely Finansbank A.Ş., Türk Ekonomi Bankası and Denizbank A.Ş., which were controlled by National Bank of Greece, TEB Holding and Sberbank, respectively, as of 31 December 2015. National Bank of Greece entered into an agreement with Qatar National Bank in December 2015 regarding the sale of its entire stake in Finansbank A.Ş., which sale was approved by the BRSA on 7 April 2016.

The Bank's management perceives: (a) leading commercial banks, such as Akbank and Garanti, which provide foreign exchange loans, (b) the state-owned banks, such as Halkbank and Vakıfbank, which are capable of borrowing from supranational institutions with the guarantee from the Turkish Treasury, and (c) other development banks, such as Türkiye İhracat ve Kredi Bankası A.Ş. and Türkiye Kalkınma Bankası A.Ş. (Development Bank of Turkey), as its primary competitors.

As of 31 December 2015, the Bank ranked 19th among Turkish banks in terms of assets according to figures published by the BRSA. As of 31 December 2015, the market share of the Bank in long-term foreign exchange denominated commercial loans was 2.3 per cent. in the banking sector. As the Bank has an important presence in energy loans, the market share of the Bank in such sector was approximately 5.6 per cent. as of the same date.



## **TURKISH REGULATORY ENVIRONMENT**

### **Regulatory Institutions**

Turkish banks (including development and investment banks such as the Bank) and branches of foreign banks in Turkey are primarily governed by two regulatory authorities in Turkey, the BRSA and the Central Bank.

### **The Role of the BRSA**

In June 1999, the Banks Act No. 4389 (which has been replaced by the Banking Law) established the BRSA, which is responsible for ensuring that banks observe banking legislation, supervising the application of banking legislation and monitoring the banking system. The BRSA has administrative and financial autonomy.

Articles 82 and 93 of the Banking Law state that the BRSA, having the status of a public legal entity with administrative and financial autonomy, is established in order to ensure application of the Banking Law and other relevant acts, to ensure that savings are protected and to carry out other activities as necessary by issuing regulations within the limits of the authority granted to it by the Banking Law. The BRSA is obliged and authorised to take and implement any decisions and measures in order to prevent any transaction or action that could jeopardise the rights of depositors and the regular and secure operation of banks and/or could lead to substantial damages to the national economy, as well as to ensure efficient functioning of the credit system.

The BRSA has responsibility for all banks operating in Turkey, including development and investment banks (including the Bank), foreign banks and participation banks. The BRSA sets various mandatory ratios such as reserve levels, capital adequacy and liquidity ratios. In addition, all banks must provide the BRSA, on a regular and timely basis, information adequate to permit off-site analysis by the BRSA of such bank's financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis, depending upon the nature of the information to be reported.

The BRSA conducts both on-site and off-site audits and supervises implementation of the provisions of the Banking Law and other legislation, examination of all banking operations and analysis of the relationship and balance between assets, receivables, equity capital, liabilities, profit and loss accounts and all other factors affecting a bank's financial structure. The BRSA's on-site supervision is conducted through a team of sworn bank auditors and other experts who are employed by the BRSA. In addition, the chairman of the BRSA has the authority to commission independent audit teams to examine specific matters within any bank that the chairman deems appropriate.

Pursuant to the Regulation regarding the Internal Systems and Internal Capital Adequacy Assessment Process of Banks, as issued by the BRSA and published in the Official Gazette dated 11 July 2014 and numbered 29057 (the "ICAAP Regulation"), banks are obligated to establish, manage and develop (for themselves and all affiliates that they consolidate) internal audit, internal control and risk management systems commensurate with the scope and structure of their organisations, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal control personnel cannot also be appointed to work in a role conflicting with their internal control duties.

### **The Role of the Central Bank**

The Central Bank was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, implementation of the government's fiscal and monetary policies, maintenance of

price stability and continuity, regulation of the money supply, management of official gold and foreign exchange reserves, monitoring of the financial system and advising the government on financial matters. The Central Bank exercises its powers independently of the government. The Central Bank is empowered to determine the inflation target together with the government, and to adopt a monetary policy in compliance with such target. The Central Bank is the only authorised and responsible institution for the implementation of such monetary policy.

The Central Bank has responsibility for all banks operating in Turkey, including development and investment banks (including the Bank) and foreign banks. The Central Bank sets mandatory reserve levels. In addition, each bank must provide the Central Bank, on a current basis, information adequate to permit off-site evaluation of its financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis depending upon the nature of the information to be reported.

### **Turkish Banks Association**

The Turkish Banks Association is an organisation that provides limited supervision of and coordination among banks (excluding the participation banks) operating in Turkey. All banks (excluding the participation banks) in Turkey are obligated to become members of this association. As the representative body of the banking sector, the association aims to examine, protect and promote its members' professional interests; however, despite its supervisory and disciplinary functions, it does not possess any powers to regulate banking.

### **Shareholdings**

The direct or indirect acquisition by a person of shares that represent 10 per cent. or more of the share capital of any bank or the direct or indirect acquisition or disposition of such shares by a person if the total number of shares held by such person increases above or falls below 10 per cent., 20 per cent., 33 per cent. or 50 per cent. of the share capital of a bank, requires the permission of the Banking Regulation and Supervision Board (the "BRSB") in order to preserve full voting and other shareholders' rights associated with such shares. In addition, irrespective of the thresholds above, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee (or the issuance of new shares with such privileges) is also subject to the authorisation of the BRSB. In the absence of such authorisation, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders' rights with respect to the shares but not of the right to collect dividends declared on such shares. Additionally, the transfer of an amount of shares exceeding the above thresholds of legal persons who, directly or indirectly, own 10 per cent. or more of the capital of a bank are (under the terms and conditions mentioned above) subject to the permission of the BRSB. The BRSB's permission might be given on the condition that the person who acquires the shares possesses the qualifications required for a founder of a bank. In a case in which such shares of a bank (including a development and investment bank such as the Bank) are transferred without the permission of the BRSB, the shareholder rights of the legal person stemming from these shares, other than dividends, shall be exercised by the SDIF.

The board of directors of a bank is responsible for taking necessary measures to ascertain that shareholders attending general assemblies have obtained the applicable authorisations from the BRSB. If the BRSA determines that a shareholder has exercised voting or other shareholders' rights (other than the right to collect dividends) without due authorisation as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to start the procedure to cancel such applicable general assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the

Banking Law if such procedure has not been started yet). If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without authorisation by the BRSB. In the case that the procedure to cancel such general assembly resolutions is not yet started, or such transfer of shares is not deemed appropriate by the BRSA even though the procedure to cancel such general assembly resolutions is started, then, upon the notification of the BRSA, the SDIF has the authority to exercise such voting and other shareholders' rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

## **Loan Loss Reserves**

Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables and to reserve an adequate level of provisions against impairment in the value of other assets, for qualification and classification of assets, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring loans, follow-up procedures and the repayment of overdue loans. Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans and other receivables in accordance with this article are considered as expenditures deductible from the corporate tax base in the year they are set aside.

Procedures relating to loan loss reserves for non-performing loans are set out in Article 53 of the Banking Law and in regulations issued by the BRSA. Pursuant to the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside published in the Official Gazette No. 26333 on 1 November 2006 and amended from time to time thereafter (the "Regulation on Provisions and Classification of Loans and Receivables"), banks are required to classify their loans and receivables into one of the following groups:

- (a) *Group I: Loans of a Standard Nature and Other Receivables*: This group involves loans and other receivables:
  - (i) that have been disbursed to natural persons and legal entities with financial creditworthiness;
  - (ii) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor;
  - (iii) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and that can be fully collected; and
  - (iv) for which no weakening of the creditworthiness of the applicable debtor has been found.

The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; however, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, general loan provisions of not less than five times the sum of 1 per cent. of the cash loan portfolio (except for: (a) loans provided to finance: (i) transit trade, (ii) sales and deliveries that are deemed to be exports and (iii) services and activities in return for foreign currency denominated consideration, for which the general loan loss reserve is calculated at 0 per cent., and (b) SME loans, for which the general loan loss reserve is calculated at five times 0.5 per cent.) are required to be set aside, and such modifications are required to be disclosed under the financial reports to be disclosed to the public. This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below) for amended consumer loan agreements (other than housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short-term

loan and the interest payments thereof are made in a timely manner; provided that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

- (b) *Group II: Loans and Other Receivables Under Close Monitoring:* This group involves loans and other receivables:
- (i) that have been disbursed to natural persons and legal entities with financial creditworthiness and for the principal and interest payments of which there is no problem at present, but which need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable materialisation of the latter or significant financial risk carried by the person utilizing the loan;
  - (ii) whose principal and interest payments according to the conditions of the loan agreement are not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might result in partial or full non-reimbursement risk;
  - (iii) that are very likely to be repaid but the principal and interest due dates are delayed for more than 30 days for justifiable reasons but not falling within the scope of “Loans and other Receivables with Limited Recovery” set forth under Group III below; or
  - (iv) although the standing of the debtor has not weakened, there is a high likelihood of weakening due to the debtor’s irregular and unmanageable cash flow.

If a loan customer has multiple loans and one or more of these loans is classified in Group II and others are classified in Group I, then all of such customer’s loans are required to be classified in Group II. The terms of a bank’s loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; however, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, general loan provisions of not less than 2.5 times the sum of 2 per cent. of the cash loan portfolio and 2.5 times 0.4 per cent. of the total non-cash loan portfolio (i.e. letters of guarantee, avals and their sureties, and other non-cash loans) is required to be set aside and such modifications are required to be disclosed under the financial reports to be disclosed to the public. This ratio is required to be at least 1.25 times the Consumer Loans Provisions for amended consumer loan agreements (other than housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner; provided that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

- (c) *Group III: Loans and Other Receivables with Limited Recovery:* This group involves loans and other receivables:
- (i) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and in case the problems observed are not eliminated, they are likely to cause loss;
  - (ii) the credibility of whose debtor has weakened and where the loan is deemed to have weakened;
  - (iii) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date; or
  - (iv) in connection with which the bank is of the opinion that collection by the bank of the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to

reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.

- (d) *Group IV: Loans and Other Receivables with Suspicious Recovery:* This group involves loans and other receivables:
- (i) that seem unlikely to be repaid or liquidated under existing conditions;
  - (ii) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement;
  - (iii) whose debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss due to such factors as a merger, the possibility of finding new financing or a capital increase; or
  - (iv) there is a delay of more than 180 days but not more than one year from the due date in the collection of the principal or interest or both.
- (e) *Group V: Loans and Other Receivables Considered as Losses:* This group involves loans and other receivables:
- (i) that are deemed to be uncollectible;
  - (ii) collection of whose principal or interest or both has been delayed by one year or more from the due date; or
  - (iii) for which, although sharing the characteristics stated in Groups III and IV, the bank is of the opinion that they have become weakened and that the debtor has lost creditworthiness due to the strong possibility that it will not be possible to fully collect the amounts that have become due and payable within a period of over one year.

Pursuant to Article 53 of the Banking Law, banks must calculate the losses that have arisen, or are likely to arise, in connection with loans and other receivables. Such calculations must be regularly reviewed. Banks must also reserve adequate provisions against depreciation or impairment of other assets, qualify and classify assets, receive guarantees and security and measure the reliability and the value of such guarantees and security. In addition, banks must monitor loans under review and monitor the repayment of overdue loans and establish and operate systems to perform these functions. All provisions set aside for loans and other receivables in accordance with this article are considered expenditures deductible from the corporate tax base in the year they are set aside. Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks are required to reserve adequate provisions for loans and other receivables until the end of the month in which the payment of such loans and receivables has been delayed.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks are required to reserve adequate provisions for loans and other receivables until the end of the month in which the payment of such loans and receivables has been delayed. This regulation also requires Turkish banks to provide a general reserve calculated at 1 per cent. of the total cash loan portfolio plus 0.2 per cent. of the total non-cash loan portfolio (i.e. letters of guarantee, avals and their sureties and other non-cash loans) (except for: (a) cash and non-cash loans relating to transit trade, export sales and deliveries and services and activities resulting in gains of foreign currency, for which the general loan loss reserve is calculated at 0 per cent., and (b) cash and non-cash SME loans, for which the general loan loss reserve is calculated at 0.5 per cent. and 0.1 per cent., respectively) for standard loans defined in Group I above; and a general reserve calculated at 2 per cent. of the total cash loan portfolio plus 0.4 per cent. of the total non-cash loan portfolio (i.e. letters of guarantee, avals and their sureties and other non-cash loans) for closely-monitored loans defined in Group II above.

For each check slip that was delivered by a bank at least five years previously, 25 per cent. of these (non-cash) rates will be applied. Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, at least 40 per cent. of the general reserve amount calculated according to the above-mentioned ratios had to be reserved by 31 December 2012, at least 60 per cent. had to be reserved by 31 December 2013, at least 80 per cent. shall be reserved by 31 December 2014 and 100 per cent. shall be reserved by 31 December 2015.

Banks with consumer loan ratios greater than 25 per cent. of their total loans and banks with non-performing consumer loan (classified as frozen receivables (excluding housing loans)) ratios greater than 8 per cent. of their total consumer loans (excluding housing loans) (pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) are required to set aside a 4 per cent. general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group I, and an 8 per cent. general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group II (the “Consumer Loans Provisions”).

If the sum of the letters of guarantee, acceptance credits, letters of credit undertakings, endorsements, purchase guarantees in security issuances, factoring guarantees or other guarantees and sureties and pre-financing loans without letters of guarantee of a bank is higher than ten times its equity calculated pursuant to banking regulations, a 0.3 per cent. general provision ratio is required to be applied by such bank for all of its standard non-cash loans. Notwithstanding the above ratio and by taking into consideration the standard capital adequacy ratio, the BRSA may apply the same ratio or a higher ratio as the general reserve requirement ratio.

Turkish banks are also required to set aside general provisions for the amounts monitored under the accounts of “Receivables from Derivative Financial Instruments” on the basis of the sums to be computed by multiplying them by the rates of conversion into credit indicated in Article 12 of the “Regulation on Loan Transactions of Banks” (published in the Official Gazette No. 26333 on 1 November 2006) by applying the general provision rate applicable for cash loans. In addition to the general provisions, special provisions must be set aside for the loans and receivables in Groups III, IV and V at least in the amounts of 20 per cent., 50 per cent. and 100 per cent., respectively. An amount equal to 75 per cent. less special provisions is set aside for each check slip of customers who have loans under Groups III, IV and V, which checks were delivered by the Bank at least five years previously; however, if a bank sets aside specific provisions at a rate of 100 per cent. for non-performing loans, then it does not need to set aside specific provisions for check slips that were delivered by such bank at least two years previously; provided that a registered letter has been sent to the relevant customer requiring it to return the check slips to the bank in no later than 15 days.

Pursuant to these regulations, all loans and receivables in Groups III, IV and V above, irrespective of whether any interest or other similar obligations of the debtor are applicable on the principal or whether the loans or receivables have been refinanced, are defined as “frozen receivables”. If several loans have been extended to a loan customer by the same bank and if any of these loans is considered as a frozen receivable, then all outstanding risks of such loan customer are classified in the same group as the frozen receivable even if such loans would not otherwise fall under the same group as such frozen receivable. If a frozen receivable is repaid in full, then the other loans of the loan customer may be re-classified into the applicable group as if there were no related frozen receivable.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, the BRSA is entitled to increase these provision rates taking into account the sector and country risk status of the borrower.

Banks must also monitor the following types of security based upon their classification:

**Category I Collateral:** (a) cash, deposits, profit sharing funds and gold deposit accounts that are secured by pledge or assignment agreements, promissory notes, debenture bonds and similar securities issued directly or guaranteed by the Central Bank, the Treasury, the Housing Development Administration of Turkey or the Privatisation Administration and funds gained from repo transactions over similar securities and B-type

investment profit sharing funds, member firm receivables arising out of credit cards and gold reserved within the applicable bank, (b) transactions executed with the Treasury, the Central Bank, the Housing Development Administration of Turkey or the Privatisation Administration and transactions made against promissory notes, debenture bonds, lease certificates and similar securities issued directly or guaranteed by such institutions, (c) securities issued directly or guaranteed by the central governments or central banks of countries that are members of the Organisation for Economic Co-operation and Development (the “OECD”), (d) guarantees and sureties given by banks operating in OECD member states, (e) securities issued directly or guaranteed by the European Central Bank, (f) sureties, letters of guarantee, avals and acceptance and endorsement of non-cash loans issued by banks operating in Turkey in compliance with their maximum lending limits and (g) bonds, debentures and covered bonds issued, or lease certificates the underlying assets of which are originated, by banks operating in Turkey.

**Category II Collateral:** (a) precious metals other than gold, (b) shares quoted on a stock exchange and A-type investment profit sharing funds, (c) asset-backed securities and private sector bonds except ones issued by the borrower, (d) credit derivatives providing protection against credit risk, (e) the assignment or pledge of accrued entitlements of real and legal persons from public agencies, (f) liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at market value, (g) mortgages on real property registered with the land registry and mortgages on real property built on allocated real estate, provided that their appraised value is sufficient, (h) export documents based upon marine bill of lading or transport bills, or insured within the scope of an exportation loan insurance policy, (i) bills of exchange stemming from actual trading relations, which are received from natural persons and legal entities, (j) commercial receivable insurance policies, and (k) Credit Guarantee Fund sureties which do not have Treasury Undersecretariat support.

**Category III Collateral:** (a) commercial enterprise pledges, (b) other export documents, (c) vehicle pledges, (d) mortgages on aircraft or ships, (e) sureties from real or legal persons whose creditworthiness is higher than the debtor itself and (f) other promissory notes of real and legal persons.

**Category IV Collateral:** any other security not otherwise included in Category I, II or III.

Assets owned by banks and leased to third parties under financial lease agreements must also be classified in accordance with the above-mentioned categories.

When calculating the special reserve requirements for frozen receivables, the value of collateral received from an applicable borrower is deducted from such borrower’s loans and receivables in Groups III, IV and V above in the following proportions in order to determine the amount of the required reserves:

<b>Category</b>	<b>Discount Rate</b>
Category I collateral .....	100%
Category II collateral.....	75%
Category III collateral .....	50%
Category IV collateral .....	25%

In case the value of the collateral exceeds the amount of the NPL, the above-mentioned rates of consideration are applied only to the portion of the collateral that is equal to the amount of the NPL.

According to Article 11 of the Regulation on Provisions and Classification of Loans and Receivables, in the event of a borrower’s failure to repay loans or any other receivables due to a temporary lack of liquidity that

the borrower is facing, a bank is allowed to refinance the borrower with additional funding in order to strengthen the borrower's liquidity position or to structure a new repayment plan. Despite such refinancing or new repayment plan, such loans and other receivables are required to be monitored in their current loan groups (whether Group III, IV or V) for at least the next six-month period and, within such period, provisions continue to be set aside at the special provision rates applicable to the group in which they are included. After the lapse of such six-month period, if total collections reach at least 15 per cent. of the total receivables for restructured loans, then the remaining receivables are reclassified to the "Renewed/Restructured Loans Account". The bank may refinance the borrower for a second time if the borrower fails to repay the refinanced loan; provided that at least 20 per cent. of the principal and other receivables are collected on a yearly basis.

In addition to the general provisioning rules, the BRSA has from time to time enacted provisional rules relating to exposures to debtors in certain industries or countries (such as current rules that are in place for the maritime industry and for real persons or legal entities residing in or engaged in activities relating to Libya and Syria). In February 2016, the BRSA also published a draft regulation that (if implemented without any further changes) would replace the Regulation on Provisions and Classification of Loans and Receivables from 1 January 2017 in order to ensure compliance (by 1 January 2018) with the requirements of IFRS and the Financial Sector Assessment Programme, which is a joint programme of the International Monetary Fund and World Bank. The proposed regulation would require banks to adopt IFRS 9 principles (unless an exemption is granted by the BRSA) related to the assessment of credit risk by the end of 2017 and to set aside general provisions in line with such principles.

### **Capital Adequacy**

Article 45 of the Banking Law defines "Capital Adequacy" as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, perpetuate and report their capital adequacy ratio, which, within the framework of the BRSA's regulations, cannot be less than 8 per cent.

The BRSA is authorised to increase the minimum capital adequacy ratio and the minimum consolidated capital adequacy ratio, to set different ratios for each bank and to revise the calculation and notification periods, but must consider each bank's internal systems as well as its asset and financial structures. Both the minimum total capital adequacy ratio and the minimum consolidated capital adequacy ratio for the Group as required by the BRSA is currently 8 per cent. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4 per cent. higher than the legal capital ratio of 8 per cent.

In order to implement the rules of the report entitled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee in December 2010 and revised in June 2011 (i.e., Basel III) into Turkish law, the 2013 Equity Regulation and amendments to the 2012 Capital Adequacy Regulation were published in the Official Gazette dated 5 September 2013 and numbered 28756 and entered into force on 1 January 2014. The 2013 Equity Regulation defines capital of a bank as the sum of: (a) principal capital (i.e. Tier I capital), which is composed of core capital and additional principal capital (i.e. additional Tier I capital) and (b) supplementary capital (i.e. Tier II capital) minus capital deductions. Pursuant to the 2012 Capital Adequacy Regulation (as so amended): (i) both the minimum core capital adequacy ratio and the minimum consolidated core capital adequacy ratio are 4.5 per cent. and (ii) both the minimum Tier I capital adequacy ratio and the minimum consolidated Tier I capital ratio are 6.0 per cent.

In addition, the Regulation on the Capital Conservation and Countercyclical Capital Buffer and the Regulation on the Measurement and Evaluation of Leverage Levels of Banks were published in the Official Gazette dated 5 November 2013 and numbered 28812. Both regulations entered into force on 1 January 2014



(with the exception of certain provisions of Regulation on the Measurement and Evaluation of Leverage Levels of Banks which entered into force on 1 January 2015). The Regulation on the Capital Maintenance and Countercyclical Capital Buffer provides additional core capital requirements both on a consolidated and bank-only basis. Pursuant to this regulation, additional core capital requirements are to be calculated by the multiplication of the amount of risk-weighted assets by the sum of a capital maintenance buffer ratio and bank-specific countercyclical buffer ratio. According to this regulation, the capital conservation buffer for banks is 0.625 per cent. for 2016, which will be phased to 2.5 per cent. through 2019. The BRSA published: (a) its decision dated 18 December 2015 No. 6602 regarding the procedures for and principles on calculation, application and announcement of a countercyclical capital buffer and (b) its decision dated 24 December 2015 No. 6619 regarding the determination of such countercyclical capital buffer. Pursuant to these decisions, the countercyclical capital buffer for Turkish banks' exposures in Turkey was initially set at 0 per cent. of a bank's risk-weighted assets in Turkey (effective as of 1 January 2016); however, such ratio might fluctuate between 0 per cent. and 2.5 per cent. as announced from time to time by the BRSA. Any increase to the countercyclical capital buffer ratio is to be effective one year after the relevant public announcement, whereas any reduction is to be effective as of the date of the relevant public announcement. The Regulation on the Measurement and Evaluation of the Leverage Level of Banks seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and bank-only basis against leverage risks.

The BRSA also published the D-SIBs Regulation on 23 February 2016 in line with the requirements of Basel III, introducing a methodology for assessing the degree to which banks are considered to be systemically important to the Turkish domestic market and setting out the additional capital requirements for those banks classified as D-SIBs. The contemplated methodology uses an indicator-based approach to identify and classify D-SIBs in Turkey under four different categories: size, interconnectedness, lack of substitutability and complexity. A score for each bank is to be calculated based upon their 2014 year-end consolidated financial statements by assessing each bank's position against a threshold score to be determined by the BRSA. The BRSA has not yet made a determination as to which banks will be classified as D-SIBs. The D-SIBs Regulation requires banks identified as D-SIBs to maintain a capital buffer depending upon their respective classification. As of 1 January 2019, these buffers are to be applied as 3 per cent. for Group 4 banks, 2 per cent. for Group 3 banks, 1.5 per cent. for Group 2 banks and 1 per cent. for Group 1 banks. In 2016, capital buffer requirements for D-SIBs will be introduced at one-fourth of the full requirements (i.e., Group 4: 0.75 per cent.; Group 3: 0.5 per cent., Group 2: 0.375 per cent. and Group 1: 0.25 per cent.). The buffers are to be fully implemented by 2019 subject to a transitional period as set out below:

<b>Groups</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Group 4 (empty group) .....	0.75%	1.50%	2.25%
Group 3.....	0.50%	1.00%	1.50%
Group 2.....	0.375%	0.75%	1.125%
Group 1.....	0.25%	0.50%	0.75%

Following the amendments to certain regulations and communiqués of the BRSA as published in the Official Gazette dated 23 October 2015 and numbered 29511, the BRSA published several new amendments to its regulations and communiqués on matters such as internal capital adequacy ratios and internal systems (as published in the Official Gazette dated 20 January 2016 and numbered 29599) in accordance with the RCAP, which is conducted by the BIS and reviews Turkey's compliance level with Basel regulations. These new amendments include revisions relating to internal systems and internal capital adequacy ratios entered into

force on 20 January 2016 and to the 2013 Equity Regulation and the 2016 Capital Adequacy Regulation entering into force on 31 March 2016.

The BRSA published the 2016 Capital Adequacy Regulation, which entered into force on 31 March 2016, at which time it replaced the 2012 Capital Adequacy Regulation. The 2016 Capital Adequacy Regulation sustains the capital adequacy ratios introduced by the former regulation, but changes items including: (a) the risk weights of foreign currency required reserves in the Central Bank from 0 per cent. to Turkey's foreign currency risk weight, which is 50 per cent. as of the date of this Base Prospectus, and (b) exclusion of free provision for possible losses from capital calculations. The new amendments to the 2016 Capital Adequacy Regulation lower the risk weights of certain assets, including reducing: (a) the risk weights of loans collateralized by residential real estate from 50 per cent. to 35 per cent. and (b) the risk weights of consumer loans (excluding residential mortgage loans) qualifying as retail loans (*perakende alacaklar*) in accordance with the 2016 Capital Adequacy Regulation and instalment payments of credit cards from a range of 100 per cent. to 250 per cent. (depending upon their outstanding tenor) to 75 per cent. (irrespective of their tenor); provided that such receivables are not re-classified as "non-performing loans". Further changes include a credit valuation adjustment in the calculation of counterparty credit risk and a shift to calculating the risk weight of short term bank and securities firms using the original maturity date rather than the residual maturity date. These revisions are expected to result in a slight decline in the Group's capital adequacy ratio.

Lastly, the Regulation on Liquidity Coverage Ratios, published in the Official Gazette dated 21 March 2014 and numbered 28948, seeks to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. The Regulation on Liquidity Coverage Ratios provides that the ratio of the high quality asset stock to the net cash outflows, both of which are calculated in line with the regulation, cannot be lower than 100 per cent. in respect of total consolidated and unconsolidated liquidity and 80 per cent. in respect of total consolidated and unconsolidated foreign exchange liquidity; however, pursuant to the BRSA decision on Liquidity Ratios dated 26 December 2014 and numbered 6143 (the "BRSA Decision on Liquidity Coverage Ratios"), for a period from 1 January 2016 to 31 December 2016, such ratios are applied as 70 per cent. and 50 per cent., respectively, and, pursuant to the BRSA Decision on Liquidity Coverage Ratios, such ratios shall be applied in increments of ten percentage points for each year from 1 January 2017 until 1 January 2019. Unconsolidated total and foreign currency liquidity coverage ratios cannot be non-compliant more than six times within a calendar year. This includes non-compliance that has already been remedied. With respect to consolidated total and foreign currency liquidity coverage, these cannot be non-compliant consecutively within a calendar year and such ratios cannot be non-compliant for more than two times within a calendar year, including non-compliance that has already been remedied. The BRSA is implementing the transition period provided under Basel regulation for liquidity coverage ratio limits for deposit banks. Investment and development banks will follow 0 per cent. legal liquidity coverage ratio requirements for the year 2016 and the BRSA will establish a special limitation on the ratio for 2017 and following years.

Under the 2013 Equity Regulation, debt instruments and their issuance premia can be included either in additional Tier I capital or in Tier II capital subject to certain conditions; however, such amount is required to be reduced by the amount of any cash credit extended to creditors holding 10 per cent. or more of such debt instruments of a bank (or to any person within such creditors' risk group).

In accordance with Basel III rules and the ICAAP Regulation (which implements Basel III rules), each bank is required to prepare an internal capital adequacy assessment process report ("ICAAP Report") representing its own assessment of its capital requirements. The first ICAAP Report covering the activities of the Bank in 2013 was submitted to the BRSA in September 2014. Subsequent filings of the ICAAP Report are required to be made at the end of March in each year together with the stress test reports, internal audit report and validation report.

See also a discussion of the implementation of Basel III in “— *Basel Committee — Basel III*” below.

## **Tier II Rules under Turkish Law**

*Previous Tier II Rules.* Secondary subordinated debts were, through 31 December 2013, regulated under the 2006 Equity Regulation. This section thus describes the rules previously applicable to the Bank’s secondary subordinated debts that were issued before 1 January 2014, which rules continue to apply to such subordinated debts notwithstanding the 2013 Equity Regulation.

According to the 2006 Equity Regulation, the net worth of a bank (i.e. the bank’s own funds) consists of main capital and supplementary capital minus capital deductions. In the relevant definition, “secondary subordinated loans” (which as defined can also include bonds) are listed as one of the items that constitute a bank’s supplementary capital (i.e. “Tier II” capital); however, loans provided to the banks by their affiliates or debt instruments issued to their affiliates do not fall within the scope of such “secondary subordinated loans”. Unless temporarily permitted by the BRSA in exceptional cases, the portion of primary subordinated debts that is not included in the calculation of “Tier I” capital plus the total secondary subordinated debts that, in aggregate, exceeds 50 per cent. of “Tier I” capital is not taken into consideration in the calculation of “Tier II” capital. During the final five years of a secondary subordinated debt, the amount thereof to be taken into account in the calculation of the “Tier II” capital would be reduced by 20 per cent. per year. In addition, any secondary subordinated debt with a remaining maturity of less than one year is not included in the calculation of “Tier II” capital. Any cash credits extended by the bank to the provider(s) of the “secondary subordinated loans” (if debt instruments, to the investor(s) holding 10 per cent. or more thereof) and any debt instruments issued by such provider(s) (or investor(s)) and purchased by the bank are also deducted from the amount to be used in the calculation of the Tier II capital. A secondary subordinated debt is taken into account in the calculation of “Tier II” capital on the date of the accounting of such secondary subordinated debt on the books of the relevant bank.

The 2006 Equity Regulation requires banks to obtain the prior permission of the BRSA for a debt to be classified as a “secondary subordinated loan”. In order to obtain such permission, the bank must submit to the BRSA the original copy or a notarised copy of the applicable agreement(s), and if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original or a notarised copy to the BRSA within five business days of the signing of such agreement). The BRSA would, in considering any such request for its permission, determine if the credit in question meets the following criteria:

- (a) the debt must have an initial maturity of at least five years and the agreement must contain express provisions that prepayment of the principal cannot be made before the expiry of the five-year period and the creditors waive their rights to make any set-offs against the bank with respect to such debt; it being understood that interest and other charges may be payable during such five year period;
- (b) there may be no more than one repayment option before the maturity of the debt and, if there is a repayment option before maturity, the date of exercising the option must be clearly defined;
- (c) the creditors must have agreed expressly in the agreement that in the event of dissolution and liquidation of the bank, such debt will be repaid before any payment to shareholders for their capital return and payments on primary subordinated debts but after all other debts;
- (d) it must be stated in the agreement that the debt is not related to any derivative operation or contract violating the condition stated in clause (c) or tied to any guarantee or security, in one way or another, directly or indirectly, and the debts cannot be assigned to any affiliates of the bank;
- (e) it must be utilised as one single drawdown if utilised in the form of a loan and it must be wholly collected in cash if in the form of a debt instrument; and

- (f) payment before maturity is subject to approval of the BRSA.

If the interest rate applied to a secondary subordinated debt is not explicitly indicated in the loan agreement or the text of the debt instrument or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorise the inclusion of the loan or debt instrument in the calculation of “Tier II” capital.

In cases where the parties subsequently agree that a secondary subordinated debt be prepaid prior to its stated maturity (but in any event after the fifth anniversary of its utilisation), they would be required to apply for the BRSA’s permission. Upon any such application, the BRSA would, in its sole discretion, determine if any such prepayment would adversely affect the bank’s credit lines and limits or its compliance with the applicable standard ratios and give or decline to give its consent accordingly.

In connection with secondary subordinated debts pursuant to which it has been agreed that a prepayment option shall be available and the remaining maturity is calculated by way of taking into account the originally agreed maturity date (i.e. not on the basis of the prepayment option date), such prepayment option can only be exercised with the consent of the BRSA, which would apply the criteria stated above.

*New Tier II Rules.* According to the 2013 Equity Regulation (which includes provisional articles relating to the transition period to the new Tier II rules), which came into force on 1 January 2014 (as amended by the Equity Regulation Amendments, which amendments came into force on 31 March 2016), Tier II capital shall be calculated by subtracting capital deductions from general provisions that are set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts for receivables (as the case may be, depending upon the method used by the bank to calculate the credit risk amounts of the applicable receivables) and issuance premia and the debt instruments that have been approved by the BRSA upon the application of board of directors of the applicable bank along with a written statement confirming compliance of the debt instruments with conditions set forth below (the “New Tier II Conditions”):

- (a) the debt instrument shall have been issued by the bank and registered with the CMB and shall have been fully collected in cash;
- (b) in the event of dissolution of the bank, the debt instrument shall have priority over debt instruments that are included in additional Tier I capital and shall be subordinated with respect to rights of deposit holders and all other creditors;
- (c) the debt instrument shall not be related to any derivative operation or contract violating the condition stated in clause (b) nor shall it be tied to any guarantee or security, in one way or another, directly or indirectly;
- (d) the debt instrument must have an initial maturity of at least five years and shall not include any provision that may incentivise prepayment, such as dividends and increase of interest rate;
- (e) if the debt instrument includes a prepayment option, such option shall be exercisable no earlier than five years after issuance and only with the approval of the BRSA; approval of the BRSA is subject to the following conditions:
  - (i) the bank should not create any market expectation that the option will be exercised by the bank;
  - (ii) the debt instrument shall be replaced by another debt instrument either of the same quality or higher quality, and such replacement shall not have a restrictive effect on the bank’s ability to sustain its operations; or
  - (iii) following the exercise of the option, the equity of the bank shall exceed the higher of: (A) the capital adequacy requirement that is to be calculated pursuant to the 2016 Capital Adequacy

Regulation along with the Regulation on the Capital Conservation and Countercyclical Capital Buffer, (B) the capital requirement derived as a result of an internal capital adequacy assessment process of the bank and (C) the higher capital requirement set by the BRSA (if any),

however, if tax legislation or other regulations are materially amended, a prepayment option may be exercised; provided that the above conditions in this clause (e) are met and the BRSA approves;

- (f) the debt instrument shall not provide investors with the right to demand early amortisation except for during a bankruptcy or dissolution process relating to the issuer;
- (g) the debt instrument's dividend or interest payments shall not be linked to the creditworthiness of the issuer;
- (h) the debt instrument shall not be: (i) purchased by the issuer or by corporations controlled by the issuer or significantly under the influence of the issuer or (ii) assigned to such entities, and its purchase shall not be directly or indirectly financed by the issuer itself;
- (i) if there is a possibility that the bank's operating license would be cancelled or the probability of transfer of management of the bank to the SDIF arises pursuant to Article 71 of the Banking Law due to the bank's loss, then removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates for the absorption of the loss would be possible if the BRSA so decides;
- (j) in the event that the debt instrument has not been issued by the bank itself or one of its consolidated entities, the amounts obtained from the issuance shall be immediately transferred without any restriction to the bank or its consolidated entity (as the case may be) in accordance with the rules listed above; and
- (k) the repayment of the principal of the debt instrument before its maturity is subject to the approval of the BRSA and the approval of the BRSA is subject to the same conditions as the exercise of the prepayment option as described under subsection 8(2)(d) of the BRSA Equities Regulation.

Furthermore, procedures and principles regarding the deduction of the debt instrument's value and/or removal of the debt instrument from the bank's records, and/or the debt instrument's conversion to share certificates are determined by the BRSA.

Loans (as opposed to securities) that have been approved by the BRSA upon the application of the board of directors of the applicable bank accompanied by a written statement confirming that all of the New Tier II Conditions (except the issuance and registration with the CMB) are met also can be included in Tier II capital calculations.

In addition to the conditions that need to be met before including debt instruments and loans in the calculation of Tier II capital, the 2013 Equity Regulation also provides that general provisions that are set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts for receivables (as the case may be, depending upon the method used by the bank to calculate credit risk amounts of the applicable receivables) can be included in Tier II capital subject to an amended limit for general provisions and a new limit for surplus of provisions and capital deductions. In the 2006 Equity Regulation, the portion of the general provisions that exceeded 125 parts per 10,000 of the total risk-weighted assets (i.e. risk-weighted assets related to credit risk, market risk and operational risk) had not been taken into consideration in calculating the Tier II capital. In the 2013 Equity Regulation, the portion of general provisions that exceeds 125 parts per 10,000 of the risk-weighted sum of the receivables that are subject to a standardised approach in accordance with the 2012 Capital Adequacy Regulation and/or the portion of the

surplus of provisions and capital deductions that exceeds 6 parts per 1,000 of the receivables to which they relate shall not be included in Tier II capital.

Furthermore, in addition to the New Tier II Conditions stated above, the BRSA may require new conditions for each debt instrument and the procedure and principles regarding the removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates are determined by the BRSA.

Applications to include debt instruments or loans into Tier II capital are required to be accompanied with the original copy or a notarised copy of the applicable agreement(s) or, if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original or a notarised copy to the BRSA within five business days of the signing of such agreement). The amendments to the 2013 Equity Regulation, which entered into force on 31 March 2016, provide that if the terms of the executed loan agreement or debt instrument contain different provisions than the draft thereof so provided to the BRSA, then a written statement of the board of directors confirming that such difference does not affect Tier II capital qualifications is required to be submitted to the BRSA within five business days following the signing date of such loan agreement or the issuance date of such debt instrument. If the applicable interest rate is not explicitly indicated in the loan agreement or the prospectus of the debt instrument (*borçlanma aracı izahnamesi*), or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorise the inclusion of the loan or debt instrument in the calculation of Tier II capital.

The Equity Regulation Amendments introduced certain limitations to the items that are included in the capital calculations of banks that have issued additional Tier I and Tier II instruments prior to 1 January 2014. While the Group does not have any additional Tier I instruments, according to these amendments, Tier II instruments that were issued (among others): (a) between 12 September 2010 and 1 January 2013 (so long as they satisfied the New Tier II Conditions other than the condition stated in sub-clause (i) of the New Tier II Conditions (i.e. the condition regarding the loss absorption due to the cancellation of a bank's license or transfer of the bank's management to the SDIF pursuant to Article 71 of the Banking Law)) will be included in Tier II calculations after being reduced by 20 per cent. for the period between 1 January 2014 and 31 December 2014 and by 10 per cent. for each subsequent year (the calculations being made based upon the total amount of the debt instruments as of 1 January 2013) and (b) after 1 January 2013 will be included in Tier II calculations only if they satisfy all of the New Tier II Conditions.

Debt instruments and loans that are approved by the BRSA are included in accounts of Tier II capital as of the date of transfer to the relevant accounts in the applicable bank's records. Loan agreements and debt instruments that have been included in Tier II capital calculations, and that have less than five years to maturity, shall be included in Tier II capital calculations after being reduced by 20 per cent. each year.

### **Basel Committee**

*Basel II.* The most significant difference between the capital adequacy regulations in place before 1 July 2012 and the Basel II regulations is the calculation of risk-weighted assets related to credit risk. The current regulations seek to align more closely the minimum capital requirement of a bank with its borrowers' credit risk profile. The impact of the new regulations on capital adequacy levels of Turkish banks largely stems from exposures to the Turkish government, principally through the holding of Turkish government bonds. While the previous rules provided a 0 per cent. risk weight for exposures to the Turkish sovereign and the Central Bank, the rules of Basel II require that claims on sovereign entities and their central banks be risk-weighted according to their credit assessment, which currently results in a 50 per cent. risk weighting for Turkey; however, the Turkish rules implementing the Basel principles in Turkey (i.e. the "Turkish National Discretion") revises this general rule by providing that all Turkish Lira-denominated claims on sovereign entities in Turkey and all foreign currency-denominated claims on the Central Bank will have a 0 per cent. risk weight. As a result of these implementation rules, the impact of the new regulations has been fairly

limited when compared to the previous regime. The BRSA has announced that the migration from the previous regime to Basel II regulations has had an effect of an approximately 0.20 per cent. decline in the capital adequacy levels of the Turkish banking system as of 31 July 2012.

*Basel III.* In the future, Turkish banks' capital adequacy requirements may be further affected by Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are expected to be implemented in phases until 2019. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the 2013 Equity Regulation and amendments to the 2012 Capital Adequacy Regulation, both of which entered into effect on 1 January 2014. The 2013 Equity Regulation introduced core Tier I capital and additional Tier I capital as components of Tier I capital, whereas the amendments to the 2012 Capital Adequacy Regulation: (a) introduced a minimum core capital adequacy standard ratio (4.5 per cent.) and a minimum Tier I capital adequacy standard ratio (6.0 per cent.) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0 per cent.) and (b) changed the risk weights of certain items that are categorised under "other assets". The 2013 Equity Regulation also introduced new Tier II rules and determined new criteria for debt instruments to be included in the Tier II capital.

In order to further align Turkish banking legislation with Basel principles, the BRSA has published from time to time new regulations and communiqués amending or replacing the existing regulations and communiqués, including those published in the Official Gazette dated 23 October 2015 and numbered 29511, dated 20 January 2016 and numbered 29599 and dated 23 February 2016 and numbered 29633, some of which amendments also entered into force on 31 March 2016. For information related to the leverage ratios, capital adequacy ratios and liquidity coverage ratios of banks, see "*Turkish Regulatory Environment - Capital Adequacy*" above.

## Liquidity and Reserve Requirements

Article 46 of the Banking Law requires banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures set out by the BRSA. Within this framework, a comprehensive liquidity arrangement has been put into force by the BRSA, following the consent of the Central Bank.

As of the date of this Base Prospectus, the reserve requirements regarding foreign currency liabilities vary by category, as set forth below:

<b>Category of Foreign Currency Liabilities</b>	<b>Required Reserve Ratio for Current Liabilities</b>	<b>Required Reserve Ratio for New Liabilities<sup>(1)</sup></b>
Demand deposits, notice deposits, private current accounts, deposit/participation accounts up to 1-month, 3-month, 6-month and 1-year maturities.....	13%	—
Deposit/participation accounts with maturities of 1-year and longer .....	9%	—
Other liabilities up to 1-year maturity (including 1-year) .....	20%	25%
Other liabilities up to 2-year maturity (including 2-year) .....	14%	20%
Other liabilities up to 3-year maturity (including 3-year) .....	8%	15%

<b>Category of Foreign Currency Liabilities</b>	<b>Required Reserve Ratio for Current Liabilities</b>	<b>Required Reserve Ratio for New Liabilities<sup>(1)</sup></b>
Other liabilities up to 5-year maturity (including 5-year) .....	7%	7%
Other liabilities longer than 5-year maturity .....	6%	5%

Note:

(1) Required reserve ratio for new liabilities are applicable as of 23 October 2015.

As of the date of this Base Prospectus, the reserve requirements regarding Turkish Lira liabilities vary by category, as set forth below:

<b>Category of Turkish Lira Liabilities</b>	<b>Required Reserve Ratio</b>
Demand deposits, notice deposits and private current accounts .....	11.5%
Deposits/participation accounts up to 1-month maturity (including 1-month).....	11.5%
Deposits/participation accounts up to 3-month maturity (including 3-month).....	11.5%
Deposits/participation accounts up to 6-month maturity (including 6-month).....	8.5%
Deposits/participation accounts up to 1-year maturity .....	6.5%
Deposits/participation accounts with maturities of 1-year and longer .....	5%
Other liabilities up to 1-year maturity (including 1-year) .....	11.5%
Other liabilities up to 3-years maturity (including 3-years) .....	8%
Other liabilities longer than 3-year maturity .....	5%

The reserve requirements also apply to gold deposit accounts. Furthermore, banks are permitted to maintain: (a) a portion of the Turkish Lira reserve requirements in U.S. Dollars and/or Euro and another portion of the Turkish Lira reserve requirements in standard gold and (b) a portion or all of the reserve requirements applicable to precious metal deposit accounts in standard gold, which portions are revised from time to time by the Central Bank. In addition, banks are required to maintain their required reserves against their U.S. Dollar-denominated liabilities in U.S. Dollars only.

Furthermore, pursuant to the Communiqué Regarding Reserve Requirements entered into force on 17 January 2014, a bank must establish additional mandatory reserves if its financial leverage ratio falls within certain intervals. The financial leverage ratio is calculated according to the division of a bank's capital into the sum of the following items:

- (a) its total liabilities;
- (b) its total non-cash loans and obligations;
- (c) its revocable commitments multiplied by 0.1;



- (d) the total sum of each of its derivatives commitments multiplied by its respective loan conversion rate; and
- (e) its irrevocable commitments.

This additional mandatory reserve amount is calculated quarterly according to the arithmetic mean of the monthly leverage ratio.

A bank also must maintain mandatory reserves for six mandatory reserve periods beginning with the fourth calendar month following an accounting period and additional mandatory reserves for liabilities in Turkish Lira and foreign currency, as set forth below:

<b>Calculation Period for the Leverage Ratio</b>	<b>Leverage Ratio</b>	<b>Additional Reserve Requirement</b>
From the 4 quarter of 2013 through the 3 quarter of 2014 .....	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.25%	1.5%
	From 3.25% (inclusive) to 3.5%	1.0%
From the 4 quarter of 2014 through the 3 quarter of 2015 .....	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.50%	1.5%
	From 3.50% (inclusive) to 4.0%	1.0%
Following the 4 quarter of 2015 (inclusive) .....	Below 3.0%	2.0%
	From 3.0% (inclusive) to 4.0%	1.5%
	From 4.0% (inclusive) to 5.0%	1.0%

According to a Central Bank press release dated 21 October 2014 (No. 2014-72), interest is payable on the Turkish Lira portion of reserve requirements as of November 2014.

According to the Regulation on the Measurement and Evaluation of the Liquidity Adequacy of Banks issued by the BRSA and announced in the Official Gazette dated 1 November 2006 and numbered 26333, the liquidity adequacy ratio of a bank is the ratio of liquid reserves to liabilities of the bank. On a weekly basis, a bank must maintain: (a) a 100 per cent. liquidity adequacy ratio for the first maturity period (assets and liabilities maturing within seven days are taken into account in calculations on a weekly average as defined by the regulation) and the second maturity period (assets and liabilities maturing within 31 days of the last working day are taken into account) on an aggregate basis and (b) a 80 per cent. liquidity adequacy ratio on a foreign currency-only basis.

### **Foreign Exchange Requirements**

According to the Regulation on Foreign Exchange Net Position/Capital Base, issued by the BRSA and published in the Official Gazette dated 1 November 2006 and numbered 26333, for both the bank-only and consolidated financial statements, the ratio of a bank's foreign exchange net position to its capital base should not exceed (+/-) 20 per cent., which calculation is required to be made on a weekly basis for bank-only and monthly basis for consolidated financial statements. The net foreign exchange position is the difference between the Turkish Lira-equivalent of a bank's foreign exchange assets and its foreign exchange liabilities. For the purpose of computing the net foreign exchange position, foreign exchange assets include all active foreign exchange accounts held by a bank (including its foreign branches), its foreign exchange-indexed assets and its subscribed forward foreign exchange purchases; for purposes of computing the net foreign exchange position, foreign exchange liabilities include all passive foreign exchange accounts held by a bank

(including its foreign branches), its subscribed foreign exchange- indexed liabilities and its subscribed forward foreign exchange sales. If the ratio of a bank's net foreign exchange position to its capital base exceeds (+/-) 20 per cent., then the bank is required to take steps to move back into compliance within two weeks following the bank's calculation period. Banks are permitted to exceed the legal net foreign exchange position to capital base ratio up to six times per calendar year.

### **Audit of Banks**

According to Article 24 of the Banking Law, banks' boards of directors are required to establish audit committees for the execution of the audit and monitoring functions of the board of directors. Audit committees shall consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include the supervision of the efficiency and adequacy of the bank's internal control, risk management and internal audit systems, functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation, and integrity of the information produced; conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors; regularly monitoring the activities of independent audit firms selected by the board of directors; and, in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the Regulation Independent Audit of Banks, published in the Official Gazette on 2 April 2015 and numbered 29314. Independent auditors are held liable for damages and losses to third parties and are subject to stricter reporting obligations. Professional liability insurance is required for: (a) independent auditors and (b) evaluators, rating agencies and certain other support services (if requested by the service-acquiring bank or required by the BRSA). Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year- end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms. With the ICAAP Regulation, new standards as to principles of internal control, internal audit and risk management systems and an internal capital adequacy assessment process were established in order to bring such standards into compliance with Basel II requirements.

On 23 October 2015 and 20 January 2016, the BRSA issued certain amendments to the ICAAP Regulation to align the Turkish regulatory capital regime with Basel III requirements imposing new regulatory requirements to enhance the effectiveness of internal risk management and internal capital adequacy assessments by introducing, among others things, new stress test requirements. Accordingly, the board of directors and senior management of a bank are liable to ensure that a bank has established appropriate risk management systems and applies an internal capital adequacy assessment process adequate to have capital for the risks incurred by such bank. The ICAAP Report is required to be audited by either the internal audit department or an independent audit firm in accordance with the internal audit procedures of a bank.

All banks (public and private) also undergo annual audits and interim audits by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities and foreign exchange transactions. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The

Central Bank has the right to monitor compliance by banks with the Central Bank's regulations through on-site and off-site examinations.

The BRSA amended the Regulation on Principles and Procedures of Audits on 23 October 2015 to expand the scope of the audit of banks in compliance with the RCAP Regulation. According to this regulation, the BRSA monitors banks' compliance with the regulations relating to the maintenance of capital and liquidity adequacy for risks incurred or to be incurred by banks and the adequacy and efficiency of banks' internal audit systems.

### **Cancellation of Banking License**

If the results of an audit show that a bank's financial structure has seriously weakened, then the BRSA may require the bank's board of directors to take measures to strengthen its financial position. Pursuant to the Banking Law, in the event that the BRSA in its sole discretion determines that:

- (a) the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due;
- (b) the bank is not complying with liquidity requirements;
- (c) the bank's profitability is not sufficient to conduct its business in a secure manner due to disturbances in the relation and balance between expenses and profit;
- (d) the regulatory equity capital of such bank is not sufficient or is likely to become insufficient;
- (e) the quality of the assets of such bank have been impaired in a manner potentially weakening its financial structure;
- (f) the decisions, transactions or applications of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA;
- (g) such bank fails to establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the audit of such systems; or
- (h) imprudent acts of such bank's management materially increase the risks stipulated under the Banking Law and relevant legislation or potentially weaken the bank's financial structure, then the BRSA may require the board of directors of such bank:
  - (i) to increase its equity capital;
  - (ii) not to distribute dividends for a temporary period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund;
  - (iii) to increase its loan provisions;
  - (iv) to stop extension of loans to its shareholders;
  - (v) to dispose of its assets in order to strengthen its liquidity;
  - (vi) to limit or stop its new investments;
  - (vii) to limit its salary and other payments;
  - (viii) to cease its long-term investments;
  - (ix) to comply with the relevant banking legislation;
  - (x) to cease its risky transactions by re-evaluating its credit policy;

- (xi) to take all actions to decrease any maturity, foreign exchange and interest rate risks for a period determined by the BRSA and in accordance with a plan approved by the BRSA; and/or
- (xii) to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, its financial structure cannot be strengthened despite the fact that such actions have been taken or the BRSA determines that taking such actions will not lead to getting a favorable result, then the BRSB may require such bank to:

- (a) strengthen its financial structure, increase its liquidity and/or increase its capital adequacy;
- (b) dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSA;
- (c) decrease its operational and management costs;
- (d) postpone its payments under any name whatsoever, excluding the regular payments to be made to its employees;
- (e) limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors;
- (f) convene an extraordinary general assembly in order to change some or all of the members of the board of directors or assign new member(s) to the board of directors, in the event any board member is responsible for a failure to comply with relevant legislation, a failure to establish efficient and sufficient operation of internal audit, internal control and risk management systems or non-operation of these systems efficiently or there is a factor that impedes supervision or such member(s) of the board of directors cause(s) to increase risks significantly as stipulated above;
- (g) implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank and the members of the board of directors and the shareholders with qualified shares must undertake the implementation of such plan in writing; and/or
- (h) to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, the problem cannot be solved despite the fact that the actions have been taken or the BRSA determines that taking such actions will not lead to getting a favorable result, then the BRSB may require such bank to:

- (a) limit or cease its business or the business of the whole organisation, including its relations with its local or foreign branches and correspondents, for a temporary period;
- (b) apply various restrictions, including restrictions on the interest rate and maturity with respect to resource collection and utilisation;
- (c) remove from office (in whole or in part) some or all of its members of the board of directors, general manager and deputy general managers and department and branch managers and obtain approval from the BRSA as to the persons to be appointed to replace them;
- (d) make available long-term loans; provided that these will not exceed the amount of deposit or participation accounts subject to insurance, and be secured by the shares or other assets of the controlling shareholders;
- (e) limit or cease its non-performing operations and to dispose of its non-performing assets;
- (f) merge with one or several banks;

- (g) provide new shareholders in order to increase its equity capital;
- (h) deduct any resulting losses from its own funds; and/or
- (i) take any other action that the BRSA may deem necessary.

In the event that: (a) the aforementioned actions are not (in whole or in part) taken by the applicable bank within a period of time set forth by the BRSB or in any case within 12 months, (b) the financial structure of such bank cannot be strengthened despite its having taken such actions, (c) it is determined that taking these actions will not lead to the strengthening of the bank's financial structure, (d) the continuation of the activities of such bank would jeopardise the rights of the depositors and the participation account owners and the security and stability of the financial system, (e) such bank cannot cover its liabilities as they become due, (f) the total amount of the liabilities of such bank exceeds the total amount of its assets or (g) the controlling shareholders or directors of such bank are found to have utilised such bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardised the secure functioning of the bank or caused such bank to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members, may cancel the operating license of such bank or, if such bank is not a development and investment bank, transfer the management, supervision and control of the shareholding rights (excluding dividends) of such bank to the SDIF for the purpose of whole or partial transfer or sale of such bank to third persons or the merger thereof; provided that any loss is deducted from the share capital of current shareholders.

In the event that the operating license of the Bank or another development and investment bank is cancelled, then such development and investment bank will be liquidated pursuant to the general execution and bankruptcy rules of the Republic of Turkey.

## **Annual Reporting**

Pursuant to the Banking Law, Turkish banks are required to follow the BRSA's principles and procedures (which are established in consultation with the Turkish Accounting Standards Board and international standards) when preparing their annual reports. In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation.

Furthermore, Turkish companies (including banks) are required to comply with the Regulation regarding Determination of the Minimum Content of the Companies' Annual Reports published by the Ministry of Customs and Trade, as well as the Corporate Governance Communiqué, when preparing their annual reports. These reports include the following information: management and organisation structures, human resources, evaluation of the year, information on the bank's corporate governance practices, corporate governance compliance report, assessment of financial standing, profitability and solvency, assessment of management and expectations and a summary of the directors' report and independent auditor's report.

A bank cannot settle its balance sheets without ensuring reconciliation with the legal and auxiliary books and records of its branches and domestic and foreign correspondents.

The BRSA is authorised to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

According to the Communiqué on Financial Reporting Standards in Capital Markets published in the Official Gazette dated 13 June 2013 and numbered 28676 and the BRSA regulations, the chairman of the board, audit committee, general manager, deputy general manager responsible for financial reporting and the relevant unit

manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records.

Independent auditors must approve the annual reports prepared by the banks.

Banks are required to submit their financial reports to related authorities and publish them in accordance with the BRSA's principles and procedures.

According to CMB regulations, the annual report is subject to the approval of the board of directors and must be submitted to shareholders on the Public Disclosure Platform and published on the Bank's website at least three weeks before the annual general assembly of the bank. Pursuant to BRSA regulations, the annual report is subject to the approval of the board of directors and must be submitted to the shareholders at least 15 days before the annual general assembly of the bank. Banks must also submit an electronic copy of their annual reports to the BRSA within seven days following the publication of the reports. Banks must also keep a copy of such reports in their headquarters and an electronic copy of the annual report should be available at a bank's branches in order to be printed and submitted to the shareholders upon request. In addition they must publish them on their websites by the end of May following the end of the relevant fiscal year.

### **Disclosure of Financial Statements**

With the Communiqué on Financial Statements publicly announced and the accompanying explanations and footnotes published in the Official Gazette No. 28337 dated 28 June 2012, new principles of disclosure of annotated financial statements of banks were promulgated. The amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios are reflected in the requirements relating to information to be disclosed to the public and new standards of disclosure of operational, market, currency and credit risk were determined. In addition, new principles were determined with respect to the disclosure of position risks relating from (*inter alia*) securitisation transactions and investments in quoted stocks.

### **Financial Services Fee**

Pursuant to Heading XI of Tariff No. 8 attached to the Law on Fees (Law No. 492) amended by the Law No. 5951, banks are required to pay to the relevant tax office to which their head office reports an annual financial services fee for each of their branches. The amount of the fee is determined in accordance with the population of the district in which the relevant branch is located.

### **Corporate Governance Principles**

On 3 January 2014, the CMB issued Corporate Governance Communiqué replacing the Communiqué on the Determination and Implementation of Corporate Governance Principles Series IV, No. 56 dated 30 December 2011. The Corporate Governance Communiqué provides certain mandatory and non-mandatory corporate governance principles as well as rules regarding related-party transactions and a company's investor relations department. Some provisions of the Corporate Governance Communiqué are applicable to all companies incorporated in Turkey and listed on the BİST, whereas some others are applicable solely to companies whose shares are traded in certain markets of the BİST. The Corporate Governance Communiqué provides specific exemptions and/or rules applicable to banks that are traded on the BİST.

As of the date of this Base Prospectus, the Bank is subject to the Corporate Governance Principles stated in the banking regulations and the regulations for capital markets that are applicable to banks. Where the Bank does not comply with any of the non-mandatory principles applicable to it under the Corporate Governance Communiqué, it will explain any such non-compliance in its annual Corporate Governance Principles Compliance Report, which is published as part of the Bank's annual report.

The Corporate Governance Communiqué contains principles relating to: (a) companies' shareholders, (b) public disclosure and transparency, (c) the stakeholders of companies and (d) the board of directors. A number of principles are compulsory, while the remaining principles apply on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalisation and the market value of their free-float shares, subject to recalculation on an annual basis.

The mandatory principles under the Corporate Governance Communiqué include provisions relating to: (a) the composition of the board of directors, (b) appointment of independent board members, (c) board committees, (d) specific corporate approval requirements for related party transactions, transactions that may result in a conflict of interest and certain other transactions deemed material by the Corporate Governance Communiqué and (e) information rights in connection with general assembly meetings.

Listed companies are required to have independent board members, who should meet the mandatory qualifications required for independent board members as set out in the Corporate Governance Communiqué. Independent board members should constitute one-third of the board of directors and should not be fewer than two; however, publicly traded banks are required to appoint at least three independent board members to their board of directors. The members of a bank's audit committee are qualified as independent board members, in which case the above-mentioned qualifications for independent members are not applicable; provided that when all independent board members are selected from the audit committee, at least one member should meet the mandatory qualification required for independent board members as set out in the Corporate Governance Communiqué. The Corporate Governance Communiqué further initiated a pre-assessment system to determine the "independency" of individuals nominated as independent board members in "1 Group and 2 Group" companies (for banks, to the extent such independent board members are not members of that bank's audit committee). Those nominated for such positions must be evaluated by the "Corporate Governance Committee" or the "Nomination Committee", if any, of the board of directors for fulfilling the applicable criteria stated in the Corporate Governance Communiqué. The Corporate Governance Communiqué also requires listed companies, except banks, to establish certain other board committees. The Bank is classified as a "2 Group" company.

In addition to the mandatory principles regarding the composition of the board and the independent board members, the Corporate Governance Communiqué introduced specific corporate approval requirements for all material related party transactions. All those types of transactions shall be approved by the majority of the independent board members. If not, then they shall be brought to the general assembly meeting where related parties to those transactions are not allowed to vote. Meeting quorum shall not be sought for these resolutions and the resolution quorum is the simple majority of the attendees who may vote. For banks and financial institutions, transactions with related parties arising from their ordinary activities are not subject to the requirements of related party transactions.

The Capital Markets Law authorises the CMB to require listed companies to comply with the corporate governance principles in whole or in part and to take certain measures with a view to ensure compliance with the new principles, which include requesting injunctions from the court or filing lawsuits to determine or to revoke any unlawful transactions or actions that contradict with these principles.

In addition to the provisions of the Corporate Governance Communiqué related to the remuneration policy of banks, the BRSA published a guideline on good pricing practices in banks on 26 October 2015 (which entered into force on 31 March 2016). This guideline sets out the general principles for employee remuneration as well as standards for remuneration to be made to the board of directors and senior management of banks.

## **Anti-Money Laundering**

Turkey is a member country of the FATF and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Turkey, all banks and their employees are obligated to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money laundering set forth in Law No. 5549 on Prevention of Laundering Proceeds of Crime.

Minimum standards and duties under such law and related legislation include customer identification, record keeping, suspicious transaction reporting, employee training, monitoring activities and the designation of a compliance officer. Suspicious transactions must be reported to the Financial Crimes Investigation Board.

In an effort to ensure compliance with FATF, measures to combat the financing of terrorist activities in Turkey were introduced with the entry into force of Law No. 6415 on the Prevention of the Financing of Terrorism (the “CFT Law”) on 16 February 2013. In order to address shortcomings identified by the FATF and with a view to achieving compatibility with international standards as outlined under the International Convention for the Suppression of the Financing of Terrorism and annexes thereto, the CFT Law introduced an expanded scope to the financing of terrorism offense (as defined under Turkish anti-terrorism laws). The CFT Law also presented new principles and mechanisms for identifying and freezing terrorist assets and facilitates the implementation of United Nations Security Council decisions, in particular those relating to entities and/or individuals placed on sanction lists. On 31 May 2013, the Regulation on Procedures and Principles Regarding the Application of the Law on the Prevention of the Financing of Terrorism became effective, which regulation provides the procedures and principles for the decision- making, execution and termination of the freezing of assets as well as the management and supervision of frozen assets. In addition, the Council of Ministers’ Decree dated 30 September 2013 implementing United Nations Security Council Resolutions 1267, 1988 and 1989 and recent court decisions have further improved Turkey’s compliance with the FATF standard on criminalisation of terrorist financing.

On 21 June 2014, “The Financial Crimes Investigation Board General Communiqué No. 12” (the scope of which consists of rules regarding: (a) the necessary actions to be taken by persons, institutions and organisations that keep assets or records of such assets in accordance with the provisions of applicable law for the enforcement of decisions to freeze assets, and (b) the management of frozen assets in accordance with provisions of applicable law within the scope of the permission granted by Financial Crimes Investigation Board) became effective.



## **BOOK-ENTRY CLEARANCE SYSTEMS**

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the “Clearing Systems”) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

In accordance with the Communiqué on Debt Instruments, the Notes are required under Turkish law to be issued in an electronically registered form in the CRA and the interests therein recorded in the CRA; however, upon the Issuer’s request, the CMB may resolve to exempt the Notes from this requirement if the Notes are to be issued outside of Turkey. Further to the Issuer’s submission of an exemption request to the CMB, such exemption has been granted by the CMB to the Issuer in the CMB Approval. As a result, this requirement will not be applicable to the Notes issued pursuant to the CMB Approval.

Notwithstanding such exemption, the Issuer is required to notify the CRA within three Turkish business days from the date of issuance of any Notes, of the amount, issue date, ISIN code, the first payment date, maturity date, interest rate, name of the custodian, currency of the Notes and country of issuance.

### **Book-entry Systems**

#### **DTC**

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its direct participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by NYSE Euronext and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants” and, together with Direct Participants, “Participants”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “Rules”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“DTC Notes”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the SEC. Participants with which beneficial owners of DTC Notes (“Beneficial Owners”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Beneficial Owners. Accordingly, although Beneficial Owners who hold interests in DTC Notes through Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the relevant Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of each transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner holds its interest in the DTC Notes. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the DTC Notes will be made to DTC or its nominee. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC or its nominee is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Direct Participants in accordance with their requests and proportionate entitlements and which, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions.*"

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to effect such pledge through DTC

and its Participants or if not possible to so effect it, to withdraw its Registered Notes from DTC as described below.

The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

### **Clearstream, Luxembourg**

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of a number of currencies, including U.S. Dollars and Turkish Lira. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in several countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the *Commission de Surveillance du Secteur Financier* and the *Banque Centrale du Luxembourg*, which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.

The ability of an owner of a beneficial interest in a Note held through Clearstream, Luxembourg to pledge such interest to persons or entities that do not participate in the Clearstream, Luxembourg system, or otherwise take action in respect of such interest, may be limited by the lack of a definitive note for such interest because Clearstream, Luxembourg can act only on behalf of Clearstream, Luxembourg's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such persons may be limited. In addition, beneficial owners of Notes held through the Clearstream, Luxembourg system will receive payments of principal, interest and any other amounts in respect of the Notes only through Clearstream, Luxembourg accountholders.

### **Euroclear**

Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between its accountholders. Euroclear provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear also deals with domestic securities markets in several countries

through established depository and custodial relationships. Euroclear customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear is available to other institutions that clear through or maintain a custodial relationship with direct participants in Euroclear.

The ability of an owner of a beneficial interest in a Note held through Euroclear to pledge such interest to persons or entities that do not participate in the Euroclear system, or otherwise take action in respect of such interest, may be limited by the lack of a definitive note for such interest because Euroclear can act only on behalf of Euroclear's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such persons may be limited. In addition, beneficial owners of Notes held through the Euroclear system will receive payments of principal, interest and any other amounts in respect of the Notes only through Euroclear participants.

### **Book-entry Ownership of and Payments in respect of Global Notes**

The Issuer has applied to each of Euroclear and Clearstream, Luxembourg to have Global Note(s) accepted in its book-entry settlement system. Upon the issue of any such Global Note, Euroclear and/or Clearstream, Luxembourg, as applicable, will credit, on its internal book-entry system, the respective nominal amounts of the interests represented by such Global Note to the accounts of persons who have accounts with Euroclear and/or Clearstream, Luxembourg, as applicable. Such accounts initially will be designated by or on behalf of the relevant Dealer or investor. Interests in such a Global Note through Euroclear and/or Clearstream, Luxembourg, as applicable, will be limited to accountholders of Euroclear and/or Clearstream, Luxembourg, as applicable. Interests in such a Global Note will be shown on, and the transfer of such interests will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg or its nominee (with respect to the interests of Euroclear and/or Clearstream, Luxembourg accountholders).

Payments with respect to interests in the Notes held through Euroclear and Clearstream, Luxembourg will be credited to cash accounts of Euroclear and Clearstream, Luxembourg accountholders in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg, respectively, to the extent received by each of them.

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer or investor. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. Dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. Dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global

Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. Dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Fiscal Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

### **Transfers of Notes Represented by Registered Global Notes**

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear account holders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian ("Custodian") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Tranche, transfers of Notes of such Tranche between account holders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Tranche between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between account holders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg account holders and DTC participants cannot be made on a delivery-versus-payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and account holders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## TAXATION

### General

Prospective purchasers of Notes are advised to consult their tax advisers as to the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile, of a purchase of Notes, including, but not limited to, the consequences of receipt of payments under the Notes and their disposal or redemption.

### Certain Turkish Tax Considerations

The following discussion is a summary of certain Turkish tax considerations relating to an investment by a person who is a non-resident of Turkey in Notes of a Turkish company issued abroad. The discussion is based upon current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of the Notes that may be relevant to a decision to make an investment in the Notes. Furthermore, the discussion only relates to the beneficial interest of a person in the Notes where the Notes will not be held in connection with the conduct of a trade or business through a permanent establishment in Turkey. Each investor should consult its own tax advisers concerning the tax considerations applicable to its particular situation. This discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Base Prospectus, all of which are subject to change, possibly with a retroactive effect. In addition, it does not describe any tax consequences: (a) arising under the laws of any taxing jurisdiction other than Turkey or (b) applicable to a resident of Turkey or a permanent establishment in Turkey resulting either from the existence of a fixed place of business or appointment of a permanent representative.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its worldwide income, whereas a non-resident legal entity is only liable for Turkish taxes on its trading income made through a permanent establishment or on income otherwise sourced in Turkey.

An individual is a resident of Turkey if such individual has established domicile in Turkey or stays in Turkey more than six months in a calendar year. On the other hand, foreign individuals who stay in Turkey for six months or more for a specific job or business or particular purposes that are specified in the Turkish Income Tax Law may not be treated as a resident of Turkey, depending on the characteristics of their stay. A resident individual is liable for Turkish taxes on his or her worldwide income, whereas a non-resident individual is only liable for Turkish taxes on income sourced in Turkey.

Income from capital investment is sourced in Turkey when the principal is invested in Turkey. Capital gain is considered sourced in Turkey when the activity or transaction generating such income is performed or accounted for in Turkey. The term “accounted for” means that a payment is made in Turkey, or if the payment is made abroad, it is recorded in the books in Turkey or apportioned from the profits of the payer or the person on whose behalf the payment is made in Turkey.

Any withholding tax levied on income derived by a non-resident person is the final tax for the non-resident person and no further declaration is required. Any other income of a non-resident person sourced in Turkey that has not been subject to withholding tax will be subject to taxation through declaration where exemptions are reserved.

Interest paid on notes (such as the Notes) issued abroad by Turkish corporates is subject to withholding tax. Through the Tax Decrees, the withholding tax rates are set according to the original maturity of notes issued abroad as follows:

- 10 per cent. withholding tax for notes with an original maturity of less than one year,
- 7 per cent. withholding tax for notes with an original maturity of at least one year and less than three years,
- 3 per cent. withholding tax for notes with an original maturity of at least three years and less than five years, and
- 0 per cent. withholding tax for notes with an original maturity of five years and more.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Notes may be subject to declaration. However, pursuant to Provisional Article 67 of the Turkish Income Tax Law, as amended by the Law numbered 6111, special or separate tax returns will not be submitted for capital gains from the notes of a Turkish corporate issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on non-resident persons in respect of capital gains from the Notes and no declaration is required.

A non-resident holder will not be liable for Turkish estate, inheritance or similar tax with respect to its investment in the Notes, nor will it be liable for any Turkish stamp issue, registration or similar tax or duty relating thereto.

### **Reduced Withholding Tax Rates**

Under current Turkish laws and regulations, interest payments on notes issued abroad by a Turkish corporate to a non-resident holder will be subject to a withholding tax at a rate between 10 per cent. and 0 per cent. in Turkey, as detailed above.

If a double taxation treaty is in effect between Turkey and the country of the holder of the notes (in some cases, for example, pursuant to the treaties with the United Kingdom and the United States, the term “beneficial owner” is used), which provides for the application of a lower withholding tax rate than the local rate to be applied by the corporation, then the lower rate may be applicable. For the application of withholding at a reduced rate that benefits from the provisions of a double tax treaty concluded between Turkey and the country where the investor is a resident, an original copy of the certificate of residence signed by the competent authority referred to in Article 3 of the Treaty is required, together with a translated copy translated by a translation office, to verify that the investor is subject to taxation over its worldwide gains in the relevant country on the basis of resident taxpayer status, as a resident of such country to the related tax office directly or through the banks and intermediary institutions prior to the application of withholding. In the event the certificate of residence is not delivered prior to the application of withholding tax, then upon the subsequent delivery of the certificate of residence, a refund of the excess tax shall be granted pursuant to the provisions of the relevant double taxation treaty and the Turkish tax legislation.

### **Value Added Tax**

Under a ruling of the Ministry of Finance dated 10 February 2015, if a company incorporated in Turkey issues bonds outside of Turkey, then such company shall be liable (*sorumlu sıfatıyla*) to pay value added tax (“VAT”) (at the rate of 18 per cent. as of the date of this Base Prospectus) on the interest payments made with respect to such bonds unless the recipient of such interest income is a bank or an insurance company. In the case of a holder of the Notes who is resident in Turkey which is not a bank or an insurance company, the ruling as currently drafted requires that the liability for such VAT payments resides with that Turkish resident Noteholder. However, because it will not be possible for the Issuer to identify any Noteholders entitled to interest income on the Notes other than the registered holder of the Global Notes, and as this ruling has only recently been issued and there is no precedent or developed practice with respect to the VAT, there is uncertainty as to how this VAT liability should be imposed. In the meanwhile, the Turkish Banks Association

(of which the Issuer is a member) has liaised with the tax authorities with respect to the ruling and the tax authorities will be reassessing the ruling. During the period of re-assessment, the Turkish tax authorities have formally instructed the Turkish Banks Association to refrain from implementing any transactions based on the tax ruling until the tax authorities have finalised their re-assessment. The Issuer believes that the Turkish tax authorities will reverse the ruling and that no VAT will be payable.

Notwithstanding the above, even if the VAT is ultimately regarded as payable, there will be no withholding or other deduction for or on account of any such VAT payments by the Issuer in respect of any payments on the Notes, and there will be no additional payments made by the Issuer pursuant to Condition 9.1 with respect to any such VAT payments.

### **FATCA Withholding**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“foreign passthru payments”) to persons that fail to meet certain certification, reporting, or related requirements. The issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Turkey) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply to foreign passthru payments prior to 1 January 2019 and Notes that are not treated as equity for U.S. federal income tax purposes and that have a fixed term issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under “*Terms and Conditions of the Notes – Condition 17*”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

### **The Proposed Financial Transactions Tax (FTT)**

On 14 February 2013, the European Commission published a proposal (the “Commission’s Proposal”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “participating Member States”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes is, however, expected to be exempt.



Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## **CERTAIN CONSIDERATIONS FOR ERISA AND OTHER U.S. EMPLOYEE BENEFIT PLANS**

Subject to the following discussion, the Notes may be acquired with assets of pension, profit-sharing or other employee benefit plans, as well as individual retirement accounts, Keogh plans and other plans and retirement arrangements, and any entity deemed to hold “plan assets” of the foregoing (each, a “Plan”). Section 406 of ERISA and Section 4975 of the Code prohibit a Plan subject to those provisions (each, a “Benefit Plan Investor”) from engaging in certain transactions with persons that are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to such Benefit Plan Investor. A violation of these “prohibited transaction” rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of such Benefit Plan Investor. In addition, Title I of ERISA requires fiduciaries of a Benefit Plan Investor subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents. Employee benefit plans that are U.S. governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) are not subject to the fiduciary and prohibited transaction provisions of ERISA or Section 4975 of the Code; however, such plans may be subject to similar restrictions under applicable state, local, other federal or non-U.S. law (“Similar Law”).

An investment in the Notes by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if the Issuer is a party in interest or a disqualified person with respect to such Benefit Plan Investor. Certain exemptions from the prohibited transaction rules could be applicable to an investment in the Notes by a Benefit Plan Investor depending upon the type and circumstances of the plan fiduciary making the decision to acquire such investment and the relationship of the party in interest to the Benefit Plan Investor. Included among these exemptions are: Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain transactions between a Benefit Plan Investor and non-fiduciary service providers to the Benefit Plan Investor; Prohibited Transaction Class Exemption (“PTCE”) 96-23, regarding transactions effected by “in-house asset managers;” PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions effected by “qualified professional asset managers.” Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts that might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the Notes, and prospective investors that are Benefit Plan Investors and other Plans should consult with their legal advisors regarding the applicability of any such exemption and other applicable legal requirements.

By acquiring a Note, each purchaser and transferee (and if the purchaser or transferee is a Plan, its fiduciary) is deemed to represent and warrant that either: (a) it is not, and for so long as it holds the Note will not be, acquiring or holding a Note with the assets of a Benefit Plan Investor, a U.S. governmental plan, church plan or non-U.S. plan that is subject to Similar Law, or (b) the acquisition, holding and disposition of the Note will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Law.

Prospective investors are advised to consult their advisers with respect to the consequences under ERISA and similar laws of the acquisition, ownership or disposition of the Notes.

## **SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS**

The Dealers have, in an amended and restated programme agreement (the “Programme Agreement”) dated 19 April 2016, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith, including liabilities under the Securities Act, or to contribute to payments that the Dealers may be required to make because of those liabilities.

Any offers and sales of the Notes in the United States may only be made by those Dealers or their affiliates that are registered broker-dealers under the Exchange Act, or in accordance with Rule 15a-6 thereunder. One or more Dealers participating in the offering of any Tranche of Notes issued under the Programme may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under UK laws and regulations stabilising activities may only be carried on by the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

The Issuer expects that delivery of interests in Notes will be made on the issue date for such Notes, as such date will be communicated in connection with the offer and sale of such Notes. Potential investors that are U.S. persons should note that the issue date may be more than three business days (this settlement cycle being referred to as “T+3”) following the trade date of such Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three New York business days, unless the parties to any such trade expressly agree otherwise. Accordingly, investors who wish to trade interests in Notes issued under the Programme on the trade date relating to such Notes or the next New York business days will be required, by virtue of the fact that the Notes initially may settle on a settlement cycle longer than T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Investors in the Notes who wish to trade interests in Notes issued under the Programme on their trade date or the next New York business days should consult their own adviser.

The Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Dealers or their respective affiliates may have performed investment banking and advisory services for the Issuer and its affiliates from time to time for which they may have received fees, expenses, reimbursements and/or other compensation. The Dealers or their respective affiliates may, from time to time, engage in transactions with and perform advisory and other services for the Issuer and its affiliates in the ordinary course of their

business. Certain of the Dealers and/or their respective affiliates have acted and expect in the future to act as a lender to the Issuer and/or other members of the Group and/or otherwise participate in transactions with the Group.

In the ordinary course of their various business activities, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. In addition, certain of the Dealers and/or their respective affiliates hedge their credit exposure to the Issuer pursuant to their customary risk management policies. These hedging activities could have an adverse effect on the future trading prices of the Notes offered hereby from time to time.

The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

### **Transfer Restrictions**

**As a result of the following restrictions, purchasers of Notes are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.**

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that either: (i) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is an Institutional Accredited Investor which has delivered a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an “IAI Investment Letter”) or (iii) it is not a U.S. person and purchased the Notes in an “offshore transaction”;
- (b) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. Federal or State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (c) that, unless it holds an interest in a Regulation S Global Note and is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (i) to the Issuer or any affiliate thereof, (ii) to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction in compliance with Rule 903 or 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. Federal and State securities laws;

- (d) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions, if then applicable;
- (e) that Notes initially offered to QIBs pursuant to Rule 144A will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors (other than pursuant to Rule 144A) will be in the form of Definitive IAI Registered Notes or one or more IAI Global Notes and that Notes offered in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by one or more Regulation S Global Notes, Definitive Regulation S Registered Notes or Bearer Global Notes;
- (f) that the Rule 144A Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD PLEDGED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM ANY INTEREST IN THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THE SECURITY.

EACH PURCHASER AND TRANSFEREE OF THIS NOTE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE WILL NOT BE, ACQUIRING OR HOLDING THIS NOTE WITH THE ASSETS OF AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS

AMENDED (THE “CODE”), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING OR A U.S. GOVERNMENTAL PLAN, CHURCH PLAN OR NON-U.S. PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE WILL NOT GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFORE, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

- (g) The IAI Global Notes and the Definitive IAI Registered Notes (with appropriate revisions) will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS AN “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(A)(1), (2), (3), OR (7) UNDER THE SECURITIES ACT) THAT IS AN INSTITUTION (AN “INSTITUTIONAL ACCREDITED INVESTOR”); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT, THE TERMS OF THE IAI INVESTMENT LETTER IT EXECUTED IN CONNECTION WITH ITS PURCHASE OF THE SECURITIES AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) FOR SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT

UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION, PROVIDED THAT THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO (3) OR (4) ABOVE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THE SECURITY.

EACH PURCHASER AND TRANSFEREE OF THIS NOTE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE WILL NOT BE, ACQUIRING OR HOLDING THIS NOTE WITH THE ASSETS OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" OF ANY OF THE FOREGOING OR A U.S. GOVERNMENTAL PLAN, CHURCH PLAN OR NON-U.S. PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE WILL NOT GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFORE, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON)."

- (h) if it holds an interest in a Regulation S Global Note, a Bearer Global Note or a Regulation S Definitive Note, that if it should resell or otherwise transfer such interest in the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (i) (A) in an offshore transaction in compliance with Rule 903 or 904 under the Securities Act or (B) other than with respect to a Bearer Global Note, to a QIB in compliance with Rule 144A, and (ii) in accordance with all applicable U.S. federal and State securities laws; and it acknowledges that the Regulation S Global Notes, the Bearer Global Notes and the Regulation S Definitive Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.

EACH PURCHASER AND TRANSFEREE OF THIS NOTE WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE WILL NOT BE, ACQUIRING OR HOLDING THIS NOTE WITH THE ASSETS OF AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING OR A U.S. GOVERNMENTAL PLAN, CHURCH PLAN OR NON-U.S. PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE WILL NOT GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.”; and

- (i) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Each purchaser and transferee of a Note will be deemed to represent and warrant that either: (i) it is not, and for so long as it holds a Note will not be, acquiring or holding the Note with the assets of an “employee benefit plan” as defined in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, a “plan” as defined in and subject to Section 4975 of the Code, any entity whose underlying assets include “plan assets” of any of the foregoing or a U.S. governmental plan, church plan or non-U.S. plan that is subject to any Similar Law, or (ii) the acquisition, holding and disposition of such Note will not give rise to a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of Similar Law.

Institutional Accredited Investors who purchase Registered Notes offered and sold in the United States as part of their original issuance in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter.

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of the Base Prospectus and such other information as it deems necessary in order to make its investment decision;



- (ii) that the Institutional Accredited Investor understands that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Base Prospectus and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
- (iv) that it is an Institutional Accredited Investor and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;
- (v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of IAI Registered Notes, Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefore in the United States to any one purchaser will be for less than U.S.\$200,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors (other than pursuant to Rule 144A), U.S.\$500,000 (or its foreign currency equivalent) principal amount and no such Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$200,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors (other than pursuant to Rule 144A), U.S.\$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

Pursuant to the BRSA decision dated 6 May 2010 No. 3665, the BRSA decision dated 30 September 2010 No. 3875 and in accordance with Decree 32, residents of Turkey: (a) may purchase or sell Notes denominated in a currency other than Turkish Lira offshore on an unsolicited (reverse inquiry) basis in the secondary markets only and (b) may purchase or sell Notes denominated in Turkish Lira offshore on an unsolicited (reverse inquiry) basis in both the primary and secondary markets. Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes offshore on an unsolicited (reverse inquiry) basis; provided that such purchase or sale is made through licensed banks or licensed brokerage institutions authorised pursuant to CMB and/or BRSA regulations and the purchase price is transferred through banks. As such, Turkish residents should use licensed banks or licensed brokerage institutions authorised pursuant to CMB and/or BRSA regulations while purchasing the Notes and should transfer the purchase price through licensed banks authorised under the BRSA Regulations.

## **Selling Restrictions**

### **Turkey**

The Issuer has obtained the CMB Approval from the CMB and the BRSA Approval from the BRSA required for the issuance of Notes under the Programme. Pursuant to the CMB Approval and the BRSA Approval, the offer, sale and issue of Notes under the Programme has been authorised and approved in accordance with Decree 32, the Banking Law and its related legislation and the Capital Markets Law and its related legislation. In addition, Notes may only be offered or sold outside of Turkey in accordance with the CMB Approval and the BRSA Approval. Under the CMB Approval, the CMB has authorised the offering, sale and issue of any Notes within the scope of such CMB Approval on the condition that no sale or offering of Notes may be made by way of public offering or private placement in Turkey. Notwithstanding the foregoing, pursuant to the BRSA decision dated 6 May 2010 No. 3665, the BRSA decision dated 30 September 2010 No. 3875 and in accordance with Decree 32, residents of Turkey: (a) may purchase or sell Notes denominated in a currency other than Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis in the secondary markets only; and (b) may purchase or sell Notes denominated in Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis both in the primary and secondary markets. Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes offshore on an unsolicited (reverse inquiry) basis *provided* that such purchase or sale is made through licensed banks or licensed brokerage institutions authorised pursuant to CMB and/or BRSA regulations and the purchase price is transferred through licensed banks authorised under BRSA regulations. As such, Turkish residents should transfer the purchase price through licensed banks authorised under the BRSA regulations.

A tranche issuance certificate (*tertip ihraç belgesi*) approved by the CMB in respect of each Tranche of Notes shall be obtained by the Issuer prior to the issue date of each such Tranche of Notes. The Issuer shall maintain all authorisations and approvals of the CMB as necessary for the offer, sale and issue of Notes under the Programme.

Monies paid for purchases of Notes are not protected by the insurance coverage provided by the SDIF.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder.

In connection with any Regulation S Notes each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, other than in an offshore transaction to, or for the account or benefit of, persons that are not U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each distributor to which it sells any Regulation S Notes during the applicable distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes other than in an offshore transaction to, or for the account or benefit of,

persons that are not U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes other than in an offshore transaction to a person that is not a U.S. person by any distributor (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Registered Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in the Deed Poll to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

### **Public Offer Selling Restriction under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;

- the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (“FSMA”) by the Issuer
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the “FIEA”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### **Kingdom of Bahrain**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes to (i) the Public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001 of Bahrain)) in the Kingdom of Bahrain or (ii) any person in the Kingdom of Bahrain who is not an “accredited investor”.

For this purpose, an “accredited investor” means:

- an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;
- a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

## **Hong Kong**

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

## **Switzerland**

In Switzerland, this Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations nor a simplified prospectus as such term is understood pursuant to article 5 of the Swiss Collective Investment Scheme Act, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Base Prospectus nor any other offering or marketing material relating to the offering of the Notes has been or will be filed with or approved by any Swiss regulatory authority. Notes issued under the Programme do not constitute a participation in a collective investment scheme in the meaning of the Swiss Collective Investment Schemes Act and are not subject to the approval of, or supervision by, any Swiss regulatory authority, such as the Swiss Financial Markets Supervisory Authority (“FINMA”), and investors in the Notes will not benefit from protection or supervision by any Swiss regulatory authority.

## **Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered or sold any Notes or caused any Notes to be the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”)) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(1) of the SFA, or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law; or
- (iv) pursuant to Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### **Thailand**

This Base Prospectus has not been approved by or filed with the Securities and Exchange Commission or any other regulatory authority of the Kingdom of Thailand. Accordingly, the Notes may not be offered or sold, nor may this Base Prospectus or any other documents in relation to the offer of the Notes be distributed to any person in Thailand except under circumstances that will result in compliance with all applicable laws, regulations and guidelines promulgated by the Thai government and regulatory authorities in effect at the relevant time.

### **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefore.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## GENERAL INFORMATION

### Authorisation

The update of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 30 September 2015.

### Listing of Notes

This Base Prospectus has been approved by the Central Bank of Ireland as a base prospectus. Application has also been made to the Irish Stock Exchange for Notes issued under the Programme to be admitted to the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of the MiFID.

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available in physical form for inspection from the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being in London:

- (a) the articles of association (with a certified English translation thereof) of the Issuer;
- (b) the independent auditors' audit reports and audited consolidated BRSA Financial Statements of the Group for the years ended 31 December 2015, 2014 and 2013;
- (c) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Issuer for the years ended 31 December 2015, 2014 and 2013;
- (d) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer, in each case in English and together with any audit or review reports prepared in connection therewith. The Issuer currently prepares audited consolidated and unconsolidated financial statements in accordance with BRSA Principles on an annual basis, audited consolidated financial statements in accordance with IFRS on an annual basis, unaudited consolidated and unconsolidated interim financial statements in accordance with BRSA Principles on a quarterly basis and unaudited consolidated interim financial statements in accordance with IFRS on a semi-annual basis (though the Issuer's IFRS financial statements do not constitute a part of, and are not incorporated by reference into, this Base Prospectus);
- (e) the Agency Agreement, the Deed of Covenant and the Deed Poll, and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (f) a copy of this Base Prospectus; and
- (g) any future base prospectuses, prospectuses, information memoranda, supplements and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

In addition, copies of this Base Prospectus and the documents incorporated by reference herein will also be available in electronic format on the Issuer's website.

See "*Documents Incorporated by Reference*" above. Each Final Terms relating to Notes which are admitted to trading on the Irish Stock Exchange's regulated market will also be available on the Issuer's website.

### **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) Common Code, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

### **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of either the Bank or the Group, and no material adverse change in the financial position or prospects of either the Bank or the Group, since 31 December 2015.

### **Litigation**

Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

### **Auditors**

The 2013 BRSA Financial Statements and the 2014 BRSA Financial Statements have each been audited in accordance with the "Regulation Regarding the Authorisation and Activities of Institutions that will Perform Independent Audit at Banks" as published in the Official Gazette No. 26333 on 1 November 2006 and International Standards on Auditing and the 2015 BRSA Financial Statements have been audited in accordance with the "Regulation on Independent Audit of Banks" as published in the Official Gazette No. 29314 on 2 April 2015 and Independent Standards on Auditing, which is a component of TAS as published by the POA, in each case by KPMG.



KPMG, which is located at Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No 29, 34805 Beykoz, İstanbul, Turkey, is an independent certified public accountant in Turkey and is authorised by the BRSA to conduct independent audits of banks in Turkey.

### **Dealers transacting with the Issuer**

Certain of the Dealers, the Arrangers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer and its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Arrangers, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. The Arrangers, certain of the Dealers and their respective affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Arrangers, such Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Arrangers, the Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## **APPENDIX 1**

### **OVERVIEW OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND BRSA ACCOUNTING PRINCIPLES**

Certain of the financial statements and financial information included in this Base Prospectus have been prepared in accordance with Turkish Accounting Standards (“TAS”), Turkish Financial Reporting Standards (“TFRS”) and the statements, communiqués and guidance published by the BRSA on accounting and financial reporting principles (i.e., the BRSA Principles). Although the TFRS is almost an exact translation of IFRS, the BRSA Principles, statements, communiqués and guidance differ from IFRS in some instances. Such differences primarily relate to presentation of financial statements, disclosure requirements and accounting policies. The following paragraphs summarize major areas in which the BRSA Principles and IFRS differ from each other.

#### **Consolidation**

Consolidation principles under the BRSA Principles and IFRS are based upon the concept of the power to control in determining whether a parent/subsidiary relationship exists and that consolidation is appropriate. Control is typically exhibited where an entity has the majority of the voting rights.

Under the BRSA Principles, only subsidiaries and associates operating in the financial services sector are required to be consolidated with a bank; the rest are carried at cost or at fair value. IFRS does not make such a sectoral distinction in terms of consolidation.

#### **Allowance for Loan Losses**

Under the BRSA Principles, specific and general reserves for possible loan losses are provided for in accordance with the Regulation on Provisions and Classification of Loans and Receivables issued by the BRSA. All loans are grouped into five categories mainly depending upon their past due status and creditworthiness of the borrower. The BRSA Principles have prescribed certain minimum provisioning rates for groups comprising non-performing loans after taking into account collateral (specific provision) and a separate rate for groups comprising performing loans (general provision – the general provision rate is specified by BRSA and applied consistently across the Turkish banking sector).

The Bank’s policy is to provide fully (at a rate of 100 per cent.) for its non-performing loan portfolio. Legal requirements allow differing minimum provisions depending on the category of the non-performing loan, including minimum provisions of 20 per cent., 50 per cent. and 100 per cent. to be set aside for loans and receivables in Groups III, IV and V, respectively (see “*Turkish Regulatory Environment – Loan Loss Reserves*”).

Under IFRS, for loans that have been identified as impaired, the amount of the impairment loss is measured as the difference between the loan’s carrying amount and the present value of expected future cash flows discounted at the loan’s original effective interest rate. IFRS requires a form of individual assessment for loans that are individually significant and a collective assessment for loans that form part of a group of loans with similar credit characteristics.

#### **Deferred Tax**

In accordance with IFRS, deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally

recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. On the other hand, under the BRSA Principles, it is not permitted to recognize deferred tax on a general provision allocated based upon BRSA rules although it constitutes a temporary difference based upon IAS 12 Income Taxes. Besides, under IFRS, it shall be calculated deferred tax base for the difference between allowances for loan losses calculated based upon the BRSA Principles and IFRS.

### **Presentation of Financial Statements**

Although presentation of the financial statements under both the BRSA Principles and IFRS are similar to each other, there are still differences (*e.g.*, IFRS 7). BRSA financial statements are presented under a special format determined by the BRSA. Similarly, both cash flow and comprehensive income statements are presented using this specified format.

There are other similar differences in the accounting policies and disclosure requirements applied to subsidiaries and associates that are subject to consolidation. These differences vary based upon the sector that the related associate or subsidiary operates in, especially factoring and leasing services, which are subject to specific BRSA policies/requirements.

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