

## IMPORTANT NOTICE

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE PURCHASING IN OFFSHORE TRANSACTIONS AND ARE NOT U.S. PERSONS (EACH AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)).**

**IMPORTANT: You must read the following before continuing.** The following applies to the attached Prospectus (the “Prospectus”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from (or on behalf of) the issuer as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OF AMERICA (WITH ITS TERRITORIES AND POSSESSIONS), ANY STATE OF THE UNITED STATES AND THE DISTRICT OF COLUMBIA, COLLECTIVELY THE “UNITED STATES”) OR ANY OTHER JURISDICTION TO THE EXTENT THAT IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER UNITED STATES JURISDICTION AND SUCH SECURITIES MAY NOT 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 (“REGULATION S”)).

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, THEN YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation of your Representation:** In order to be eligible to view the Prospectus or make an investment decision with respect to the securities described therein, prospective investors must be purchasing in offshore transactions, not be U.S. persons (each as defined in Regulation S). The Prospectus is being sent at your request and by accepting this electronic distribution and accessing the Prospectus, you will be deemed to have represented to the issuer that: (a) you and any customers you represent in connection herewith are purchasing in offshore transactions and not U.S. persons and, if applicable, that the electronic mail address to which this electronic transmission has been delivered is not located in the United States, (b) you consent to delivery of the Prospectus by electronic transmission and (c) you have understood and agree to the terms set out herein.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place to the extent that offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and an underwriter or any affiliate of an underwriter is a licensed broker or dealer in that jurisdiction, then the offering will be deemed to be made by such underwriter or such affiliate on behalf of the issuer in such jurisdiction.

The Prospectus has been provided to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan Securities plc, Société Générale and Standard Chartered Bank, as joint lead managers (the “Joint Lead Managers”), the issuer or any person who controls any of them, nor any director, officer, employee, counsel nor agent of any of them or any affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from any of the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The Prospectus is being distributed only to and directed only at: (a) persons who are outside the United Kingdom, (b) persons in the United Kingdom who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or (c) those persons in the United Kingdom to whom it may otherwise lawfully be distributed (all such persons together being referred to as “relevant persons”). In the United Kingdom, the Prospectus is directed only at relevant persons and must not be acted upon or relied upon by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which the Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

The Prospectus is being distributed only to and directed at real persons and legal entities domiciled outside of Turkey.

## PROSPECTUS



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## U.S.\$300,000,000 Fixed Rate Resetable Tier 2 Sustainable Notes due 2027

**Issue price: 100 per cent.**

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”), is issuing U.S.\$300,000,000 Fixed Rate Resetable Tier 2 Sustainable Notes due 2027 (the “Notes”). The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or any U.S. State securities laws and are being offered for sale only in offshore transactions to non-U.S. persons in reliance upon Regulation S under the Securities Act (“Regulation S”). For a description of certain restrictions on the sale and transfer of investments in the Notes, see “*Subscription and Sale*” herein.

INVESTING IN THE NOTES INVOLVES CERTAIN RISKS. FOR A DISCUSSION OF THESE RISKS, SEE “*RISK FACTORS*”.

The Notes will bear interest from (and including) 28 March 2017 (the “Issue Date”) to (but excluding) 29 March 2022 (the “Issuer Call Date”) at a fixed rate of 7.625 per cent. per annum. From (and including) the Issuer Call Date to (but excluding) 29 March 2027 (the “Maturity Date”) the Notes will bear interest at a fixed rate equal to the Reset Interest Rate (as defined herein). Interest will be payable semi-annually in arrear on 29 March and 29 September in each year (each an “Interest Payment Date”) up to (and including) the Maturity Date, except that there will be a long first coupon in respect of the first interest period from, and including, the Issue Date to, but excluding, 29 September 2017, and provided further that if any such date is not a Payment Business Day (as defined in Condition 7), then such payment will be made on the next Payment Business Day but without any further interest or other payment being made in respect of such delay. Subject to having obtained the prior approval of the Banking Regulatory and Supervisory Agency (the “BRSA”) and as further provided in Condition 8, the Issuer may redeem all but not some only of the Notes: (a) on the Issuer Call Date, (b) at any time for certain tax reasons or (c) upon the occurrence of a Capital Disqualification Event, in each case at their then Prevailing Principal Amount (as defined in Condition 5) together with interest accrued but unpaid to (but excluding) the date of redemption. The Notes are otherwise scheduled to be repaid on the Maturity Date. For a more detailed description of the Notes, see “*Conditions of the Notes*” herein.

The Notes are subject to loss absorption upon the occurrence of a Non-Viability Event (as defined in Condition 6.2), in which case an investor in the Notes might lose some or all of its investment in the Notes. See Condition 6.

This Prospectus (this “Prospectus”) has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC as amended (“Prospectus Directive”) (including the amendments made by Directive 2010/73/EU). The Central Bank of Ireland only approves this 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 of the European Parliament and of the Council on markets in financial instruments (“MiFID”) and/or that are to be offered to the public in any member state of the European Economic Area (a “Member State”). Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list (the “Official List”) and trading on the Main Securities Market; however, no assurance can be given that such application will be accepted. References in this Prospectus to the Notes being “listed” (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to 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 its approval of the issuance and sale of the Notes by the Bank outside of Turkey. The Notes cannot be sold before the necessary approvals and an approved issuance certificate (*ihraç belgesi*) are obtained from the CMB. The CMB approval approving the issuance certificate (*ihraç belgesi*) based upon which the offering of the Notes will be conducted was obtained on 31 January 2017, and the written approval of the CMB relating to the Notes is expected to be obtained from the CMB on or before the Issue Date.

Under current Turkish tax law, withholding tax at the rate of 0 per cent. applies to interest on the Notes. See “*Taxation Certain Turkish Tax Considerations*”.

The Notes are expected to be rated at issuance “B1” by Moody’s Investors Service Limited (“Moody’s”) and “BB-” by Fitch Ratings Ltd. (“Fitch and, together with Moody’s, the “Rating Agencies”). The Bank has also been rated by the Rating Agencies, as set out on page 122 of this Prospectus. Each of the Rating Agencies is established in the EU and is registered under Regulation (EU) 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 on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision, reduction or withdrawal at any time by the assigning rating agency.

The Notes are being offered in reliance upon Regulation S by each of Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan Securities plc, Société Générale and Standard Chartered Bank (each a “Joint Lead Manager” and, collectively, the “Joint Lead Managers”), subject to their acceptance and right to reject orders in whole or in part. It is expected that delivery of the Notes will be made in book-entry form only through the facilities of Euroclear Bank SA/NV (“Euroclear”) and/or Clearstream Banking, S.A. (“Clearstream, Luxembourg”), against payment therefor in immediately available funds on the Issue Date.

### Global Coordinators

**Citigroup**

**Standard Chartered Bank**

### Joint Lead Managers

**Citigroup**

**HSBC**

**J.P. Morgan**

**Société Générale  
Corporate & Investment Banking**

**Standard Chartered  
Bank**

**The date of this Prospectus is 24 March 2017.**

**This Prospectus constitutes a prospectus for the purposes of the Prospectus Directive.**

**This Prospectus is to be read in conjunction with the financial statements that form part of and are included herein (or are incorporated by reference herein). See “Documents Incorporated by Reference.”**

The Bank, having made all reasonable enquiries, confirms that: (a) this Prospectus (including the information incorporated herein by reference) contains all information that in its view is material in the context of the issuance and offering of the Notes (or beneficial interests therein), (b) the information contained in, or incorporated by reference into, this Prospectus is true and accurate in all material respects and is not misleading, (c) any opinions, predictions or intentions expressed in this Prospectus (or any of the documents incorporated herein by reference) on the part of the Bank are honestly held or made by the Bank and are not misleading in any material respects, and there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions, predictions or intentions misleading in any material respect, and (d) all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Bank or the Joint Lead Managers to subscribe for or purchase, any Notes (or beneficial interests therein). This Prospectus is intended only to provide information to assist potential investors in deciding whether or not to subscribe for or purchase Notes (or beneficial interests therein) in accordance with the terms and conditions specified by the Joint Lead Managers. The Notes (and beneficial interests therein) may not be offered or sold, directly or indirectly, and this Prospectus may not be circulated, in any jurisdiction except in accordance with legal requirements applicable to such jurisdiction.

Neither this Prospectus nor any other information supplied in connection with the Notes: (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Bank or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the Notes should invest in the Notes. Each investor contemplating investing in the Notes should: (i) determine for itself the relevance of the information contained in, or incorporated into, this Prospectus, (ii) make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank and (iii) make its own determination of the suitability of any such investment in light of its own circumstances, with particular reference to its own investment objectives and experience, in each case based upon such investigation as it deems necessary.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes (or beneficial interests therein) shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof (or, if such information is stated to be as of an earlier date, subsequent to such earlier date) or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

The distribution of this Prospectus and the offer or sale of the Notes (or beneficial interests therein) may be restricted by law in certain jurisdictions. The Bank and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that the Notes (or beneficial interests therein) 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 Bank that is intended to permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly: (a) no Notes (or beneficial interests therein) may be offered or sold, directly or indirectly, and (b) neither: (i) this 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 Prospectus or any Notes (or beneficial interests therein) come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus, any advertisement or other offering material and the offering and sale of Notes (or beneficial interests therein). In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, Turkey and the United Kingdom. For a description of certain restrictions on offers, sales and deliveries of the Notes (or beneficial interests therein) and on the distribution of this Prospectus and other offering material relating to the Notes, see “*Subscription and Sale.*”

No person has been authorised by the Bank to give any information or make any representation not contained in or consistent with this Prospectus or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank or any of the Joint Lead Managers.

In making an investment decision, investors must rely upon their own examination of the Bank and the terms of the Notes, 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 BRSA, CMB 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 Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary might be unlawful.

No representation or warranty, express or implied, is made by the Joint Lead Managers as to the accuracy or completeness of the information set forth in this Prospectus, and nothing contained in this Prospectus is, or should be relied upon as, a promise or representation, whether as to the past or the future, by the Joint Lead Managers. None of the Joint Lead Managers assumes any responsibility for the accuracy or completeness of the information set forth in this Prospectus. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Bank and its own determination of the suitability of any such investment in light of its own circumstances, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment. The Notes may not be suitable investments for all investors. In particular, each potential investor should:

- have 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 in this Prospectus or any applicable supplement,
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular circumstances, an investment in the Notes and the impact such investment will have on its overall investment portfolio,
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal and interest payments is different from the potential investor’s currency,
- understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets in which they participate, and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

None of the Bank, the Joint Lead Managers or any of their respective counsel or other representatives is making any representation to any offeree or purchaser of the Notes (or beneficial interests therein) regarding the legality of any investment by such offeree or purchaser under applicable legal investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of an investment in the Notes.

## GENERAL INFORMATION

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

The Bank has obtained the approval of the CMB (dated 31 January 2017 No. 29833736-105.03.01-E.1202 (the “CMB Approval”) and the approval of the Banking Regulatory and Supervisory Agency (the “BRSA“ and the “BRSA Approval”, respectively and together with the CMB Approval, the “Approvals”) (dated 20 December 2016 and numbered 32521522-101.01[10]-E.20811) required for the issuance of the Notes. In addition, the CMB introduced an amendment to the Capital Markets Law and Communiqué VII-128.8 on Debt Instruments (the “Communiqué on Debt Instruments”) on 18 February 2017 pursuant to which an issuer is required, using an electronic application platform, to apply to the CMB before the issue date to obtain the CMB’s approval in respect of each tranche of notes to be issued. However, since the electronic application platform is yet to be established by the CMB as of the date of this Prospectus, a written approval from the CMB relating to the approval of the issue of the Notes is expected to be obtained on or before the Issue Date. Pursuant to the Approvals, the offer, sale and issue of the Notes 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 Communiqué on Debt Instruments and its related legislation.

The Issuer has obtained a letter dated 10 March 2017 and numbered 32521522-101.01[10]-E.4120 from the BRSA (the “BRSA Tier II Approval”) approving the treatment of the Notes as Tier II capital of the Issuer for so long as the Notes comply with the requirements of the Regulation on Equities of Banks as published in the Official Gazette dated 5 September 2013 and numbered 28756 (as amended from time to time) (the “Equity Regulation”). The BRSA Tier II Approval is conditional upon the compliance of the Notes with the requirements of the Equity Regulation. For a description of other regulatory requirements in relation to Tier II capital requirements, see “*Turkish Regulatory Environment – Capital Adequacy*”.

In addition, the Notes (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the Approvals. Under the CMB Approval, the CMB has authorised the offering, sale and issue of the Notes on the condition that no transaction that qualifies as a sale or offering of Notes (or beneficial interests therein) in Turkey may be engaged in. 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 may purchase or sell Notes (or beneficial interests therein) denominated in a currency other than Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis in the secondary markets only. Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes (or beneficial interests therein) 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 when purchasing Notes (or beneficial interests therein) and should transfer the purchase price through licensed banks authorised under BRSA regulations. Monies paid for any purchase of Notes are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund (the “SDIF”).

The Bank is required to notify the Central Registry Agency (Merkezi Kayıt Kuruluşu) (the “CRA”) within three Turkish business days from the Issue Date of the amount, issue date, ISIN code, interest commencement date, maturity date, interest rate, name of the custodian and currency of the Notes, as well as the country of issuance.

The Notes will on the Issue Date be represented by beneficial interests in a permanent global certificate in fully registered form without interest coupons (the “Global Certificate”). The Global Certificate will be deposited on or about the Issue Date with a common depository (the “Common Depository”) for Euroclear and Clearstream, Luxembourg, and will be registered in the name of a nominee of the Common Depository. Except as described in this Prospectus, beneficial interests in the Global Certificate will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect accountholders in Euroclear and Clearstream, Luxembourg. Except as described in this Prospectus, owners of beneficial interests in the Global Certificate will not be entitled to have the Notes registered in their names, will not receive or be entitled to receive physical delivery of the Notes in definitive form and will not be considered holders of the Notes under the Notes and the agency agreement relating to the Notes to be dated the Issue Date (the “Agency Agreement”).

An application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market; however, no assurance can be given that such application will be accepted.

In connection with the issue of the Notes, Citigroup Global Markets Limited (the “Stabilisation Manager”) (or persons acting on behalf of the Stabilisation Manager) 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, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules. Notwithstanding anything herein to the contrary, the Bank may not (whether through over-allotment or otherwise) issue more Notes than have been authorised by the CMB.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes (or any beneficial interest therein) in any jurisdiction to the extent that such offer or solicitation is unlawful. In particular, there are restrictions on the distribution of this Prospectus and the offer and sale of the Notes (and beneficial interests therein) in the United States, Turkey, the United Kingdom and other jurisdictions.

## **INFORMATION CONTAINED IN THIS PROSPECTUS**

The Bank accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Bank (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

To the fullest extent permitted by law, none of the Joint Lead Managers accept any responsibility for the information contained in, or incorporated by reference into, this Prospectus or any other information provided by the Bank in connection with the Notes or for any statement made, or purported to be made, by a Joint Lead Manager or on its behalf in connection with the Notes. Each Joint Lead Manager 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.

All of the information contained in this Prospectus concerning the Turkish market and the Bank’s competitors has been obtained (and extracted without material adjustment) from publicly available information. Where third-party information has been used in this Prospectus, the source of such information has been identified. The Issuer confirms that all such information has been accurately reproduced and, as far as the Bank is aware and able to ascertain from the information published by such third-party sources, no facts have been omitted

that would render the reproduction of this information inaccurate or misleading. Without prejudice to the generality of the foregoing statement, third-party information in this Prospectus, while believed to be reliable, has not been independently verified by the Bank or any other party.

The language of this 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 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 <https://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 Prospectus.

#### **CAUTION STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus contains statements that may be considered to be "forward-looking statements". Forward-looking statements include statements concerning the Bank's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "may", "will", "should" and any similar expression generally identify forward-looking statements. Forward-looking statements appear in a number of places throughout this 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 Bank has identified certain of the material risks inherent in these forward-looking statements and these are set out under "Risk Factors".

The Bank has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although the Bank's management believes that the expectations,

estimates and projections reflected in such forward-looking statements are reasonable as of the date of this Prospectus, if one or more risks or uncertainties materialise, including those identified by the Bank in this Prospectus, or if any of the Bank's underlying assumptions prove to be incomplete or incorrect, then the Bank's actual results of operations may vary from those expected, estimated or projected and those variations may be material.

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

Potential investors should not place undue reliance upon any forward-looking statements. Without prejudice to any requirements under applicable laws and regulations, the Bank expressly disclaims any obligation or undertaking to disseminate after the date of this 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 upon which any such forward-looking statement is based.

## **PRESENTATION OF FINANCIAL INFORMATION**

The Bank maintains its books and prepares its statutory financial statements in Turkish Lira in accordance with the Banking Regulation and Supervision Agency's (the "BRSA") "Accounting and Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, other regulations on accounting records of Banks published by the Banking Regulation and Supervision Board, circulars and interpretations published by the BRSA and certain other requirements of the Turkish Accounting Standards for matters not regulated by the aforementioned legislation (together, the "BRSA Principles").

The Group's consolidated and the Bank's unconsolidated annual statutory financial statements as of and for the years ended 31 December 2014, 2015 and 2016 (together, the "BRSA Financial Statements") have 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 BRSA Financial Statements as of and for the year ended 31 December 2014 have been audited by *Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.* (the Turkish member firm of KPMG International Cooperative, a Swiss entity) ("KPMG") in accordance with the "Regulation on Authorisation and Activities of Institutions to Perform Independent Audit at Banks" as published in the Official Gazette No. 26333 on 1 November 2006 and the "Standards on Auditing" which are a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). The BRSA Financial Statements as of and for the years ended 31 December 2015 and 2016 have been audited by KPMG in accordance with the "Regulation on Independent Audit of Banks" as published in the Official Gazette No. 29314 on 2 April 2015 by the BRSA and the "Independent Standards on Auditing" which are a component of the Turkish Accounting Standards published by the POA. See KPMG's reports included within

the BRSA Financial Statements incorporated by reference into this Prospectus. According to BRSA regulations, the Bank is required to rotate its external auditors. As a result, KPMG was appointed as the Bank's external auditor as of 1 January 2010 through 31 December 2016. On 23 March 2017, Ernst & Young Turkey was appointed as the Bank's external auditor for 2017 onward.

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 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 for the six months ended 30 June 2016. 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 Prospectus.

Certain figures included in, or incorporated by reference into, this 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 Prospectus.

## **PRESENTATION OF NON-GAAP MEASURES OR ALTERNATIVE PERFORMANCE MEASURES**

To supplement the Group's consolidated financial statements presented in accordance with BRSA Principles, the Group uses certain ratios and measures included in this Prospectus that would be considered non-GAAP financial measures as these measures are not defined under IFRS or BRSA Principles and/or Alternative Performance Measures ("APMs") as defined in the European Securities and Markets Authority Guidelines ("ESMA Guidelines"). For the Group, these measures include (without limitation):

- *net interest margin*: for a particular period, this is: (a) the Bank-only net interest income (excluding interest from the Central Bank on reserves held thereat) for such period (and, when calculating for the interim period, the figure is annualised by multiplying the Bank-only net interest income for the indicated period of such year by 12 and divided by the number of months in such period) *divided by* (b) the Bank-only quarterly average interest earning assets (excluding reserves held at the Central Bank). The "quarterly average" interest earning assets for a period are calculated by averaging the

amount of interest earning assets as of the balance sheet date immediately prior to the commencement of such period (e.g., for any year, 31 December of the previous year) and each intervening quarter-end date (i.e., 31 March, 30 June, 30 September and 31 December, as applicable);

- *cost-to-income ratio*: for a particular period, this is: (a) the “cost” (calculated as total operating expenses) for such period divided by (b) the “income” (calculated as total operating income) for such period;
- *free capital ratio*: as of a particular date, this is: (a) the Group's total shareholders' equity as of such date minus the Group's fixed assets, investment property, investments in equity participations (i.e., the sum of investment in associates (net), investment in subsidiaries (net) and jointly controlled entities (joint ventures) (net)) and non-performing loans net of specific provisions as of such date *as a percentage of* (b) the Group's total assets as of such date;
- *non-performing loans to total cash loans*: as of a particular date, this is: (a) non-performing loans as of such date *divided by* (b) the aggregate amount of loans and receivables (performing), as of such date;
- *compound annual growth rate (“CAGR”)*: 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.
- *cost to average total assets*: for a particular period, this is: (a) the “cost” (calculated as total operating expenses) for such period *as a percentage of* (b) the average total assets (determined on a quarterly basis);
- *average interest earning assets*: for a particular period, this is: the sum of the quarterly averages of loans and receivables (performing), total securities portfolio, banks and money market placements calculated by averaging the amount of interest earning assets as the balance sheet date immediately prior to the commencement of such period (i.e., for 31 December of the previous year) and each intervening quarter-end date (i.e., 31 March, 30 June, 30 September and 31 December, as applicable);
- *return on average total assets*: for a particular period, this is: (a) the net income for such period (and, when calculating for the interim period, the figure is annualised by multiplying the net income for the indicated period of such year by 12 and divided by the number of months in such period) *as a percentage of* (b) average total assets (determined on a quarterly basis);
- *return on average shareholders' equity excluding minority interest*: for a particular period, this is: (a) the net income (when calculated for the Group, excluding minority interest) for such period (and when calculating for the interim period, the figure is annualised by multiplying the net income for the indicated period of such year by 12 and divided by the number of months in such period) *as a percentage of* (b) the average shareholders' equity (when calculated for the Group, non-controlling interest); and
- *average shareholders' equity*: for a particular period, unless stated otherwise, this is calculated by averaging the amount of shareholders' equity (when calculated for the Group excluding non-controlling interest) as of the balance sheet date immediately prior to the commencement of such period (e.g., for any year, 31 December of the previous year) and each intervening quarter-end date (i.e., 31 March, 30 June, 30 September and 31 December, as applicable) or year-end date, as applicable.

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 and APMs contained herein are not a substitute for GAAP measures, for which management has responsibility.

The APMs contained herein relate to past (and not future) reporting periods. Reconciliations contained herein are made to the BRSA Financial Statements and the notes thereto as at, and for the time period ending on, the date as of which the relevant APM is provided.

Refer to the “*Overview The Group*”, “*Summary Financial and Other Information*”, “*Operating and Financial Review*” and “*Business of the Group*” sections of this Prospectus for an additional discussion of the specific adjustments applied in reconciliation to the directly comparable GAAP measures.

The non-GAAP measures and APMs included in this 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 and APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with BRSA Principles. Non-GAAP financial measures and APMs 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 and APMs, 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 and APMs provides consistency in the Group’s financial reporting and thus improves investors’ ability to assess the Group’s trends and performance over multiple periods.

## **CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION**

Unless otherwise indicated, references to “Turkish Lira“ or “TL“ are references to the Turkish currency, references to “U.S.\$”, “\$”, “USD”, “U.S. Dollars” or “Dollars” are to United States Dollars and references to “Euro“ or “€“ are 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.

No representation is made that the Turkish Lira or Dollar amounts in this Prospectus could have been or could be converted into Dollars or 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*”.

## TABLE OF CONTENTS

	<b>Page</b>
OVERVIEW .....	13
RISK FACTORS .....	17
DOCUMENTS INCORPORATED BY REFERENCE .....	48
ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS .....	49
USE OF PROCEEDS .....	50
SUMMARY FINANCIAL AND OTHER INFORMATION .....	53
OPERATING AND FINANCIAL REVIEW .....	57
BUSINESS OF THE GROUP .....	97
RISK MANAGEMENT .....	124
MANAGEMENT .....	136
OWNERSHIP .....	145
RELATED PARTY TRANSACTIONS .....	147
TURKISH BANKING SYSTEM .....	148
TURKISH REGULATORY ENVIRONMENT .....	152
CONDITIONS OF THE NOTES .....	177
THE GLOBAL CERTIFICATE .....	198
TAXATION .....	200
SUBSCRIPTION AND SALE .....	203
GENERAL INFORMATION .....	206
APPENDIX 1 OVERVIEW OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND BRSA ACCOUNTING PRINCIPLES .....	208

## OVERVIEW

### The Notes

*The following overview of the Notes sets out certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. The following information is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. See, in particular, “Conditions of the Notes”.*

<b>Issue</b>	U.S.\$300,000,000 principal amount of Fixed Rate Resettable Tier 2 Sustainable Notes due 2027. The Notes are issued in compliance with Article 8 of the Equity Regulation and the BRSA Tier II Approval and subject to the CMB’s approval in accordance with the Communiqué on Debt Instruments and Article 15(b) of Decree 32.
<b>Interest and Interest Payment Dates</b>	The Notes will bear interest from (and including) the Issue Date (28 March 2017) to (but excluding) the Issuer Call Date (29 March 2022) at the rate of 7.625 per cent. per annum. From (and including) the Issuer Call Date to (but excluding) the Maturity Date (29 March 2027), the Notes will bear interest at a fixed rate equal to the Reset Interest Rate. Interest will be payable semi-annually in arrear on each Interest Payment Date (29 March and 29 September in each year), except that there will be a long first coupon in respect of the first interest period from, and including, the Issue Date to, but excluding, 29 September 2017, and provided further that, as described in Condition 7.4, if any such date is not a Payment Business Day (as defined in Condition 7.4), then such payment will be made on the next Payment Business Day but without any further interest or other payment being made in respect of such delay.
<b>Reset Interest Rate</b>	Means the rate per annum equal to the aggregate of: (a) the Reset Margin (5.544 per cent. per annum) and (b) the 5 Year Mid-Swap Rate (as defined in Condition 5.5), as determined by the Fiscal Agent on the third Business Day immediately preceding the Issuer Call Date (i.e., the Reset Determination Date).
<b>Maturity Date</b>	Unless previously redeemed or purchased and cancelled as provided in the Conditions, the Notes will be redeemed by the Bank at their Prevailing Principal Amount on the Maturity Date (29 March 2027).
<b>Use of Proceeds</b>	The net proceeds of the offering of the Notes will be used exclusively to finance and/or refinance Eligible Projects meeting the Eligibility Criteria, see “ <i>Use of Proceeds</i> ”.
<b>Regulatory Treatment</b>	Application was made by the Bank to the BRSA for confirmation that the full principal amount of the Notes will qualify for initial treatment as “Tier II” capital (as provided

<b>Status</b>	<p>under Article 8 of the Equity Regulation), which approval (i.e., the BRSA Tier II Approval) was received on 10 March 2017. See “<i>Turkish Regulatory Environment – Capital Adequacy – Tier II Rules under Turkish Law – New Tier II Rules</i>”.</p> <p>The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and claims for payment by the Issuer in respect of Notes (including claims for any damages awarded for breach of obligations in respect thereof) shall, in the case of a Subordination Event and for so long as that Subordination Event subsists, rank: (a) subordinate in right of payment to the payment of all Senior Obligations; (b) <i>pari passu</i> without any preference among themselves and with all Parity Obligations; and (c) in priority to all payments in respect of Junior Obligations.</p> <p>By virtue of the subordination of the Notes set out in Condition 3, no amount will, in the case of a Subordination Event and for so long as that Subordination Event subsists, be paid under the Notes (including claims for any damages awarded for breach of obligations in respect thereof) until all payment obligations in respect of Senior Obligations have been satisfied. See “<i>Conditions of the Notes - Condition 3.1</i>”.</p>
<b>Non-Viability/Write-Down of the Notes</b>	<p>If a Non-Viability Event occurs at any time, the Issuer shall: (a) pro rata with the other Notes and all other Parity Loss-Absorbing Instruments and (b) in conjunction with, and such that no Write-Down shall take place without there also being, the maximum possible reduction in the principal amount of and/or corresponding conversion into equity being made in respect of all Junior Loss-Absorbing Instruments and other absorption to the maximum extent allowed by law (within the framework of Article 71 of the Banking Law and/or otherwise under Turkish law and regulations) of the relevant losses by all other Junior Obligations, reduce the then Prevailing Principal Amount of each outstanding Note by the relevant Write-Down Amount in the manner described in Condition 6. Please refer to Condition 6 for further information on such potential Write-Downs, including for the definitions of various terms used in this paragraph.</p>
<b>No Set-off or Counterclaim</b>	See “ <i>Conditions of the Notes - Condition 3.2</i> ”.
<b>No Link to Derivative Transactions, Guarantees or Security</b>	See “ <i>Conditions of the Notes - Condition 3.3</i> ”.
<b>Certain Covenants</b>	The Bank will agree to certain covenants, including covenants limiting transactions with affiliates. See “ <i>Conditions of the Notes Condition 4</i> ”.
<b>Taxation; Payment of Additional Amounts</b>	All payments in respect of the Notes by or on behalf of the Bank 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 (as defined in Condition 9), unless the withholding or deduction of the Taxes is required by law. In that event, the Bank will (subject to certain exceptions set out in Condition 9) pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders 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*”.

All payments in respect of the Notes will be made subject to any withholding or deduction required pursuant to FATCA, as provided in Condition 7.2 and, in accordance with Condition 9.1, no additional amount will be payable by the Bank in respect of any such withholding or deduction.

See “*Conditions of the Notes - Condition 9*”.

#### **Issuer Call**

The Bank may, subject to Condition 8.8, having given not less than 30 nor more than 60 days’ notice to the Noteholders (which notice will be irrevocable and will specify the date fixed for redemption), redeem all but not some only, of the Notes then outstanding on the Issuer Call Date (29 March 2022) at their then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the Issuer Call Date. See “*Conditions of the Notes - Condition 8.3*” for further information.

#### **Optional Redemption for Capital Disqualification Event**

See “*Conditions of the Notes - Condition 8.4*”.

#### **Optional Redemption for Tax Reasons**

See “*Conditions of the Notes - Condition 8.2*”.

#### **Events of Default**

Upon the occurrence of certain events, the holder of any Note may exercise certain limited remedies. See “*Conditions of the Notes - Condition 11*” for further information.

#### **Form and Denominations**

Notes will be represented by beneficial interests in the Global Certificate in registered form, without interest coupons attached, which will be deposited with the Common Depository, and registered in the name of a nominee of the Common Depository. Except in limited circumstances, certificates for the Notes will not be issued to investors in exchange for beneficial interests in the Global Certificate.

Notes will be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

#### **Governing Law**

The Notes, the Agency Agreement and the Deed of Covenant, and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement and the Deed of Covenant, will be governed by, and construed in accordance with, English law, except for the provisions of Condition 3

	(including as referred to in Condition 6.1), which will be governed by, and construed in accordance with, Turkish law.
<b>Listing</b>	Application has been made by the Bank to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market; however, no assurance can be given that such application will be accepted.
<b>Turkish Selling Restrictions</b>	The offer and sale of the Notes (or beneficial interests therein) are subject to restrictions in Turkey in accordance with applicable CMB and BRSA laws and regulations. See “ <i>Subscription and Sale Turkey</i> ”.
<b>Other Selling Restrictions</b>	The Notes have not been and will not be registered under the Securities Act or any U.S. State securities laws and the Notes (or beneficial interests therein) may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the Securities Act). The offer and sale of Notes (or beneficial interests therein) is also subject to restrictions in the United Kingdom. See “ <i>Subscription and Sale</i> ”.
<b>Risk Factors</b>	There are certain factors that may affect the Bank’s ability to fulfil its obligations under the Notes. These are set out under “ <i>Risk Factors</i> ” and include risks related to the Group and its business, the Group’s relationship with the Bank’s principal shareholders, Turkey and the Turkish banking industry. In addition, there are certain other factors that are material for the purpose of assessing the risks associated with the Notes, including certain market risks. See “ <i>Risk Factors</i> ”.
<b>Issue Price</b>	100 per cent. of the principal amount.
<b>Yield</b>	7.625 per cent. per annum.
<b>Security Codes</b>	ISIN: XS1584113184 Common Code: 158411318
<b>Representation of Noteholders</b>	There will be no trustee.
<b>Expected Ratings</b>	“B1” by Moody’s and “BB-” by Fitch.
<b>Fiscal Agent, Paying Agent and Transfer Agent</b>	Citibank, N.A., London Branch.
<b>Registrar</b>	Citigroup Global Markets Deutschland AG.

## RISK FACTORS

*An investment in the Notes involves certain risks. Potential investors should carefully read this entire Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or together, could have a material adverse effect on the Group's business, operations and/or financial condition, which in turn could have a material adverse effect on the Bank's ability to make payments under the Notes. In addition, the value of the Notes could decline due to any of these risks, and prospective investors might lose some or all of their investment.*

*Prospective investors should note that the risks described below are not the only risks the Group faces. These are only the risks that the Bank considers to be material to investors in the Notes. In addition, the following describes certain general risks applicable to an investment in Turkey and the Turkish banking industry and, specifically, risks associated with an investment in the Notes. There may be additional risks that the Bank does not consider to be material to investors in the Notes, and risks of which it is currently not aware, and any of these risks could have similar effects to those described in this section.*

*This Prospectus contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Prospectus. See "Cautionary Statement Regarding Forward-Looking Statements".*

*Terms used but not defined in this section shall have the meanings given in the Conditions.*

### **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 in recent years, 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. In addition, the Group has also experienced asset quality pressure from the challenging operating environment and volatility in exchange rates. 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 continue to diversify its loan portfolio and expects to focus on infrastructure, renewable energy, energy and resource efficiency investments, as well as loans to SMEs and mid caps (defined as companies with a market capitalisation between U.S.\$2 billion and U.S.\$10 billion), including financing to promote healthcare, education services and the empowerment of women. 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 2.9 per cent. as of 31 December 2014, 3.1 per cent. as of 31 December 2015 and 3.2 per cent. as of 31 December 2016 (with respect to the Group, 0.2 per cent., 0.4 per cent. and 0.3 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 (69.9 per cent. of its long-term loans including issuances of debt securities and 87.0 per cent. excluding issuances of debt securities) as of 31 December 2016, 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 2017) 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 – Risks Relating to the Structure of the Notes – 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 2016, 72.9 per cent. (77.1 per cent. as of 31 December 2015) of the Group's foreign currency-denominated borrowing and 72.4 per cent. (75.8 per

cent. as of 31 December 2015) 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 50.65 per cent. interest in the Bank's common shares (with 41.17 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 Camiș Yatırım, Milli Reasürans Türk A.Ş. ("Milli Reasürans"), Anadolu Anonim Türk Sigorta Şirketi ("Anadolu Sigorta") and Anadolu Hayat Emeklilik A.Ş. ("Anadolu Hayat Emeklilik")) as of 31 December 2016. As a result, İşbank 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 İşbank might differ from those of the investors in the Notes and İşbank 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 İşbank 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 İşbank. 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 2016, 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, in aggregate, approximately 53,2 per cent. of the Turkish banking sector's total loan portfolio and approximately 54.1 per cent. of the Turkish banking sector's total assets, according to the BRSA. 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 may cause 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 may 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. at 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. At the start of 2016, the compound interest rate of benchmark paper was at 10.86 per cent. and decreased to 8.44 per cent as of the first half of July 2016. However, interest rates increased again from October 2016, up to 11.38 per cent. as of December 2016, as the Central Bank tightened its monetary policy. 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***

In 2016, the Bank's return on average total assets was 2.2 per cent. (compared to 1.5 per cent. for the sector according to the BRSA) and the return on its average equity was 17.4 per cent. (compared to 13.3 per cent. for the sector according to the BRSA) (2.2 per cent. and 17.0 per cent., respectively, for the Bank and 1.2 per cent. and 10.7 per cent., respectively, for the sector for the year ended 31 December 2015). 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 2016, the Group’s fee income (which excludes fee income generated from cash loans, which is booked under interest income) represented a 3.3 per cent. share in its total operating income (4.3 per cent. and 4.5 per cent. for the years ended 31 December 2015 and 2014, 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 64.1 per cent. of total fee income for the year ended 31 December 2016 (56.5 per cent. for the year ended 31 December 2015). Non-cash loans, which include letters of guarantee, letters of credit and export credit agency transactions, constituted 29.3 per cent. of total fee income for the year ended 31 December 2016 (33.4 per cent. for the year ended 31 December 2015).

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 79.9 per cent., 86.1 per cent. and 100.6 per cent. of the Group’s operating income for the years ended 31 December 2014, 2015 and 2016, respectively, and net interest margin as measured on a Bank-only basis was 4.2 per cent., 3.7 per cent. and 3.5 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 2016, 93.6 per cent. of the Group’s securities portfolio consisted of Turkish government debt securities, which accounted for 16.8 per cent. of the Group’s total assets (91.7 per cent. and 16.5 per cent., respectively, as of 31 December 2015), approximately 49.3 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 2016,

55 per cent. of the Bank's loan portfolio consisted of project finance loans (53 per cent. and 55 per cent., respectively, as of 31 December 2014 and 2015). With respect to the sectoral breakdown of the loan book, 44 per cent. were for energy-related projects (e.g., electricity production and electricity and gas distribution projects), 14 per cent. for the finance sector, 14 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, 4 per cent. for constructions projects, 2 per cent. for the automotive industry and 12 per cent. for various other sectors, in each case as of 31 December 2016.

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 20.1 per cent. as of 31 December 2016 (22.8 per cent. and 21.3 per cent., respectively, as of 31 December 2014 and 2015) while the top 20 constituted 32.9 per cent. of the Bank's loan portfolio as of the same date (36.9 per cent. and 35 per cent., respectively, as of 31 December 2014 and 2015). 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 68 per cent. of the Bank's borrowings as of 31 December 2016. 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 2016 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 Prospectus, the rating of Turkey's foreign currency-denominated long-term debt is “Ba1 (negative outlook)” from Moody's and “BB+ (stable outlook)” from Fitch. See also “– *Reliance on Government Guarantee*” above. Following the change in outlook of Turkey's rating to “negative” from “stable” on 17 March 2017, Moody's affirmed the Bank's foreign-currency long-term debt rating of “Ba1” but downgraded its outlook to “negative” from “stable” on 20 March 2017.

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 9,786 million, TL 12,564 million and TL 16,039 million as of 31 December 2014, 2015 and 2016, respectively, representing 90 per cent., 92 per cent. and 93 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 (71.1 per cent. and 79.8 per cent. of the Group's total assets and liabilities, respectively, being denominated in foreign currencies as of 31 December 2016) 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 also to diversify its loan portfolio into areas in which it currently has less or no significant exposure. Any such increase or diversification could further increase the credit risk faced by the Group. Negative developments in the Turkish economy could affect medium-sized borrowers more than large companies, resulting in higher levels of non-performing loans ("NPLs") and, as a result, higher levels of provisioning. 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. The Bank calculates its capital adequacy ratios according to the 2016 Capital Adequacy Regulation (as defined below), which allows the Bank to use ratings of eligible external credit assessment institutions (namely Fitch, Standard & Poor's, Moody's, Japan Credit Rating Agency, Ltd., DBRS Ratings Ltd. and, as of 12 January 2017, International Islamic Rating Agency) when calculating its risk-weighted assets for capital adequacy purposes. A downward change in the ratings of either Turkey or the Bank published by these rating agencies may negatively impact the Bank's applicable capital adequacy ratios.

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 (see "*Foreign Exchange and Currency Risk – The Group is exposed to foreign exchange and currency risks*" and "*Operating and Financial Review – Segmental Analysis – Assets – Sector of Loans – Currency of loans*"). 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”), which entered into force on 31 March 2016 and replaced 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 (which also entered 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 2014, 2015 and 2016 accounting for 35 per cent., 29 per cent. and 25 per cent., respectively, of its total interest income (and 30 per cent., 26.6 per cent. and 25 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 Prospectus. A summary of the most material of such differences as they apply to the Group has been included elsewhere in this 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 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*".

***Human Resources – 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 8.5 per cent. in 2010, 11.1 per cent. in 2011, 4.81 per cent. in 2012, 8.5 per cent. in 2013, 5.2 per cent. in 2014, 6.1 per cent. in 2015 and 2.2 per cent. year-on-year in the nine months ended 30 September 2016 and its unemployment rate decreasing from 14.8 per cent. in February 2009 to 12.1 per cent. in November 2016 (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, a further decrease to U.S.\$32.1 billion as of 31 December 2015 and a U.S.\$487 million increase to U.S.\$32.6 billion as of 31 December 2016.

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 basis points 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. On 25 November 2016, the Central Bank: (a) increased the upper limit of its interest rate corridor (lending rate) by 25 basis points to 8.50 per cent., (b) increased its one-week repo rate (policy rate) from 7.50 per cent. to 8.00 per cent. and (c) held its overnight borrowing rate unchanged at 7.25 per cent. On 25 January 2017, the Central Bank increased the upper limit of its interest rate corridor (lending rate) from 8.50 per cent. to 9.25 per cent. but held its one-week repo rate and its overnight borrowing rate unchanged at 8.00 per cent. and 7.25 per cent., respectively. The Central Bank also launched the Foreign Exchange Deposits against Turkish Lira Deposits Market in order to increase the Central Bank's flexibility and diversity in managing the Turkish Lira and foreign exchange liquidity. The Central Bank is expected to implement additional monetary tightening policies in the near future for price stability, if needed. 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.\$48.7 billion of net energy imports in 2014, U.S.\$33.7 billion in 2015 and U.S.\$23.9 billion in 2016. As Turkey’s 12-month current account deficit reached U.S.\$46.5 billion in 2014, U.S.\$32.1 billion in 2015 and U.S.\$32.6 billion in 2016, energy imports represented approximately 73 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 organisation 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.

On 15 July 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling government remained in control. Following the coup attempt, there have been arrests of numerous individuals, including senior members of the military, police and judiciary, as well as suspension, dismissal, travel bans and legal proceedings against police officers, public employees and the business community. As of the date of this Prospectus, investigations with respect to the attempted coup are on-going. There might be further arrests and actions taken by the government in relation to these investigations, including changes in policies and laws.

On 20 July 2016, the government declared a three-month state of emergency in the country, entitling the government to exercise additional powers and on 11 October 2016, the Grand National Assembly of Turkey ratified the Council of Ministers Decree dated 5 October 2016 to extend the state of emergency for an

additional three months. On 4 January 2017, this was extended for a further three-month period commencing from 19 January 2017. Under Article 120 of the Turkish Constitution, in the event of serious indications of widespread acts of violence aimed at the destruction of the free democratic order, a state of emergency may be declared in one or more regions of, or throughout, the country for a period not exceeding six months.

Although the Bank's operations have not been materially affected by the attempted coup, the impact on political and social circumstances following the attempted coup and its aftermath (including rating downgrades of Turkey and the Bank) might have a negative impact on the Turkish economy and institutions and could have a material adverse effect on the Group's business, financial condition and/or results of operations.

On 21 January 2017, the Turkish Parliament approved a bill that would, if approved in a referendum scheduled to be held on 16 April 2017, amend certain articles of the Turkish Constitution to expand the powers of the president. Should the majority vote to approve the package of the constitutional amendments, then: (a) the current parliamentary system will be transformed into a presidential one, (b) the president will be entitled to be the head of a political party and to appoint the cabinet, (c) the office of the prime minister will be abolished and (d) the parliament's right to interpellate (*i.e.*, the right to submit questions requesting explanation regarding an act or a policy) the cabinet members will be annulled. It is unclear what impact the constitutional amendments would have on Turkish government institutions should they be approved.

#### ***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 (8.5 per cent.), 2011 (11.1 per cent.), 2012 (4.8 per cent.), 2013 (8.5 per cent.), 2014 (5.2 per cent.), 2015 (6.1 per cent.) and 2016 (2.2 per cent. year-on-year in the nine months ended 30 September 2016). The ratio of net public debt to GDP decreased from 40.1 per cent. in 2005 to 10.9 per cent. in 2013 and then to 7.1 per cent. over the first nine months of 2015. In October 2013, the government announced a three-year medium-term economic programme from 2014 to 2016. Under this programme, the government 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., 8.8 per cent. and 8.5 per cent. in 2011, 2012, 2013, 2014, 2015 and 2016, 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., 5.7 per cent. and 9.9 per cent., respectively. The annual consumer price inflation reached 9.2 per cent. per cent. as of January 2017, 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. While relations between Turkey and Russia have recently improved, the long-term impact of this, including on other geopolitical circumstances, remains 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 third in 2016 according to TurkStat. On 24 August 2016, Turkey began military operations in Syria in an effort to clear ISIL from the Turkish-Syrian border. These operations might lead to retaliation attacks by terrorist groups and additional security risks in Turkey.

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. Several terrorist attacks carried out on Turkish soil in 2015 and 2016 have resulted in numerous civilian, police and military casualties.

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 producer price index ("PPI") increased by 6.2 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 100.3 as of 31 December 2013 to 105.0 as of 31 December 2014, indicating a 4.7 per cent. appreciation in real terms, then decreased to 97.6 as of 31 December 2015, indicating a 7.0 per cent. real depreciation, and then increased slightly to 99.1 as of May 2016, indicating a limited appreciation in the Turkish Lira in 2016.

In nominal terms, between 31 December 2014 and 31 December 2015, the Turkish Lira depreciated against the U.S. Dollar by 25.4 per cent. In particular, the value of the Turkish Lira depreciated against major

currencies in 2015 largely due to the increased risk perception in global markets regarding the market's expectation of the U.S. Federal Reserve's increase of the U.S. federal funds rate and the uncertainty resulting from the general elections in Turkey and other political events. Against these developments, the Central Bank prepared a roadmap to react to a possible rate increase by the U.S. Federal Reserve. The roadmap, which has as its base case a normalisation process by the U.S. Federal Reserve, proposes the implementation of tight liquidity for the Turkish Lira, a balanced foreign exchange liquidity and financial sector policies that are supportive of a tighter monetary policy. In December 2015, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25 per cent. While the impact of any future rate increase is uncertain, this initial step towards normalisation reduced some volatility, permitting the Turkish Lira and certain other emerging market currencies to appreciate. In the first quarter of 2016, the Turkish Lira appreciated against the U.S. Dollar by 2.6 per cent. on a nominal basis. In this context, instead of responding to the U.S. Federal Reserve's actions by changing the interest rates and implementing the roadmap, the Central Bank tightened further the liquidity of the Turkish Lira. Having declined to 7.6 per cent. in March 2015, the Central Bank's average funding rate increased to 9.0 per cent. in September 2015, before declining to 8.8 per cent as of the end of 2015. The Central Bank's average funding rate further increased to 9.1 per cent. in February 2016, but then subsequently decreased to below 9.0 per cent in March 2016 due to the U.S. Federal Reserve's dovish stance in its March 2016 meeting. Even though the Turkish Lira appreciated by 2.6 per cent. in the first quarter of 2016, due to the uncertainty resulting from the domestic political developments, the Turkish Lira depreciated against the U.S. Dollar in April and May 2016, resulting in a 1.7 per cent. decline on a nominal basis in the first five months of 2016.

In nominal terms, the Turkish Lira depreciated against the U.S. Dollar by 20.6 per cent. between 30 December 2015 and 31 December 2016, which was in part due to geopolitical risks (see "*– Terrorism and Conflicts*"), the uncertainty resulting from domestic developments (see "*– Political Developments*") and the pressure on emerging market currencies. As a response to the depreciation of the Turkish Lira, the Central Bank has adopted certain monetary policies. For instance, the Central Bank reduced the borrowing limit for Turkish banks in the Interbank Money Market (*Bankalararası Para Piyasası*) initially to TL 22 billion and subsequently to TL 11 billion on 10 January 2017 and 13 January 2017, respectively. On 24 November 2016, the Central Bank started to increase the upper limit of its interest rate corridor (lending rate). On 24 November 2016, the Central Bank increased such rate by 25 basis points and subsequently on 24 January 2017, the Central Bank increased further by 75 basis points to 9.25 per cent. On 24 November 2016, the Central Bank also increased its one-week repo rate by 50 basis points to 8.00 per cent. from 7.50 per cent., while leaving its overnight borrowing rate unchanged at 7.25 per cent. The Central Bank also launched the Foreign Exchange Deposits against Turkish Lira Deposits Market in order to increase the Central Bank's flexibility and diversity in managing the Turkish Lira and foreign exchange liquidity. The Central Bank is expected to implement additional monetary tightening policies in the near future for price stability, if needed.

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 2016, 93.6 per cent. of the Group's total securities portfolio (16.8 per cent. of its total assets and equal to 133 per cent. of its shareholders' equity) was invested in securities issued by the Turkish government (90.8 per cent., 16.5 per cent. and 127 per cent., respectively, as of 31 December 2015). 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 Notes**

### **Risks Relating to the Structure of the Notes**

***Subordination – Claims of Noteholders under the Notes will be subordinated and unsecured***

On any distribution of the assets of the Bank on its dissolution, winding-up or liquidation (as further described in the definition of "Subordination Event" in Condition 3.4), and for so long as such Subordination Event continues, the Bank's obligations under the Notes will rank subordinate in right of payment to the payment of all Senior Obligations and no amount will be paid under the Notes until all such Senior Obligations have been paid in full. Unless the Bank has assets remaining after making all such payments, no payments will be made on the Notes. Consequently, although the Notes might pay a higher rate of interest than comparable notes that are not subordinated, there is a real risk that an investor in the Notes will lose all or some of its investment upon the occurrence of a Subordination Event.

***Potential Permanent Write-Down – The Prevailing Principal Amount of the outstanding Notes might be permanently Written-Down by an amount determined by the BRSA upon the occurrence of a Non-Viability Event with respect to the Issuer***

If a Non-Viability Event occurs at any time, then the Prevailing Principal Amount of each outstanding Note will be Written-Down by the relevant amount specified by the BRSA in the manner described in Condition 6.1.

In conjunction with any determination of Non-Viability of the Issuer by the BRSA, the relevant losses of the Issuer may be absorbed by shareholders of the Issuer upon the revocation of the Issuer's operating licence pursuant to Article 71 of the Banking Law and/or its liquidation in accordance with the provisions of the Banking Law (No. 5411) and Turkish Commercial Code (No. 6102). However, the Write-Down of the Notes under the Equity Regulation may take place before any such revocation and liquidation.

Condition 6.1 provides, among other things, that a Write-Down of the Notes shall only take place in conjunction with any such transfer or liquidation, which is intended to ensure that while the Write-Down of the Notes may take place before such transfer or liquidation, the intended respective rankings of the Issuer's

obligations (as described in Condition 3.1) are maintained and the relevant loss(es) are absorbed by Junior Obligations (as defined in Condition 3.4) to the maximum extent possible. Where a Write-Down of the Notes does take place before any such liquidation of the Issuer, Noteholders would only be able to claim and prove in the liquidation of the Issuer in respect of the Prevailing Principal Amount of the Notes outstanding following such Write-Down.

Notwithstanding the above, should the BRSA determine that the Notes are to be Written-Down before the absorption of the relevant loss(es) by shareholders of the Issuer pursuant to Article 71 of the Banking Law or any other Statutory Loss Absorption Measure (as defined in Condition 6.2), there can be no assurance that such loss absorption will take place or that it will be taken into account by the BRSA in the determination of the relevant Write-Down Amount.

Should such loss absorption not take place or not be so taken into account by the BRSA, subject as described in “Limited Remedies“ below, a Noteholder may institute proceedings against the Issuer to enforce the above provisions of the Notes; however, to the extent any judgment was obtained in the United Kingdom on the basis of English law as the governing law of the Notes (other than those provisions of the Conditions governed by Turkish law), there is uncertainty as to the enforceability of any such judgment by Turkish courts. In addition, there are certain circumstances in which the courts of Turkey might not enforce a judgment obtained in the courts of another country, which are more fully described under the section entitled “*Enforcement of Judgments and Service of Process*”. Therefore there can be no assurance that a Noteholder would be able to enforce in Turkey any judgment obtained in the courts of another country in these circumstances.

Any Write-Down of the Notes would be permanent and Noteholders will have no further claim against the Issuer in respect of any amount of the Notes subject to any Write-Down. Consequently, there is a real risk that an investor in the Notes will lose all or some of its investment upon the occurrence of a Non-Viability Event. Therefore, the occurrence of any such event or any suggestion of such occurrence could materially adversely affect the rights of Noteholders, the market value of the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. See Condition 6 for further information on any such potential Write-Down of the Notes, including for the definitions of various terms used in this risk factor.

***No Limits on Senior Obligations or Parity Obligations – There will be no limitation relating to the issuance of the Notes on the Bank’s incurrence of Senior Obligations or Parity Obligations***

There will be no restriction in the documents relating to the issuance of the Notes on the amount of Senior Obligations or Parity Obligations that the Bank may incur. The incurrence of any such obligations might reduce the amount recoverable by the Noteholders on any dissolution, winding up or liquidation of the Bank and might result in an investor in the Notes losing all or some of its investment.

***Limited Remedies – Investors will have limited remedies under the Notes***

A holder of a Note will only be able to accelerate payment of the Prevailing Principal Amount of that Note, together with interest accrued and unpaid to the date of repayment, on the occurrence of a Subordination Event or otherwise if any order is made by any competent court or the Government of Turkey, as the case may be, or resolution is passed for the winding up, dissolution or liquidation of the Bank as described in Condition 11 and then claim or prove in the winding-up, dissolution or liquidation. Noteholders also may institute proceedings against the Bank as described in Condition 11 to enforce any obligation, condition, undertaking or provision binding on the Bank under the Notes (other than, without prejudice to the provisions above, any obligation for the payment of any principal or interest in respect of the Notes) but will not have any other right of acceleration under the Notes, whether in respect of any default in payment or otherwise, and the only remedy of a Noteholder on any default in a payment on the Notes will be to institute proceedings for the Bank to be declared bankrupt or insolvent or for there otherwise to be a Subordination Event, or for the Bank’s

winding-up, dissolution or liquidation as described in Condition 11 and to claim or prove in the winding-up, dissolution or liquidation.

No other remedy will be available to Noteholders against the Issuer, whether for the recovery of amounts owing in respect of the Notes or otherwise in respect of any Event of Default or in respect of any breach by the Bank of any of its obligations, covenants or undertakings under the Notes, and Noteholders will not be able to take any further or other action to enforce, claim or prove for any payment by the Bank in respect of the Notes.

***Reset Interest Rate – The interest rate on the Notes will be reset on the Issuer Call Date, which could affect interest payments on an investment in the Notes and the market price of any such investment***

The Notes will initially bear interest at the Initial Interest Rate until (but excluding) the Issuer Call Date, at which time the Rate of Interest will be reset to the Reset Interest Rate. The Reset Interest Rate could be less than the Initial Interest Rate and thus could negatively affect the market value of the Notes. See Condition 5 for further information of such resetting of the Rate of Interest, including for the definitions of various terms used in this paragraph.

***Early Redemption – The Notes may be subject to early redemption at the option of the Issuer***

The Bank will have the right to redeem the outstanding Notes at their then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the Issuer Call Date, subject to having obtained the prior approval of the BRSA (if and to the extent then required by the BRSA or the Equity Regulation) in accordance with Condition 8.3 of the Notes. As at the date of this Prospectus, any such prior approval of the BRSA is subject, under Article 8(2)(d) of the Equity Regulation, to the conditions that, among other things: (a) the Notes are replaced with an equivalent, or higher, quality of capital, and such replacement does not restrict the Bank's ability to continue its operations and (b) the Bank continues to satisfy its applicable capital requirements following the exercise of the redemption option (see paragraph (e) of "Turkish Regulatory Environment – Capital Adequacy"). This optional redemption feature is likely to limit the market price of investments in the Notes because, in the period leading up to when the Bank may elect to so redeem the Notes, the market price of investments in the Notes generally will not rise substantially above the price at which they can be redeemed.

An investor might not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and might only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Redemption upon a Capital Disqualification Event – The Bank will have the right to redeem the Notes upon the occurrence of a Capital Disqualification Event***

If a Capital Disqualification Event (as defined in Condition 8.4) occurs at any time after the Issue Date, the Bank will have the right to redeem the Notes at their then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the date of redemption. A Capital Disqualification Event includes any changes in applicable law or regulation (including the Equity Regulation), or the application or official interpretation thereof (which change in application or official interpretation is confirmed in writing by the BRSA), that results in all or any part of the aggregate Prevailing Principal Amount of the outstanding Notes not being eligible (or will result in it ceasing to be eligible) for inclusion as Tier II capital of the Issuer. Upon such a redemption, the investors in the 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 Notes. This redemption feature is also likely to limit the market value of the Notes during any period in which the Bank may elect to redeem them, as the market price during this period generally will not rise substantially above the price at which they can be redeemed. This might similarly be true prior to any redemption period.

***Redemption for Taxation Reasons – The Bank will have the right to redeem the Notes upon the occurrence of certain changes in tax law, including a change requiring it to pay increased withholding taxes with respect to interest or other payments on the Notes or that result in it no longer being entitled to claim a deduction in calculating its tax liability in respect of the payment of interest or the value of such deduction being reduced***

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, with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0 per cent. Accordingly, the initial withholding tax rate on interest on the Notes will be 0 per cent.; however, in case of early redemption, the redemption date might be considered to be the maturity date and higher withholding tax rates might apply accordingly. The Issuer is also entitled to claim a deduction in calculating its tax liability under Turkish tax law in respect of payments of interest on the Notes.

The Bank will have the right to redeem all, but not some only, of the Notes, subject to having obtained the prior approval of the BRSA (if and to the extent then required by the BRSA or the Equity Regulation) (see “*Early Redemption*” above for a description of the conditions for any such approval of the BRSA), at any time at their then Prevailing Principal Amount together with interest accrued and unpaid to but excluding the date of redemption if, as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9.2), 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 24 March 2017, on the next Interest Payment Date, the Bank would: (a) be required to: (i) pay additional amounts as provided or referred to in Condition 9 (Taxation) 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 where such requirement cannot be avoided by the Bank taking reasonable measures available to it, or (b) no longer be entitled to claim a deduction in calculating its tax liability in a Relevant Jurisdiction in respect of the payment of interest to be made on such Interest Payment Date, or the value of such deduction to the Bank, as compared to what it would have been on 24 March 2017, is or would be reduced. Upon such a redemption, investors in the Notes might not be able to reinvest the amounts received at a rate that will provide an equivalent rate of return as their investment in the Notes.

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

***The Notes may not be a suitable investment for all investors seeking exposure to sustainable assets***

In connection with the offering, Sustainalytics has issued a secondary party opinion based on the Bank’s Sustainable Bond Framework (the “Opinion”), which includes Eligibility Criteria (as set out in the section entitled “Use of Proceeds”) for projects. The examples of Eligible Projects in the section entitled “Use of Proceeds” are for illustrative purposes only and no assurance can be provided that disbursements for projects with these specific characterisations will be made by the Issuer during the term of the Notes.

The Opinion is not incorporated into and does not form part of this Prospectus. There is currently no market consensus on what precise attributes are required for a particular project to be defined as ‘green’ or ‘sustainable’, and therefore no assurance can be provided to investors that the projects will meet all investor expectations regarding sustainability performance or continue to meet the Eligibility Criteria (as set out in the section entitled “Use of Proceeds”). Although the underlying Eligible Projects have been selected based on

their general alignment with the green project categories recognised by the Green Bond Principles 2016, and will be developed in accordance with relevant guidelines and standards, there can be no guarantee that adverse environmental and/or social impacts will not occur during the design, construction, commissioning and/or operating of the projects. In addition, where any negative impacts are insufficiently mitigated, the Eligible Projects may become controversial, and/or may be criticised by activist groups or other stakeholders.

The Issuer does not make any representation as to the suitability of the Opinion or the Notes to fulfil such environmental and sustainability criteria. Prospective investors should have regard to the factors described in the section entitled “Use of Proceeds” in this Prospectus. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus regarding the use of proceeds and its purchase of Notes should be based upon such investigation as it deems necessary.

The Opinion may not reflect the potential impact of all risks related to the structure, the market for sustainable bonds, the additional risks discussed above or any other factors that may affect the value of the Notes. The Opinion is not a recommendation to buy, sell or hold securities and is only current as of the date that the Opinion was initially issued. In addition, although the Issuer has agreed to certain reporting requirements and the use of proceeds from the issue of the Notes to finance or refinance certain Eligible Projects in connection with the Opinion as described under the section entitled “Use of Proceeds”, it will not be an event of default under the Conditions of the Notes if the Issuer fails to comply with such obligations. A withdrawal of the Opinion or any failure by the Issuer to use the net proceeds from the Notes to fund Eligible Projects or to meet or continue to meet the investment requirements of certain environmentally focussed investors with respect to such Notes may affect the value of the Notes and/or may have consequences for certain investors with portfolio mandates to invest in green assets.

***Majority Decisions – Decisions of the holders of the required percentage of the Notes bind all Noteholders***

The conditions of the Notes will contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions will permit investors in the Notes holding defined percentages of the Notes to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the decision of the deciding group. As a result, decisions might be taken by holders of such defined percentages of the Notes that are contrary to the preferences of any particular Noteholder.

***Transfer Restrictions – Transfers of interests in the Notes will be subject to certain restrictions and interests in the Global Certificate 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 and this Prospectus has been approved by the Central Bank of Ireland as described herein, 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 (or beneficial interests therein) 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*”.

Because transfers of interests in the Global Certificate can be effected only through book entries at Clearstream, Luxembourg and/or Euroclear (as applicable) and their respective accountholders, the liquidity of any secondary market for investments in the Global Certificate might be reduced to the extent that some investors are unwilling to invest in notes held in book-entry form in the name of an accountholder in

Clearstream, Luxembourg or Euroclear, 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 Clearstream, Luxembourg or Euroclear or any of their respective accountholders 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 might be impaired.

***Further Issues – The Bank may issue further notes, which would dilute the Noteholders’ share of the total issuance***

As permitted by Condition 15, the Bank may from time to time without the consent of the Noteholders create and issue further notes having terms and conditions that are the same as those of the Notes, or the same except for the amount of the first payment of interest, issuance date and/or securities codes, which new notes may be consolidated and form a single series with the outstanding Notes. To the extent that the Bank issues such further notes, the existing Noteholders’ share of the total issuance (e.g., for voting) will be diluted.

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

The Bank is a public joint stock company organised under the laws of Turkey. All of the directors and officers of the Bank reside inside Turkey and all or a substantial portion of the assets of such persons might be, and substantially all of the assets of the Bank are, located in Turkey. As a result, it might not be possible for investors in the Notes 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 (No. 5718), a judgment of a court established in a country other than Turkey might 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. While 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, 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 might 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, other than Condition 3, are based upon English law in effect as at the date of this 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 Prospectus and any such change could materially adversely impact the price of interests in the Notes.

***Reliance upon Clearing System Procedures – Investors in the Notes will be subject to the rules of the applicable clearing system and their ability to exercise rights relating to the Notes directly may be limited***

The Notes will be represented on issue by the Global Certificate, which will be delivered to a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Agency Agreement (see “*The Global Certificate*”), investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective accountholders will maintain records of the beneficial interests in the Global Certificate. While the

Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests therein only through Euroclear and Clearstream, Luxembourg and their respective direct and indirect accountholders.

To the extent that the Notes are represented by the Global Certificate, the Bank will discharge its payment obligation thereunder by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Certificate must rely upon the procedures of Euroclear and Clearstream, Luxembourg and its accountholders to receive payments under the Notes. The Bank will have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate. Holders of beneficial interests in the Global Certificate 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 Euroclear and Clearstream, Luxembourg 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 might adversely affect the price at which an investor could sell the Notes***

The Notes will have no established trading market when issued and, although application has been made for the Notes to be listed on the Official List and admitted to trading on the Main Securities Market, such application might not be accepted and/or an active trading market might not develop or, if developed, it might not be sustained. If a market does develop, it might not be very liquid and the Notes might trade at a discount to their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions and the Bank's financial condition. Therefore, investors might 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. Illiquidity might have a severe adverse effect on the market value of the Notes.

***Volatile Price– The market price of investments in the Notes might be subject to a high degree of volatility***

The market price of investments in the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank'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 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 investments in the Notes without regard to the Bank's financial condition or results of operations.

The market price of investments 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 might 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 might diminish investor interest in securities of Turkish issuers, including the Bank's, which could adversely affect the market price of investments in the Notes.

***Exchange Rate Risks and Exchange Controls – Non-U.S. Dollar investors will be subject to exchange rate risk and the Bank's ability to make payments on the Notes in U.S. Dollars might be affected by exchange controls***

The Bank will pay principal and interest on the Notes in U.S. Dollars, which presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency (the

“Investor’s Currency”) other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. Dollar or revaluation of the Investor’s Currency) and the risk that the Turkish government and/or authorities with jurisdiction over the Investor’s Currency might impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the U.S. Dollar would decrease: (a) the Investor’s Currency-equivalent yield on the Notes, (b) the Investor’s Currency-equivalent value of the interest and principal payable on the Notes and (c) the Investor’s Currency-equivalent market value of investments in the Notes.

Government and monetary authorities might impose exchange controls that could adversely affect an applicable exchange rate and/or the ability to convert and/or transfer currency. If such controls are imposed, particularly if it directly affects the Bank’s payments on the Notes, then any investor in the Notes might receive less interest or principal than expected, or no interest or principal, and/or might receive payment in a currency other than U.S. Dollars. An investor might also not be able to convert (at a reasonable exchange rate or at all) amounts received in U.S. Dollars into the Investor’s Currency, which could materially adversely affect the market value of interests in the Notes. There might also be tax consequences for investors of any such currency changes.

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

In addition to the ratings on the Notes provided by Moody’s and Fitch, and the ratings on the Bank by Moody’s and Fitch, one or more other independent credit rating agencies might assign credit ratings to the Notes and/or the Bank. The ratings might not reflect the potential impact of all risks related to the structure, market and other factors that might affect the value of the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to adjustment, revision, suspension or withdrawal at any time by the assigning rating organisation.

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 also applies 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 European Securities and Markets Authority (“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 might 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 of the Notes is set out on the cover of this Prospectus.

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the independent auditors' audit reports and audited consolidated BRSA Financial Statements of the Group for the years ended 31 December 2016, 2015 and 2014; and
- (b) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Issuer for the years ended 31 December 2016, 2015 and 2014.

The BRSA Financial Statements incorporated by reference into this 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 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 for the years ended 31 December 2016 ([http://www.tskb.com.tr/i/content/2966\\_1\\_2966\\_1\\_TSKB\\_CONS\\_EN\\_31122016.pdf](http://www.tskb.com.tr/i/content/2966_1_2966_1_TSKB_CONS_EN_31122016.pdf)), 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)) and 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
- (b) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Issuer for the years ended 31 December 2016 ([http://www.tskb.com.tr/i/content/2966\\_1\\_TSKB\\_UNCONS\\_EN\\_%2031122016.pdf](http://www.tskb.com.tr/i/content/2966_1_TSKB_UNCONS_EN_%2031122016.pdf)), 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)) and 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)).

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

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

## ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

The Bank is a public joint stock company under the Turkish Commercial Code (No. 6102). Substantially all of the assets of the Bank are located in Turkey. As a result, it might not be possible for investors to effect service of process upon the Bank 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 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 the United Kingdom providing for reciprocal enforcement of judgments. Turkish courts have rendered at least one judgment confirming *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 Kingdom by Turkish courts. Moreover, there is uncertainty as to the ability of an investor to bring an original action in Turkey based upon any 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 Bank at İşbank's London branch (with an address on the Issue Date of 8 Princes Street London EC2R 8HL, England) in relation to any proceedings in England in connection with the Notes.

## USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used exclusively to finance and/or refinance Eligible Projects meeting the Eligibility Criteria (each as defined below).

Pending their application as described above, such net proceeds will be held in a sub-account which is tagged within the Issuer's accounting system for efficient monitoring. The Issuer will only permit transfers from this account for the purposes of financing or refinancing Eligible Projects meeting the Eligibility Criteria.

Pending the full allocation of the net proceeds of the Notes to one or more Eligible Projects meeting the Eligibility Criteria, the Issuer will invest the balance of net proceeds not yet allocated to such Eligible Projects, at its own discretion, in cash, cash equivalent and/or other liquid marketable instruments in its liquidity portfolio.

“**Eligibility Criteria**” means the following framework setting out the business activity criteria that a project must meet one or more of in order to qualify as an Eligible Project:

### 1. Direct and Indirect Climate Change Mitigation

- (a) **Energy Efficiency:** any reconstruction, expansion, renovation or refurbishment measure implemented within the premises of a business entity or relocation of any production facility and aimed at investing into fixed assets that are designed to decrease energy consumption for every unit of service output of the business entity or using renewable or waste energy. Projects will have the primary objective of improving the efficiency of energy use (or reducing specific energy consumption) of the system directly affected by the project.
- (b) **Resource Efficiency:** any greenfield, reconstruction, expansion, renovation or refurbishment investments aimed to increase resource efficiency, including but not limited to a reduction in:
  - (i) water consumption;
  - (ii) non-recoverable waste;
  - (iii) raw material/auxiliary chemicals.
- (c) **Wind Power Plants (onshore only):**
  - (i) the development, construction and operation of wind farms;
  - (ii) operational production or manufacturing facilities wholly dedicated to wind energy development;
  - (iii) wholly dedicated transmission infrastructure for wind farms.
- (d) **Solar Power (Photovoltaic):**
  - (i) solar electricity generation facilities;
  - (ii) wholly dedicated transmission infrastructure for solar electricity generation facilities.
- (e) **Hydro Power Plants:**
  - (i) the development, construction and operation of hydro power plants;
  - (ii) operational production or manufacturing facilities wholly dedicated to hydro energy development;
  - (iii) wholly dedicated transmission infrastructure for hydro power plants.

- (f) **Biomass, Waste to Energy, Biogas: technologies and projects for the conversion of organic matter to energy.**
- (g) **Clean Transport Projects:**
  - (i) the promotion of lower-carbon fuels;
  - (ii) electric or hydrogen technologies in existing vehicles, rail or boat fleets;
  - (iii) the promotion of urban mass transit, non-motorised transport (e.g. pedestrian mobility) and improvement of the general transport logistics to increase energy efficiency of infrastructure and transport;
  - (iv) a shift of freight and/or passenger transport from road to rail or waterways.
- (h) **Indirect Mitigation:** the manufacture and sale of finished products, which when in use are intended to result in renewable energy generation, energy efficiency or greenhouse gas (GHG) emission reductions.
  - (i) Specific project loans going towards specific products designed to improve renewable energy generation, energy efficiency or GHG emission reduction.

## 2. Climate Change Adaptation

- (a) **Climate Change Adaptation Projects:** adaptation-related projects that potentially contribute to reducing the vulnerability to climate change identified in the project area.

## 3. Sustainable Infrastructure

- (a) **Social Infrastructure (Health and Education):** improving access to public services for the wider population, and promoting inclusiveness.
- (b) **Electricity Distribution Networks:** projects aimed at retro-fitting transmission lines or substations to reduce energy use and/or technical losses and to avoid electricity cuts. Projects aimed at improving existing systems to facilitate the integration of renewable energy sources into the grid or Scada System to improve effectiveness. If possible, project selection can also incorporate geographical aspects and favour projects in areas where electricity losses are high and a large number of customers/households would benefit from modernisation. If new transmission systems are installed, these should facilitate the integration of renewable energy sources into the grid or extensions to serve the additional population growth due to urbanisation.
- (c) **Ports:** the building or modernisation of ports to promote the modal shift of freight and/or passenger transport from road to waterways and ensure the resilience of ports to climate change risks (including, without limitation, by way of port integration, renovation and capacity increases and infrastructure and superstructure investments into existing ports).

“**Eligible Projects**” means projects satisfying the Eligibility Criteria as described above.

The above examples of projects falling within the relevant Eligibility Criteria are for illustrative purposes only and no assurance can be provided that disbursements for any such specific projects will be made by the Issuer during the term of the Notes. The relevant Eligibility Criteria may be subject to change whether by the addition, and/or removal, of criteria from the list of Eligible Criteria set out above. Any such change will be made in accordance with the prevailing sustainability criteria as set out in the Bank’s Sustainable Bond Framework at the time of such change.

**Allocation Report:** The Issuer is expected to publish an annual report setting out the aggregate allocation of the proceeds of the Notes to Eligible Projects. To the extent practicable, the report will include a breakdown of the Eligible Projects by category and by geography without referring to client names. Allocation reporting will be available to investors within one year from the date of the issue of the Notes and annually thereafter until the proceeds have been fully allocated to Eligible Projects.

**Impact Report:** The Issuer is committed to publishing annual updates on the environmental and social impacts of the projects funded with the proceeds of the Notes.

Sustainalytics has issued a second party opinion based on the Eligibility Criteria. The Bank also commits to extend loans in accordance with the Eligibility Criteria as described in the Bank's Sustainable Bond Framework. The second party opinion is available on the Issuer's website: [www.tskb.com.tr](http://www.tskb.com.tr).

Any information contained in or accessible through any website, including [www.tskb.com.tr](http://www.tskb.com.tr), does not form part of this Prospectus, unless specifically stated.

## 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 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 incorporated by reference into this Prospectus and in “*Presentation of Financial Information*”.

The BRSA Financial Statements as of and for the years ended 31 December 2014, 2015 and 2016 have been audited by KPMG.

	As of 31 December		
	2014	2015	2016
	<i>(TL thousands)</i>		
<b>Balance Sheet Data:</b>			
Cash and balances with the Central Bank .....	507,794	811,123	778,076
Financial assets at fair value through profit or loss (net) ..	95,417	209,571	387,037
Banks.....	503,981	751,545	497,949
Money Market Placements.....	105,206	1,080,724	254,934
Financial Assets Available For Sale (Net).....	3,517,617	2,972,162	3,068,412
Loans.....	10,866,989	13,633,129	17,336,045
Factoring Receivables .....	—	—	—
Held To Maturity Investments (Net) .....	—	872,602	1,375,729
Investments In Associates (Net).....	263,300	293,543	324,477
Investments In Subsidiaries (Net) .....	609	609	1,609
Entities Under Common Control (Joint Venture)(Net).....	10	1,760	1,760
Lease Receivables (Net).....	—	—	3,792
Derivative Financial Assets for Hedging Purposes .....	—	4,093	272
Tangible Assets (Net) .....	26,454	207,027	231,328
Intangible Assets (Net).....	2,173	2,056	3,098
Investment Property (Net).....	224,090	241,293	231,323
Tax Assets .....	21,253	29,624	21,214
Assets Held–For–Sale And Discontinued Operations (Net).....	—	—	—
Other assets .....	90,808	255,719	358,431
<b>Total Assets</b> .....	<b>16,225,701</b>	<b>21,366,580</b>	<b>24,875,486</b>
Derivative Financial Liabilities Held–for–Trading .....	63,576	174,950	320,797

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
Funds Borrowed.....	10,151,582	13,441,831	16,127,496
Money Market Balances .....	2,272,713	2,350,540	1,256,234
Debt Securities Issued (Net).....	813,824	2,037,571	3,486,732
Funds.....	39,081	30,677	5,317
Miscellaneous Payables .....	96,591	129,298	193,612
Derivative Financial Liabilities for Hedging Purposes .....	—	5,799	51,433
Provisions.....	210,296	217,860	279,033
Tax liabilities.....	37,722	48,426	11,779
Subordinated Loans.....	116,065	145,836	—
<b>Total Liabilities</b> .....	<b>13,801,450</b>	<b>18,582,788</b>	<b>21,732,433</b>
Paid-in Capital.....	1,500,000	1,750,000	2,050,000
Capital Reserves.....	124,100	147,322	132,324
Share Premium.....	413	428	428
Marketable Securities Value Increase Fund .....	113,993	(27,755)	(69,896)
Tangible Assets Revaluation Differences.....	9,320	174,619	201,168
Other Capital Reserves.....	374	30	624
Profit Reserves .....	315,408	362,902	408,096
Profit or Loss.....	417,290	458,078	494,664
Non-Controlling Interests.....	67,453	65,490	57,969
<b>Total Equity</b> .....	<b>2,424,251</b>	<b>2,783,792</b>	<b>3,143,053</b>
<b>Total Liabilities and Equity</b> .....	<b>16,225,701</b>	<b>21,366,580</b>	<b>24,875,486</b>

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
<b>Income Statement Data:</b>			
Interest Income.....	819,918	1,098,725	1,409,679
Interest Expense .....	(291,295)	(500,183)	(650,876)
<b>Net Interest Income</b> .....	<b>528,623</b>	<b>598,542</b>	<b>758,803</b>
Net Fees and Commissions Income .....	29,500	29,547	25,017
Dividend Income.....	13,876	10,175	11,486
Trading Income (net).....	41,238	5,780	(67,771)

**For the year ended 31 December**

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
Other Operating Income.....	47,684	51,137	26,643
<b>Total Operating Income</b> .....	<b>660,921</b>	<b>695,181</b>	<b>754,178</b>
Provision for Loan Losses and Other Receivables.....	(61,150)	(78,563)	(70,499)
Other Operating Expenses.....	(160,560)	(140,573)	(168,863)
<b>Net Operating Income</b> .....	<b>439,211</b>	<b>476,045</b>	<b>514,816</b>
Profit/Loss on Equity Method.....	27,136	35,280	38,805
<b>Profit/Loss on Continued Operations before Tax</b> .....	<b>466,347</b>	<b>511,325</b>	<b>553,621</b>
Tax Provision for Continued Operations.....	(92,236)	(100,735)	(117,708)
<b>Net Period Profit/Loss from Continuing Operations ...</b>	<b>374,111</b>	<b>410,590</b>	<b>435,913</b>
<b>Net Period Profit/Loss</b> .....	<b>374,111</b>	<b>410,590</b>	<b>435,913</b>

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

	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Key Ratios:</b>			
Net interest margin <sup>(1)(2)</sup> .....	4.2%	3.6%	3.3%
Spread <sup>(3)</sup> .....	3.9%	3.5%	3.4%
Turkish Lira.....	5.5%	5.7%	5.9%
Foreign Currency.....	3.2%	2.6%	2.2%
Cost-to-income ratio <sup>(4)</sup> .....	24.3%	20.2%	22.4%
Free capital ratio <sup>(5)</sup> .....	13.0%	11.5%	10.3%
Non-performing loans to total cash loans.....	0.2%	0.4%	0.3%
Cost to average total assets <sup>(1)(6)</sup> .....	1.1%	0.7%	0.7%
Return on average shareholders' equity excluding minority interest <sup>(1)(7)</sup> .....	16.8%	15.6%	15.0%
Return on average total assets <sup>(1)(8)</sup> .....	2.5%	2.2%	1.9%
<b>Capital Adequacy:</b>			
Tier I regulatory capital/risk-weighted assets and market risk <sup>(9)</sup> .....	17.5%	15.3%	13.8%
Total regulatory capital/risk-weighted assets and market risk <sup>(9)</sup> .....	18.3%	16.0%	14.6%
<b>Other Information:</b>			
Average employees during the period.....	483	483	483

---

Notes:

- (1) Calculated on quarterly averages.
- (2) This is: (a) the Bank-only net interest income (excluding interest from the Central Bank on reserves held thereat) for the relevant periods (and, when calculating for the interim period, the figure is annualised by multiplying the Bank-only net interest income for the indicated period of such year by 12 and divided by the number of months in such period) *divided by* (b) the Bank-only quarterly average interest-earning assets (excluding reserves held at the Central Bank). The “quarterly average” interest earning assets for a period are calculated by averaging the amount of interest-earning assets as of the balance sheet date immediately prior to the commencement of such period (e.g., for any year, 31 December of the previous year) and each intervening quarter-end date (i.e., 31 March, 30 June, 30 September and 31 December, as applicable).
- (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) This is: (a) the “cost” (calculated as total operating expenses) for the periods specified *divided by* (b) the “income” (calculated as total operating income) for such period.
- (5) This is: (a) the Group's total shareholders' equity as at the relevant dates specified minus the Group's fixed assets, investment property, investments in equity participations (i.e., the sum of investment in associates (net), investment in subsidiaries (net) and jointly controlled entities (joint ventures) (net)) and non-performing loans net of specific provisions as of such date *as a percentage of* (b) the Group's total assets as of such date.
- (6) This is: (a) the “cost” (calculated as total operating expenses) for the relevant period specified *as a percentage of* (b) average total assets (determined on a quarterly basis).
- (7) This is: (a) the net income (when calculated for the Group, excluding minority interest) for the relevant periods (and when calculating for the interim period, the figure is annualised by multiplying the net income for the indicated period of such year by 12 and divided by the number of months in such period) *as a percentage of* (b) the average shareholders' equity (when calculated for the Group, non-controlling interest).
- (8) This is: (a) the net income for the relevant periods (and, when calculating for the interim period, the figure is annualised by multiplying the net income for the indicated period of such year by 12 and divided by the number of months in such period) *as a percentage of* (b) the average total assets (determined on a quarterly basis).
- (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 2014, 2015 and 2016. 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 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 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 incorporation by reference into this Prospectus.

Certain information contained in the discussion and analysis set forth below and elsewhere in this 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 Prospectus are based upon the BRSA Financial Statements. As elsewhere in this 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 2016, 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, nine 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 2016, the Group’s total capital adequacy ratio was 14.56 per cent. and its Tier I capital adequacy ratio was 13.84 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 3,143 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 25.6 per cent. The Group's net operating income was TL 439 million in 2014, TL 476 million in 2015 and TL 515 million in 2016 while its net period profit from continuing operations was TL 374 million in 2014, TL 411 million in 2015 and TL 436 million in 2016.

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 8.5 per cent. in 2013, 5.2 per cent. in 2014 and 6.1 per cent in 2015 and 2.2 per cent. year-on-year in the nine months ended 30 September 2016.

As of 31 December 2016, the Group had total assets of TL 24.9 billion, an increase of 16.4 per cent. from TL 21.4 billion as of 31 December 2015, itself a 32.1 per cent. increase from TL 16.2 billion as of 31 December 2014.

The Bank's loan portfolio grew from TL 10.9 billion as of 31 December 2014 to TL 13.6 billion as of 31 December 2015 and TL 17.3 billion as of 31 December 2016, a growth rate of 24.8 per cent. in 2015 and 27.2 per cent. in 2016. 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 0.2 per cent., 0.4 per cent. and 0.3 per cent. as of 31 December 2014, 2015 and 2016, respectively. See "*Significant Factors Affecting the Group's Financial Condition and Results of Operations — Provisioning for Impaired Loans*".

As of 31 December 2016, 93 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 nine 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 basis points to 10.50 per cent. as an incremental step towards simplification of its monetary policy. In three meetings from April 2016 to June 2016, the Central Bank continued its simplification process with 50 basis points cuts in each meeting on the overnight lending rate, followed by a 25 basis points cut in each of the next three meetings until November 2016. Increased uncertainty in the global markets and general risk aversion towards emerging markets contributed to an acceleration in the depreciation of the Turkish Lira, and in response the Central Bank implemented a 25 basis points increase in the overnight lending rate and 50 basis points increase in the one-week repo rate, thereby suspending its simplification of monetary policy. In early January 2017, the Bank cancelled its regular weekly repo auctions, which led market participants to utilise the Central Bank's Late Liquidity Window facility, with an interest rate of 10 per cent., compared to 8.5 per cent. for the overnight lending rate and 8 per cent. for the one-week repo rate.

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:

	2010	2011	2012	2013	2014	2015	2016
Nominal GDP at current prices (TL millions) <sup>(1)</sup> .....	999,192	1,394,477	1,569,672	1,809,713	2,044,465	2,337,529	2,487,913
Real GDP growth <sup>(2)</sup> .....	8.5%	11.1%	4.8%	8.5%	5.2%	6.1%	2.2%
Deficit/surplus of central gov budget/GDP <sup>(3)</sup> .....	(3.5)%	(1.3)%	(1.9)%	(1.0)%	(1.1)%	(1.0)%	(1.2)%
Consumer Price Inflation ....	6.4%	10.5%	6.2%	7.4%	8.2%	8.8%	8.5%
Producer Price Inflation .....	8.9%	13.3%	2.5%	7.0%	6.4%	5.7%	9.9%

	2010	2011	2012	2013	2014	2015	2016
Central Bank overnight TL interest rate, period-end <sup>(4)</sup> ....	1.50%	5.00%	5.00%	3.50%	7.50%	7.25%	7.25%
Central Bank weekly TL repo rate, period-end <sup>(5)</sup> .....	6.50%	5.75%	5.50%	4.50%	8.25%	7.50%	8.00%
Refinancing rate of the Central Bank, period-end ....	9.00%	12.50%	9.00%	7.75%	11.25%	10.75%	8.50%
Nominal appreciation (depreciation) of the Turkish Lira against the U.S. Dollar.....	(3.4)%	(22.8)%	5.90%	(19.8)%	(9.2)%	(25.4)%	(20.6)%
CPI-based real effective exchange rate appreciation (depreciation) (2003=100) ..	5.8%	(13.8)%	7.3%	(9.1)%	4.6%	(7.1)%	(5.5)%
Total gross gold and international currency reserves, period-end (U.S. Dollars, millions) .....	85,968	88,340	119,167	131,035	126,450	110,529	106,101

Notes:

- (1) The figure for 2016 indicates the annual GDP as of September-end. For 2016 growth rate indicates the rate the first six months of the year on the same period of previous year.
- (2) Annual percentage change of the applicable index (the percentage change of the applicable index in June 2014 is compared to June 2013).
- (3) For 2016, Nine-month annual GDP is used for calculation of the ratio.
- (4) 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.
- (5) Central Bank buying rates.

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.

## 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, 51.7 per cent. of the Group's securities portfolio consisted of floating rate notes and CPI-linked securities as of 31 December 2016; 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 2014, 2015 and 2016, respectively, approximately 76 per cent., 74 per cent. and 68 per cent. of the Bank's loans and 72 per cent., 63 per cent. and 65 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 re-pricing 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 669 million, or 61 per cent. of total interest income, in 2015; TL 856 million and 61 per cent. in 2016) and (b) interest earned from its securities portfolio (TL 319 million, or 29 per cent. of total interest income, in 2015; TL 354 million and 25 per cent. in 2016). 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.

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 changed the policy rate from the reference overnight interest rate to the one-week repo rate, at 7.0 per cent., in response to the effect of the global economic crisis on banks' liquidity at the May 2010 meeting, and the 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). By the end of 2010, the policy rate was 6.50 per cent. and was further lowered to 5.75 per cent. in 2011. The Central Bank started to announce the weighted average cost of its funding ("WACF") in October 2011 as it was lending both in weekly and overnight maturities. The Central Bank's WACF was at 9.04 per cent. by the end of 2011. After reaching 11.93 per cent. in January 2012, the WACF decreased to 5.55 per cent. by the end of 2012, at which point the policy rate was at 5.50 per cent. In 2013, the Central Bank decreased the policy rate 4.50 per cent. and kept it at this level until January 2014, while the WACF increased from 4.50 percent to 8.36 percent due to a shift in liquidity policy. The Central Bank increased its policy rate to 10.0 per cent. in January 2014 and the WACF increased to 10.28 per cent. as of March 2014. Starting in May 2014, the Central Bank cut its policy rate, which reached 7.50 per cent. as of February 2015, and the WACF decreased to 7.60 per cent. While keeping the policy rate unchanged, the Central Bank tightened its liquidity policy, resulting in an increase in the WACF to 9.14 per cent. as of February 2016. After February 2016, the Central Bank opted to ease down its liquidity policy and the WACF decreased to 7.73 per cent. as of October 2016. Starting from November 2016, the Central Bank tightened its liquidity policy again, this time by increasing the policy rate by 50 basis points to 8.0 per cent. and the WACF in turn increased to 8.31 per cent. the Central Bank tightened its liquidity policy further in 2017, via both rate increases and changes in liquidity facilities. In early January 2017, the Central Bank halted funding at the policy rate and signalled banks to use the Late Liquidity Window facility to raise liquidity. Following this action, the WACF increased to 9.12 per cent. At its January 2017 meeting, the Central Bank kept the policy rate unchanged at 8.0 per cent., but increased the overnight and the Late Liquidity Window lending rates, and the WACF increased to 10.39 per cent. as of February 2017. As the average maturity of the Bank's 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 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 2015, the net interest margin of the Bank was 3.7 per cent., while it was 3.5 per cent. in 2016.

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 six 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 eight 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.

In the first half of 2016, decreasing risk aversion in the global markets and decreasing volatility in the Turkish Lira's value enabled the Central Bank to carry out its monetary policy simplification plan, which was originally announced in August 2015. The bank lowered its overnight lending rate from 10.75 per cent. to 8.25 per cent. gradually until November 2016. However, at that time, a surge in the rate increase expectations from the U.S. Federal Reserve resulted in a deterioration in the outlook of the emerging markets. In addition, terrorist attacks in Turkey reversed the stability in Turkish financial markets, and the Turkish Lira depreciated 13.5 per cent. against the U.S. dollar in the last two months of 2016. The depreciation in the Turkish Lira in the first month of 2017 was nine per cent., and the CPI-linked real effective exchange rate was down to 88, a 14-year low. In response, the Central Bank implemented a 25 basis points increase in the overnight lending rate and 50 basis points increase in the one-week repo rate, thereby suspending its simplification of monetary policy in November 2016. In early January 2017, the Bank cancelled its regular weekly repo auctions, which led market participants to utilise the Central Bank's Late Liquidity Window facility, with an interest rate of 10 per cent., compared to 8.5 per cent. for the overnight lending rate and 8 per cent. for the one-week repo rate. In its January 2017 meeting, the Central Bank took further tightening steps such as increasing the overnight lending rate to 9.25 per cent. and Late Liquidity Funding window lending rate to 11 per cent. As a result, the WACF increased to 10.3 per cent. up from 8.3 per cent. in January 2017. In addition, the Central Bank launched FX depo auctions, with a gradually increased cost in Turkish Lira of 11 per cent. In its January 2017 meeting, the Central Bank took further tightening steps such as increasing the overnight lending rate to 9.25 per cent. and Late Liquidity Funding window lending rate to 11 per cent. As another measure to curb the depreciation in Turkish Lira, the Central Bank allowed the repayment of export loans in Turkish Lira at a fixed dollar/TL exchange rate of 3.53 TL to the U.S. Dollar, while the market rate was 3.66 Turkish Lira to the U.S. Dollar. As a result, the Turkish Lira appreciated by five per cent. in February 2017.

The yearly loan to deposit spread of the Turkish banking sector has been widening since March 2016, with improvements in both local and foreign currency spreads. The yearly loan to deposit spread for the sector increased to 4.50 per cent. as of 31 December 2016 from 4.28 per cent. as of 31 March 2016. The net interest margin for the sector has also increased by 45 basis points to 3.80 per cent. in 2016, primarily as a result of increased trade activities related to the sector-wide increase in the loan to deposit spread, increase in profitability of the securities portfolio and declining net trade and swap losses.

### **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 4.5 per cent., 4.3 per cent. and 3.3 per cent. respectively, for 2014, 2015 and 2016. 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 the Bank's Corporate Finance Department, Treasury Marketing Unit and 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 2016, 71.1 per cent. of the Group's total assets and 79.8 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.

In 2014, the Group recorded a net foreign exchange gain of TL 88.8 million, whereas it recorded a gain of TL 124.2 million in 2015 and a loss of TL 72.5 million in 2016. In addition, the Group's trading income decreased from a gain of TL 5.8 million in 2015 to a loss of TL 67.8 million in 2016. In 2016, a certain amount of FX liquidity is transferred into TL by short-term swaps, which are used in TL liquid assets for arbitrage purposes. The expenses of these transactions are booked in trading income/(loss) item while the revenues are booked in interest income. In addition, the remaining trading loss was primarily driven by an increase in foreign exchange losses.

Exchange rate movements also affect the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets, 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 4.5 billion as of 31 December 2016. Of this amount, TL 3.0 billion, or 67 per cent., was classified as available-for-sale, TL 1.4 billion, or 31 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 353.7 million for the year ended 31 December 2016, accounting for 25 per cent. of total interest income for the period, TL 318.7 million for the year ended 31 December 2015, accounting for 29 per cent. of total interest income for the period, and TL 283.9 million for the year ended 31 December 2014, accounting for 34.6 per cent. of total interest income for the period. The Group's securities portfolio has decreased in size from 18.1 per cent. as of 31 December 2015 to 17.9 per cent. of total assets as of 31 December 2016, due to a preference to invest in higher yield liquid assets, such as money market placements during the year. 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 2016 BRSA Financial Statements incorporated by reference into this 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 2016 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 2014, 2015 and 2016 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 fulfilment 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 2016 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		
	2014	2015	2016
<b>Ratios</b>			
Net interest margin <sup>(1)(2)</sup> .....	4.2%	3.6%	3.3%
Cost-to-income ratio <sup>(3)</sup> .....	24.3%	20.2%	22.4%
Free capital ratio <sup>(4)</sup> .....	13.0%	11.5%	10.3%
Tier I ratio <sup>(5)</sup> .....	17.5%	15.3%	13.8%
Total capital adequacy ratio <sup>(6)(9)</sup> .....	18.3%	16.0%	14.6%
Coverage ratio <sup>(7)</sup> .....	100.0%	100.0%	100.0%
Return on average total assets <sup>(1)</sup> .....	2.5%	2.2%	1.9%
Return on average shareholders' equity <sup>(1)(8)</sup> .....	16.8%	15.6%	15.0%

### Notes:

- (1) Averages calculated using quarter-end amounts.
- (2) This is: (a) the Bank-only net interest income (excluding interest from the Central Bank on reserves held thereat) for the relevant periods (and, when calculating for the interim period, the figure is annualised by multiplying the Bank-only net interest income for the indicated period of such year by 12 and divided by the number of months in such period) *divided by* (b) the Bank-only quarterly average interest-earning assets (excluding reserves held at the Central Bank). The "quarterly average" interest earning assets for a period are calculated by averaging the amount of interest-earning assets as of the balance sheet date immediately prior to the commencement of such period (e.g., for any year, 31 December of the previous year) and each intervening quarter-end date (i.e., 31 March, 30 June, 30 September and 31 December, as applicable).

- (3) This is: (a) the “cost” (calculated as total operating expenses) for the periods specified *divided by* (b) the “income” (calculated as total operating income) for such period.
- (4) This is: (a) the Group's total shareholders' equity as at the relevant dates specified minus the Group's fixed assets, investment property, investments in equity participations (i.e., the sum of investment in associates (net), investment in subsidiaries (net) and jointly controlled entities (joint ventures) (net)) and non-performing loans net of specific provisions as of such date *as a percentage of* (b) the Group's total assets as of such date.
- (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, 2015 and 2016 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 2014, 2015 and 2016

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

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands, except where indicated)</i>		
<b>Interest Income</b> .....	819,918	1,098,725	1,409,679
Interest Income on Loans.....	505,160	669,151	856,109
Interest Received from Reserve Deposits.....	53	1,235	3,371
Interest Received from Banks.....	16,219	13,614	32,686
Interest Received from Money Market Placements.....	14,320	95,693	162,976
Interest Received from Marketable Securities Portfolio	283,930	318,736	353,658
Financial Assets Held-for-Trading.....	1,823	2,957	2,808
Financial Assets at Fair Value Through Profit and Loss	—	—	—
Available for-Sale Financial Assets.....	282,107	286,924	263,787
Investments Held-to-Maturity.....	—	28,855	87,063
Finance Lease Income.....	65	1	27
Other Interest Income.....	171	295	852
<b>Interest Expense</b> .....	(291,295)	(500,183)	(650,876)
Interest on Deposits.....	—	—	—

**For the year ended 31 December**

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands, except where indicated)</i>		
Interest on Funds Borrowed.....	(122,986)	(194,642)	(263,391)
Interest on Money Market Borrowings.....	(160,230)	(212,466)	(237,442)
Interest on Securities Issued .....	(8,025)	(92,869)	(149,831)
Other Interest Expense.....	(54)	(206)	(212)
<b>Net Interest Income/Expense</b> .....	<b>528,623</b>	<b>598,542</b>	<b>758,803</b>
<b>Net Fees and Commissions Income/Expense</b> .....	<b>29,500</b>	<b>29,547</b>	<b>25,017</b>
Fees and Commissions Received.....	33,631	34,397	36,387
Non-cash Loans .....	9,712	11,488	10,650
Other .....	23,919	22,909	25,737
Fees and Commissions Paid .....	(4,131)	(4,850)	(11,370)
Non-cash Loans .....	(890)	(853)	(1,401)
Other .....	(3,241)	(3,997)	(9,969)
<b>Dividend Income</b> .....	<b>13,876</b>	<b>10,175</b>	<b>11,486</b>
<b>Trading Income (net)</b> .....	<b>41,238</b>	<b>5,780</b>	<b>5,780</b>
Securities Trading Gains/Losses.....	(714)	3,567	3,832
Derivative Financial Instruments Gains/Losses.....	(46,889)	(122,013)	864
Foreign Exchange Gains/Losses.....	88,841	124,226	(72,467)
<b>Other Operating Income</b> .....	<b>47,684</b>	<b>51,137</b>	<b>26,643</b>
<b>Total Operating Income<sup>(1)</sup></b> .....	<b>660,921</b>	<b>695,181</b>	<b>754,178</b>
<b>Provision for Loan Losses and Other Receivables</b> .....	<b>(61,150)</b>	<b>(78,563)</b>	<b>(70,499)</b>
<b>Other Operating Expenses</b> .....	<b>(160,560)</b>	<b>(140,573)</b>	<b>(168,863)</b>
<b>Net Operating Income</b> .....	<b>439,211</b>	<b>476,045</b>	<b>514,816</b>
Profit/Loss on Equity Method.....	27,136	35,280	38,505
Profit/Loss On Net Monetary Position.....	—	—	—
Profit/Loss On Continuing Operations Before Taxes.....	466,347	511,325	553,621
<b>Tax Provisions for Continuing Operations</b> .....	<b>(92,236)</b>	<b>(100,735)</b>	<b>(117,708)</b>
Provision for Current Income Taxes .....	(120,210)	(76,641)	(98,641)
Provision for Deferred Taxes .....	27,974	(24,094)	(19,067)
<b>Net Profit/Loss From Continuing Operations</b> .....	<b>374,111</b>	<b>410,590</b>	<b>435,913</b>
<b>Net Profit/Loss</b> .....	<b>374,111</b>	<b>410,590</b>	<b>435,913</b>
Group's profit/loss .....	373,408	407,231	443,431
Minority shares .....	703	3,359	(7,518)
Earnings/Loss Per Share <sup>(1)</sup> .....	0.249	0.235	0.216

---

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 2015 and 2016**

### ***Net Interest Income***

The Group's net interest income increased by 26.8 per cent. to TL 758.8 million in the year ended 31 December 2016 from TL 598.5 million in the year ended 31 December 2015. The Group's net interest margin in 2016 was 3.3 per cent. as compared to 3.6 per cent. in 2015. 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 2016, the Group's interest income increased by 28 per cent. to TL 1,409.7 million from TL 1,098.7 million in 2015. For 2016, interest income from loans amounted to TL 856.1 million (61 per cent. of total interest income), interest from securities amounted to TL 353.7 million (25 per cent. of total interest income) and interest from money market placements and interest received from banks amounted to TL 199.0 million (14 per cent. of total interest income), compared to TL 669.2 million (61 per cent.), TL 318.7 million (29 per cent.) and TL 110.8 million (10 per cent) respectively, in 2015.

### ***Interest Expenses***

In 2016, the Group's interest expenses increased by 30 per cent. to TL 650.9 million from TL 500.2 million in 2015. This increase was due to increased funding costs stemming primarily from a 15 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, April 2015 and May 2016.

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

The Group's net fees and commission income declined to TL 25.0 million in 2016 from TL 29.5 million in 2015. This stemmed from the competitive environment and general economic uncertainty in 2016.

### ***Dividend Income***

The Group's dividend income increased by 12.7 per cent. from TL 10.2 million in 2015 to TL 11.5 million in 2016.

### ***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 5.8 million in 2015 to a loss of TL 67.8 million in 2016. In 2016, a certain amount of FX liquidity is transferred into TL by short-term swaps, which are used in TL liquid assets for arbitrage purposes. The expenses of these transactions are booked in trading income/(loss) item while the revenues are booked in interest income. In addition, the remaining trading loss was primarily driven by an increase in foreign exchange losses.

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

The Group's other operating income decreased by 48 per cent. to TL 26.6 million in 2016 from TL 51.1 million in 2015. This decrease was primarily attributable to TL 12.8 million being recognised in 2015 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 2016, the Group’s provisioning for loans and other receivables decreased by 10.3 per cent. to TL 70.5 million from TL 78.6 million in 2015. The main figure in 2015 was principally attributable to a single NPL which was booked during the year. There is no material NPL creation in 2016. The provisioning is mainly driven by general provision according to BRSA regulations.

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>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>	
<b>Specific Provisions for Loans and Other Receivables</b> .....	44,681	3,566
Group III Loans and Receivables .....	20	18
Group IV Loans and Receivables .....	—	—
Group V Loans and Receivables.....	44,661	3,548
General Loan Provision Expenses .....	26,283	33,124
<b>Provision Expenses for Potential Risks</b> .....	—	—
<b>Marketable Securities Impairment Losses</b> .....	7,599	3,809
Financial Assets at Fair Value through Profit and Loss .....	—	—
Financial Assets Available for Sale.....	7,599	3,809
<b>Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Held to Maturity Investments</b> .....	—	—
Investment in Associates.....	—	—
Subsidiaries.....	—	—
Jointly Controlled Entities .....	—	—
Held-to-Maturity Investments.....	—	—
<b>Other</b> .....	—	30,000
<b>Total</b> .....	<u>78,563</u>	<u>70,499</u>

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

In 2016, the Group’s other operating expenses increased by 20 per cent. to TL 168.9 million from TL 140.6 million in 2015. The increase in 2016 is mainly attributable to average personnel growth figure.

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

The Group’s net profit from continuing operations in 2016 increased by 6.2 per cent. to TL 435.9 million from TL 410.6 million in 2015. The increase in 2016 was in large part due to increased turnover resulting from growth in the Group’s operations.

For 2016, the Bank’s return on average total assets was 2.2 per cent. and the return on its average equity was 17.4 per cent., compared to 2.2 per cent. and 17.0 per cent., respectively, for 2015.

## **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. 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 34 per cent. to TL 1,098.7 million from TL 819.9 million in 2014. This increase was largely driven by a 27 per cent. growth in the Bank's loan book. For 2015, interest income from loans amounted to TL 669.2 million (61 per cent. of total interest income) and interest from securities amounted to TL 318.7 million (29 per cent. of total interest income), compared to TL 505.2 million (62 per cent.) and TL 283.9 million (35 per cent.), respectively, in 2014.

### ***Interest Expense***

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 7.1 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 2014, the Group's provisioning for loans and other receivables increased by 28.3 per cent. to TL 78.6 million from TL 61.2 million in 2014. The increase in 2015 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>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 .....	—	—
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 12.5 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.

## 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 2016, 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:

### As of (or for the year ended) 31 December 2016

	Corporate Banking	Investment Banking	Other	Total
	<i>(TL thousands)</i>			
Net Interest Income .....	353,064	424,040	(18,301)	758,803
Net Fees and Commissions Income .....	10,602	(5,617)	20,032	25,017
Other Income .....	12,656	-	216,020	228,676
Other Expense .....	(81,091)	(67,661)	(310,123)	(458,875)
Profit Before Tax .....	295,231	350,762	(92,372)	553,621
Tax Provision.....	—	—	—	(117,708)
<b>Net Profit</b> .....	—	—	—	435,913
Group’s Profit/Loss .....	—	—	—	443,431
Non-Controlling Interests .....	—	—	—	(7,518)
Segment Assets.....	17,270,371	5,904,442	1,372,827	24,547,640
Investment in Associates and Subsidiaries.....	—	—	327,846	327,846
<b>Total Assets</b> .....	17,270,371	5,904,442	1,700,673	24,875,486
Segment Liabilities .....	20,066,209	544,386	1,121,838	21,732,433
Shareholders’ Equity .....	—	—	3,143,053	3,143,053
<b>Total Liabilities and Shareholders’ Equity..</b>	20,066,209	544,386	4,264,891	24,875,486

As of (or for the year ended) 31 December 2015

	<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	213,382	(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>—</b>	<b>—</b>	<b>—</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>1,122,365</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>

## Financial Condition

The tables below set forth the Group's balance sheet data as of the indicated dates.

	As of 31 December		
	2014	2015	2016
	<i>(TL thousands)</i>		
<b>Assets</b>			
<b>Cash and Balances with the Central Bank</b> .....	507,794	811,123	778,076
<b>Financial Assets at Fair Value Through Profit and Loss (Net)</b> .....	95,417	209,571	387,037
Trading Financial Assets.....	95,417	209,571	387,037
Public Sector Debt Securities .....	7,887	30,777	5,947
Share Certificates.....	2,388	2	980
Derivative Financial Assets Held-for-Trading.....	74,874	169,794	374,036
Other Marketable Securities .....	10,268	8,998	6,074
<b>Banks</b> .....	503,981	751,545	497,949
<b>Money Market Placements</b> .....	105,206	1,080,724	254,934
Interbank Money Market Placements .....	—	—	191,138
Borsa İstanbul Money Market Placements .....	104,913	1,080,274	62,895
Receivables from Reverse Repurchase Agreements .....	293	450	901
<b>Financial Assets Available for Sale (Net)</b> .....	3,517,617	2,972,162	3,068,412
Share Certificates.....	35,768	38,214	46,663
Public Sector Debt Securities .....	3,021,063	2,624,551	2,790,932
Other Marketable Securities .....	460,786	309,397	230,817
<b>Loans</b> .....	10,866,989	13,633,129	17,336,045
Loans .....	10,866,989	13,633,129	17,336,045
Loans to Risk Group of the Bank .....	271,858	484,797	405,458
Other .....	10,595,131	13,148,332	16,930,587
Non-Performing Loans .....	18,438	61,017	51,615
Specific Provisions (-) .....	(18,438)	(61,017))	(51,615)
<b>Held to Maturity Investments (Net)</b> .....	—	872,602	1,375,729
<b>Investments in Associates (Net)</b> .....	263,300	293,543	324,447
Accounted for Under the Equity Method.....	261,745	291,988	322,922
Unconsolidated Associates .....	1,555	1,555	1,555
Non-Financial Investments.....	1,555	1,555	1,555
<b>Investments in Subsidiaries (Net)</b> .....	609	609	1,609
<b>Entities Under Common Control (Joint Venture)</b>	10	1,760	1,760

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
<b>(Net)</b> .....			
Unconsolidated .....	10	1,760	1,760
Non-Financial Subsidiaries.....	10	1,760	1,760
<b>Lease Receivables (Net)</b> .....	—	—	3,792
Finance Lease Receivables .....	87	98	4,393
Unearned Income (-).....	(87)	(98)	(601)
<b>Derivative Financial Assets for Hedging Purposes</b> .....	—	4,093	272
<b>Tangible Assets (Net)</b> .....	26,454	207,027	231,328
<b>Intangible Assets (Net)</b> .....	2,173	2,056	3,098
Goodwill .....	1,005	1,005	1,005
Other .....	1,168	1,051	2,093
<b>Investment Property (Net)</b> .....	224,090	241,293	231,323
<b>Tax Assets</b> .....	21,253	29,624	21,214
Current Tax Asset.....	2,320	1,825	3,032
Deferred Tax Asset.....	18,933	27,799	18,182
<b>Assets Held-for-Sale and Discounted Operations</b> .....	—	—	—
<b>Other Assets</b> .....	90,808	255,719	358,431
<b>Total Assets</b> .....	<u>16,225,701</u>	<u>21,366,580</u>	<u>24,875,486</u>

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
<b>Liability and Equity</b>			
<b>Derivative Financial Liabilities Held-for-Trading</b> .....	63,576	174,950	320,797
<b>Funds Borrowed</b> .....	10,151,582	13,441,831	16,127,496
<b>Money Market Balances</b> .....	2,272,713	2,350,540	1,256,234
Interbank Money Market Takings.....	—	—	610,144
Borsa İstanbul Money Market Takings.....	110,219	182,505	350,736
Funds Provided Under Repurchase Agreements.....	2,162,494	2,168,035	295,354
<b>Debt Securities issued (Net)</b> .....	813,824	2,037,571	3,486,732
Bonds .....	813,824	2,037,571	3,486,732
<b>Funds</b> .....	39,081	30,677	5,317

**As of 31 December**

	<b>2014</b>	<b>2015</b>	<b>2016</b>
		<i>(TL thousands)</i>	
Borrower Funds .....	39,081	30,677	5,317
<b>Miscellaneous Payables</b> .....	96,591	129,298	193,612
<b>Lease Payables</b> .....	—	—	—
Finance Lease Payables .....	—	—	—
Deferred Finance Lease Expenses (-).....	—	—	—
<b>Derivative Financial Liabilities for Hedging Purposes</b>	—	5,799	51,433
<b>Provisions</b> .....	210,296	217,860	279,033
General Loan Loss Provision.....	117,760	144,043	177,167
Reserves for Employee Benefits.....	9,475	10,768	10,904
Other Provisions .....	83,061	63,049	90,962
<b>Tax Liability</b> .....	37,722	48,426	11,779
Current Tax Liability .....	37,722	48,426	11,779
<b>Subordinated Loans</b> .....	116,065	145,836	—
<b>Shareholders' Equity</b> .....	2,424,251	2,783,792	3,143,053
Paid-in Capital .....	1,500,000	1,750,000	2,050,000
Capital Reserves .....	124,100	147,322	132,324
Share Premium .....	413	428	428
Marketable Securities Value Increase Fund .....	113,993	(27,755)	(69,896)
Tangible Assets Revaluation Differences .....	9,320	174,619	201,168
Other Capital Reserves .....	374	30	624
Profit Reserves.....	315,408	362,902	408,096
Legal Reserves.....	175,765	195,072	216,361
Statutory Reserves .....	75,641	75,641	75,641
Extraordinary Reserves.....	61,244	89,478	113,175
Other Profit Reserves.....	2,758	2,711	2,919
Profit or Loss .....	417,290	458,078	494,664
Prior Years' Profit/Loss.....	43,882	50,847	51,233
Current Year Profit/Loss .....	373,408	407,231	443,431
Non-controlling interests .....	67,453	65,490	57,969
<b>Total Liabilities and Equity</b> .....	<u>16,225,701</u>	<u>21,366,580</u>	<u>24,875,486</u>

**Assets**

As of 31 December 2016, the Group had total assets of TL 24.9 billion, a 16.4 per cent. increase from TL 21.4 billion as of 31 December 2015. The increase was largely due to a 27.2 per cent. increase in loans.

### ***Cash and Balances with the Central Bank***

As of 31 December 2016, the amount of the Group's cash and balances with the Central Bank was TL 778 million, a 4 per cent. decrease compared to TL 811 million as of 31 December 2015. 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 investments, as well as loans to SMEs and mid caps, including financing to promote healthcare, education services and the empowerment of women. 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 2016, the Group had loans and leasing receivables net of allowance for possible losses of TL 17.3 billion (69.7 per cent. of total assets), an increase of 27.2 per cent. compared to TL 13.6 billion (63.8 per cent.) as of 31 December 2015 (TL 10.9 billion and 67.0 per cent., respectively, as of 31 December 2014). The Group's portfolio of cash total loans and advances to customers, less allowance for possible losses, increased by 27.2 per cent. as of 31 December 2016 compared to year-end 2015, which itself reflected a 25.5 per cent. increase compared to year-end 2014. The 27.2 per cent. increase in 2016 from 2015 were driven mainly by the growth in foreign currency-denominated loans due to the depreciation of Turkish Lira. The real loan growth in 2016 is 8.2 per cent.

In addition to loans, the Group had outstanding guarantees amounting to TL one billion and letters of credit amounting to TL 0.7 billion as of 31 December 2016 (TL 1.2 billion and TL 0.6 billion, respectively, as of 31 December 2015).

As of 31 December 2016, the average effective interest rate charged to borrowers on loans was 3.6 per cent. for EUR and 5.5 per cent. for USD terms (3.5 per cent. and 4.7 per cent. respectively in EUR and USD as of 31 December 2015, 3.8 per cent. and 4.3 per cent. respectively in EUR and USD as of 31 December 2014) TL loan rates were 13.3 per cent. (12.0 per cent. as of 31 December 2015 and 10.1 per cent. as of 31 December 2014).

### ***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					
	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
	<i>(TL thousands, except percentages)</i>					
<b>Agriculture</b> .....	2,636	0.02	1,503	0.01	10,451	0.06
<b>Industry</b> .....	6,622,703	60.94	8,416,355	61.73	11,286,976	65.11
Mining and Quarrying.....	93,640	0.86	100,310	0.81	86,024	0.50
Manufacturing.....	1,926,128	17.72	2,549,365	18.70	3,493,627	20.15
Electricity, Gas, Water.....	4,602,935	42.36	5,756,680	42.23	7,707,325	44.46
<b>Construction</b> .....	144,499	1.33	187,169	1.37	174,517	1.01

	As of 31 December					
	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
	<i>(TL thousands, except percentages)</i>					
<b>Services</b> .....	3,939,270	36.25	4,932,111	35.67	5,702,091	32.89
Wholesale and Retail Trade.....	125,535	1.16	295,610	2.17	208,416	1.20
Hotel and Restaurant Services.....	542,574	4.99	592,962	4.35	641,500	3.70
Transportation and Communication .....	720,666	6.63	857,678	6.29	826,437	4.77
Financial Institutions .....	1,577,258	14.51	1,792,400	13.15	2,304,919	13.30
Real Estate and Rental Services .....	841,041	7.74	1,121,609	8.23	1,055,310	6.09
Self-Employed Services .....	22,683	0.21	21,097	0.15	40,578	0.23
Educational Services .....	48,762	0.45	123,843	0.91	138,353	0.80
Health and Social Services .....	60,751	0.56	126,912	0.93	486,578	2.81
<b>Other</b> .....	157,881	1.45	95,991	0.70	162,010	0.93
<b>Performing Loans</b> <sup>(1)</sup> .....	10,866,989	100.00	13,633,129	100.00	17,366,045	100.00
Leasing Receivables .....	0	—	0	—	3,792	—
Non-performing Loans .....	18,438	—	61,017	—	51,615	—
Total Loans and Advances to Customers...	10,885,427	—	13,694,146	—	17,417,660	—
Allowance for Loan Losses .....	18,438	—	61,017	—	51,615	—
<b>Net Loans and Advances to Customer</b> ...	<u>10,866,989</u>	<u>—</u>	<u>13,633,129</u>	<u>—</u>	<u>17,366,045</u>	<u>—</u>

Note:

(1) Performing Loans include Leasing Receivables.

### *Currency of Loans*

As of 31 December 2016, foreign currency risk-bearing loans comprised 93 per cent. of the Group's loan portfolio (of which U.S. Dollar- and Euro-denominated obligations were the most significant), compared to 92 per cent. as of 31 December 2015 and 90 per cent. as of 31 December 2014.

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					
	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
	<i>(TL thousands, except percentages)</i>					
<b>Cash Loans</b>						
<b>Turkish Lira</b> .....	1,080,690	9.90%	1,069,447	7.84%	1,297,355	7.48%
<b>Foreign Currency</b> <sup>(1)</sup> .....	9,786,299	90.10%	12,563,682	92.16%	16,038,690	92.52%
U.S. Dollars.....	6,201,710	57.10%	7,661,022	56.19%	9,490,700	54.75%
Euro.....	3,584,589	33.00%	4,902,660	35.96%	6,547,990	37.77%
Other .....	—	—	—	—	—	—
<b>Total Cash Loans</b> .....	<u>10,866,989</u>	<u>100.00%</u>	<u>13,633,129</u>	<u>100.00%</u>	<u>17,336,045</u>	<u>100.00%</u>
<b>Non-cash Loans</b>						

**As of 31 December**

	2014		2015		2016	
	<i>(TL thousands, except percentages)</i>					
<b>Letters of Guarantee</b> .....	956,972	65.90%	1,196,747	67.13%	975,391	58.43%
Turkish Lira .....	431,847	29.70%	390,799	21.92%	210,448	12.61%
Foreign Currency .....	525,125	36.10%	805,948	45.21%	764,943	45.83%
<b>Acceptance Credits</b> .....	—	—	19,027	1.07%	17,450	1.05%
Turkish Lira .....	—	—	—	—	—	—
Foreign Currency .....	—	—	19,027	1.07%	17,450	1.05%
<b>Letters of Credit</b> .....	496,097	34.10%	566,890	31.80%	676,367	40,52%
Turkish Lira .....	—	—	—	—	—	—
Foreign Currency .....	496,097	34.10%	566,890	31.80%	676,367	40,52%
<b>Other Guarantee</b> .....	—	—	—	—	—	—
Turkish Lira .....	—	—	—	—	—	—
Foreign Currency .....	—	—	—	—	—	—
<b>Total Non-cash Loans</b> .....	1,453,069	100.00%	1,782,664	100.00%	1,669,208	100.00%
<b>Total Loans</b> .....	12,320,058	100.00%	15,415,793	100.00%	19,005,253	100.00%

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 2016, the size of the Group's aggregate securities portfolio increased by 15.4 per cent. to TL 4.5 billion from TL 3.9 billion as of 31 December 2015, which in turn increased 11.4 per cent. from TL 3.5 billion as of 31 December 2014.

As of 31 December 2016, the Group's securities portfolio constituted 17.9 per cent. of the Group's total assets, compared to 18 per cent. and 21.6 per cent., respectively, as of 31 December 2015 and 2014. 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 1.2 billion as of 31 December 2016, TL 2.3 billion as of 31 December 2015 and TL 2.2 billion as of 31 December 2014, comprising 28 per cent., 60 per cent. and 64 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>2014</b>	<b>2015</b>	<b>2016</b>
		<i>(TL thousands)</i>	
Held-to-maturity portfolio.....	—	872,602	1,375,729
Available-for-sale portfolio .....	3,517,617	2,972,162	3,068,412
Trading portfolio .....	20,543	39,777	13,001
<b>Total securities</b> .....	<b>3,538,160</b>	<b>3,884,541</b>	<b>4,457,142</b>

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
		<i>(TL thousands)</i>	
Turkish Lira-denominated securities .....	2,979,172	2,879,314	3,250,299
Foreign currency-denominated and indexed securities .....	558,988	1,005,227	1,206,843
<b>Total securities</b> .....	<b>3,538,160</b>	<b>3,884,541</b>	<b>4,457,142</b>

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
		<i>(TL thousands)</i>	
Turkish government debt securities <sup>(1)</sup> .....	3,028,950	3,527,930	4,172,608
Other marketable debt securities .....	471,054	318,395	236,891
Equity shares .....	38,156	38,216	47,643
<b>Total securities</b> .....	<b>3,538,160</b>	<b>3,884,541</b>	<b>4,457,142</b>

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 2016, the size of the Group's investment portfolio increased by 15.6 per cent. to TL 4.5 billion from TL 3.9 billion as of 31 December 2015, an increase of 9.8 per cent. from TL 3.5 billion as of 31 December 2014. 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 2016, 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 4.1 billion of Turkish government securities represented 133 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 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, and in 2016 the Group booked TL 0.5 billion of its securities portfolio under its held-to-maturity portfolio, with this addition total held-to-maturity portfolio became 31 per cent. of the total securities portfolio, also with an effect to managing 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 2016</b>	
	<i>(TL thousands, except percentages)</i>	
Turkish government debt securities <sup>(1)</sup> .....	2,790,932	91,0%
Other marketable debt securities <sup>(2)</sup> .....	230,817	7.5%
Equity shares .....	46,663	1.5%
<b>Total available-for-sale portfolio</b> .....	<b>3,068,412</b>	<b>100%</b>

	<b>As of 31 December</b>					
	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<i>(TL thousands, except percentages)</i>					
Turkish government debt securities <sup>(1)</sup> ....	3,021,063	85.9%	2,624,551	88.3%	2,790,932	91.0%
Other marketable debt securities <sup>(2)</sup> .....	460,786	13.1%	309,397	10.4%	230,817	7.5%
Equity shares .....	35,768	1%	38,214	1.3%	46,663	1.5%
<b>Total available-for-sale portfolio</b> .....	<b>3,517,617</b>	<b>100%</b>	<b>2,972,162</b>	<b>100%</b>	<b>3,068,412</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 2016, the size of the Group's available-for-sale securities stayed flat comparing approximately TL 3.0 billion from approximately TL 2.9 billion as of 31 December 2015, a decrease of 17 per cent. as compared to approximately TL 3.5 billion as of 31 December 2014. As of 31 December 2015, the size of the Group's available-for-sale portfolio decreased by a further three per cent. as a result of the transfer of TL 0.5 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 2016 were: (a) for Turkish Lira-denominated securities, 10 per cent. (10.38 per cent. and 9.72 per cent., respectively, for the years ended 31 December 2015 and 2014), (b) for U.S. Dollar-denominated securities, five per cent. (4.87 per cent. and 5.88 per cent., respectively, for the years ended 31 December 2015 and 2014), and (c) for Euro-denominated securities, 5.6 per cent. (5.6 per cent. and 5.6 per cent., respectively, for the years ended 31 December 2015 and 2014).

The average interest rates on the Group's held to maturity securities portfolio as of 31 December 2016 were 10.4 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 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					
	2014		2015		2016	
	<i>(TL thousands, except percentages)</i>					
Turkish government debt securities <sup>(1)</sup> ....	7,887	38.4%	30,777	77.4%	5,947	45.7%
Other marketable debt securities.....	10,268	50%	8,998	22.6%	6,074	46.7%
Equity shares .....	2,388	11.6%	2	0%	980	7.6%
<b>Total trading portfolio.....</b>	<b>20,543</b>	<b>100%</b>	<b>39,777</b>	<b>100%</b>	<b>13,001</b>	<b>100%</b>

Note:

(1) Government debt securities include government bonds, treasury bills and eurobonds.

As of 31 December 2016, the size of the Group's trading securities portfolio decreased by 70.1 per cent. to approximately TL 11.9 million from approximately TL 39.8 million as of 31 December 2015, a decrease of 42 per cent. as compared to approximately TL 20.5 million as of 31 December 2014. The changes in the trading securities portfolio are attributable to the actions taken by the Group to benefit from price or rate changes.

The average interest rate on the Group's trading securities portfolio as of 31 December 2016 was 8.3 per cent. (10.0 per cent. and 9.7 per cent., respectively as of 31 December 2015 and 2014) for Turkish Lira-denominated securities. The Group did not have any U.S. Dollar-denominated or Euro-denominated securities as of 31 December 2016 or 31 December 2015.

### **Liabilities**

As of 31 December 2016, the Group had total liabilities of TL 21.7 billion, an increase of 16.9 per cent. from TL 18.6 billion as of 31 December 2015. This increase was primarily attributable to the Group's growth strategy to finance the investment needs of its corporate clients.

As of 31 December 2016, the Group had TL 1.3 billion in funding through repos, and TL 19.6 billion in short term and long term borrowings.

### ***Shareholders' Equity***

As of 31 December 2016, the Group's shareholders' equity amounted to 12.6 per cent. of the Group's total assets, compared to 13.0 per cent. as of 31 December 2015. 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 2.4 billion, TL 2.8 billion and TL 3.1 billion as of 31 December 2014, 2015 and 2016, respectively.

### ***Off-Balance Sheet Arrangements***

The aggregate amount of off-balance sheet arrangements, comprising guarantees, letters of credit and similar obligations, totalled TL 1.7 billion as of 31 December 2016 and the TL 1.8 billion as of 31 December 2015. 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 eight per cent. calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is four 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 eight per cent. while the core capital adequacy ratio and Tier I capital adequacy ratio are 4.5 per cent. and six per cent., respectively. 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 2016, 2015 and 2014, the Group’s total capital adequacy ratio was 14.6 per cent., 16 per cent. and 18.3 per cent. respectively (14.3 per cent, 14.9 per cent. and 18.1 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.

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands, except percentages)</i>		
Paid-in capital .....	1,500,000	1,750,000	2,050,000
Paid-in capital inflation adjustments .....	374	374	374
Profit reserves .....	315,408	362,902	408,096
Profit .....	417,290	458,078	494,664
Tier I Capital (I) .....	2,414,594	2,764,596	3,115,372
Tier II Capital (II) .....	140,810	144,043	177,167
Deductions (III) .....	(21,622)	(14,850)	(14,499)
Own Funds (I+II-III) .....	2,533,742	2,893,789	3,278,040
Risk Weighted Assets (including market and operational risk) ..	13,820,038	18,090,325	22,507,376
<b>Capital Ratios:</b> <sup>(1)</sup>			
Tier I Ratio .....	17.5%	15.3%	13.8%
Total Capital Adequacy Ratio <sup>(2)</sup> .....	18.3%	16.0%	14.6%

Notes:

(1) Calculated in accordance with BRSA regulations.

(2) 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 2016, 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 TSKB Sürdürülebilirlik Danışmanlığı 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.*

	As of (or for the year ended) 31 December		
	2014	2015	2016
	(TL thousands)		
Total Assets .....	13,340	14,152	18,544
Total Liabilities .....	3,277	2,522	4,470
Profit/(loss) for the period.....	2,564	1,660	3,290

#### *Sürdürülebilir Danışmanlık A.Ş.*

	As of (or for the year ended) 31 December		
	2014	2015	2016
	(TL thousands)		
Total Assets .....	422	720	1,463
Total Liabilities .....	42	66	149
Profit/(loss) for the period.....	48	275	(293)

#### *Terme Metal Sanayi ve Ticaret A.Ş.*

	As of (or for the year ended) 31 December		
	2014	2015	2016
	(TL thousands)		
Total Assets .....	14,453	15,589	16,408
Total Liabilities .....	10,819	11,976	13,211
Profit/(loss) for the period.....	(93)	75	(455)

Note:

(1) Financial data current as of 30 September 2016.

**Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş.**

	As of (or for the year ended)		
	31 December		
	2014	2015	2016
	(TL thousands)		
Total Assets .....	11,568	11,500	10,819
Total Liabilities .....	1,920	174	323
Profit/(loss) for the period.....	(1,176)	(235)	(600)

**Liquidity and Funding**

The Group's principal sources of funding are loans from developmental organisations, of which a total of approximately 68 per cent. is provided by the World Bank Group and the European Investment Bank. As of 31 December 2016, 72.7 per cent. (76.8 per cent. as of 31 December 2015) 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 2016, the Group's total foreign currency-denominated borrowings constituted 79.8 per cent. of its consolidated assets (72 per cent. as of 31 December 2015). 69.9 per cent. of the Bank's long-term funds were guaranteed by the Turkish Treasury as of 31 December 2016. 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								
	2014			2015			2016		
	TL	Foreign Currencies	Total	TL	Foreign Currencies	Total	TL	Foreign Currencies	Total
(TL thousands)									
Funds Borrowed .....	227,919	10,039,728	10,267,647	255,612	13,332,055	13,587,667	147,252	15,980,244	16,127,496
Repos and Money Market Funds	2,032,878	239,835	2,272,713	2,305,992	44,548	2,350,540	1,195,236	60,998	1,256,234
Debt Securities.....	—	813,824	813,824	—	2,037,571	2,037,571	—	3,486,732	3,486,732

The Group's loans constituted in aggregate approximately 64.8 per cent., 63.6 per cent. and 63.3 per cent. of its total liabilities as of 31 December 2016, 2015 and 2014, respectively. As of 31 December 2016, the Group's loans amounted to TL 16.1 million, an increase of 18.7 per cent. from TL 13.6 million as of 31 December 2015, itself an increase of 32.3 per cent. from TL 10.2 million as of 31 December 2014.

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 2014, 2015 and 2016, 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 14 per cent., 11 per cent. and 5 per cent. of the Group's total liabilities as of 31 December 2014, 2015 and 2016, respectively, and issuances of debt securities, which accounted for 14 per cent. and 9.5 per cent. as of 31 December 2016 and 2015 respectively.

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					
	2014		2015		2016	
	TL	Foreign Currencies	TL	Foreign Currencies	TL	Foreign Currencies
	<i>(TL thousands)</i>					
Funds borrowed from financial institutions and organisations .....	—	9,290,172	—	11,590,433	31,092	14,071,300
Funds borrowed from the domestic banks and institutions .....	227,919	236,572	186,611	306,291	47,169	313,101
Funds borrowed from foreign banks, institutions and funds.....	—	396,919	69,001	1,289,495	68,991	1,595,843
Subordinated Loans .....	—	116,065	—	145,836	—	—
<b>Total</b> .....	<b>227,919</b>	<b>10,039,728</b>	<b>255,612</b>	<b>13,332,055</b>	<b>147,252</b>	<b>15,980,244</b>

The Bank's short-term funding, including syndicated loans, bilateral loans and money market transactions, represented 15.3 per cent. of its outstanding funding base as of 31 December 2016. The table below sets out the Group's funds borrowed (including subordinated loans) based upon their maturity as of the dates indicated:

	As of 31 December					
	2014		2015		2016	
	TL	Foreign Currencies	TL	Foreign Currencies	TL	Foreign Currencies
	<i>(TL thousands)</i>					
Short-term (one year or less) .....	227,919	367,148	59,544	56,360	47,180	73,741
Medium and Long-term.....	—	9,672,580	196,068	13,275,695	100,072	15,906,503
<b>Total</b> .....	<b>227,919</b>	<b>10,039,728</b>	<b>255,612</b>	<b>13,332,055</b>	<b>147,252</b>	<b>15,980,244</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 2016 are as follows:

<b>Outstanding Principal</b>	<b>Final Maturity</b>
EUR10 million bilateral loan	2 February 2017
EUR10 million bilateral loan	24 April 2017
EUR 237.5 million syndicated loan	11 July 2017
U.S. \$12.5 million syndicated loan	11 July 2017
TL 15 million bilateral loan	2 January 2017
TL 11 million bilateral loan	4 January 2017
TL 7 million bilateral loan	5 January 2017
TL 6 million bilateral loan	2 January 2017
TL 5 million bilateral loan	2 January 2017
TL 3 million bilateral loan	2 January 2017

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 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 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 2016, the Group had issued letters of credit amounting to TL 676 million and guarantees amounting to TL 975 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>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
Letters of guarantee.....	956,972	1,196,747	975,391
Acceptance credits .....	—	19,027	17,450
Letters of credit .....	496,097	566,890	676,367
Other guarantees <sup>(1)</sup> .....	—	—	—
<b>Total</b> .....	<b>1,453,069</b>	<b>1,782,664</b>	<b>1,669,208</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.

<b>As of 31 December 2016</b>						
	<b>Buy</b>			<b>Sell</b>		
	<b>TL</b>	<b>Foreign Currency</b>	<b>Total</b>	<b>TL</b>	<b>Foreign Currency</b>	<b>Total</b>
	<i>(TL thousands)</i>					
Forward foreign exchange contracts .....	126,329	441,469	567,798	123,456	439,861	563,317
Currency swaps.....	1,098,878	2,724,038	3,822,916	1,680,003	1,970,805	3,650,808
Interest rate swaps .....	20,412	5,366,443	5,386,855	20,412	5,366,443	5,386,855
Currency options.....	1,619,601	1,846,367	3,465,968	1,619,601	1,846,367	3,465,968
Interest rate options .....	—	—	—	—	—	—
Others .....	—	117,544	117,544	—	—	—
	<b>As of 31 December 2015</b>					
	<b>Buy</b>			<b>Sell</b>		
	<b>TL</b>	<b>Foreign Currency</b>	<b>Total</b>	<b>TL</b>	<b>Foreign Currency</b>	<b>Total</b>
	<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	5,594,440
Currency options.....	526,886	711,313	1,238,199	526,886	711,313	1,238,199
Interest rate options .....	—	—	—	—	—	—
Others .....	—	89,210	89,210	150	—	150
	<b>As of 31 December 2014</b>					
	<b>Buy</b>			<b>Sell</b>		
	<b>TL</b>	<b>Foreign Currency</b>	<b>Total</b>	<b>TL</b>	<b>Foreign Currency</b>	<b>Total</b>
	<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 .....	—	—	—	—	—	—

**As of 31 December 2014**

	Buy			Sell		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
	<i>(TL thousands)</i>					
Others .....	—	—	—	—	74,677	74,677

*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>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
Guarantees and sureties .....	1,453,069	1,782,664	1,669,208
Loan funding and other commitments .....	3,346,798	5,026,305	8,592,675
Derivatives .....	9,561,263	20,246,465	34,175,829
<b>Total Contingencies and Commitments.....</b>	<b>14,361,130</b>	<b>27,055,434</b>	<b>44,437,712</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>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
Buildings .....	38,870	197,289	225.925 <sup>(1)</sup>
Vehicles .....	1,426	1,604	1.475
Other <sup>(2)</sup> .....	31,267	31,541	31,297
Depreciation .....	45,109	23,407	27,369
<b>Net book value .....</b>	<b>26,454</b>	<b>207,027</b>	<b>231,328</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. In 2016, the revaluation difference amounted to TL 28.636 thousand, as which are determined by the certified valuation companies authorized by the CMB.
- (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 2016, held a 17.4 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's dedication to sustainability dates back to 1980, when it introduced environmental standards in its credit evaluation process. In 2005, the Bank developed its own Environmental and Social Risk Evaluation tool ("ERET") in order to rate projects irrespective of sector or loan size. The Bank has extended a large portfolio of loans to energy efficiency, resource efficiency and various types of renewable energy 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. TSKB also joined the BIST (Borsa İstanbul) Sustainability Index that lists the companies operating in İstanbul with the highest corporate sustainability performances. 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 organised 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. TSKB has been added to the FTSE4Good

Emerging Index which assesses the sustainability of banks around the globe in terms of their environmental policies, social policies and governance.

In 2016, the Bank was awarded ‘EMEA Green/SRI Bond Deal of the Year’ by GlobalCapital and “Sustainable Bond Award of the Year” by the International Financing Review Magazine (IFR)/Thomson Reuters. In addition, the Bank’s inaugural green/sustainable bond was named “Structured Finance Deal of the Year 2016” by Bonds & Loans Awards Turkey.

The Bank published the first Integrated Report in Turkey in March 2017. The Turkish language version of the report is accessible on TSKB’s web page ([www.tskb.com.tr](http://www.tskb.com.tr)).

As of 31 December 2016, the Group had total assets of TL 24.9 billion, an increase of 16.4 per cent. from TL 21.4 billion as of 31 December 2015, itself a 32.1 per cent. increase from TL 16.2 billion as of 31 December 2014. As of 31 December 2016, the Group had total shareholders’ equity of TL 3.1 billion, an increase of 11 per cent. from TL 2.8 billion as of 31 December 2015, itself an increase of 16.7 per cent. from TL 2.4 billion as of 31 December 2014.

For the year ended 31 December 2016, the Group’s net profit was TL 435.9 million, a 6.1 per cent. increase from TL 410.6 million for the year ended 31 December 2015, itself a 9.7 per cent. increase from TL 374.1 million for 2014. For the year ended 31 December 2016, the Group’s net interest income was TL 758.8 million, a 26.8 per cent. increase from TL 598.5 million for the year ended 31 December 2015, itself a 13.2 per cent. increase compared to TL 528.6 million for 2014. The Group’s total operating income was TL 660.9 million in 2014, TL 695.2 million in 2015 and TL 754.2 million in 2016, while its net period profit from continuing operations was TL 374.1 million in 2014, TL 410.6 million in 2015 and TL 435.9 million in 2016.

As of 31 December 2016, the Group’s total capital adequacy ratio was 14.56 per cent. and its Tier I capital adequacy ratio was 13.84 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 3,143 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 25.6 per cent. The Group’s net operating income was TL 439 million in 2014, TL 476 million in 2015 and TL 515 million in 2016 while its net period profit from continuing operations was TL 374 million in 2014, TL 411 million in 2015 and TL 436 million in 2016.

The Bank’s shares have been quoted on the BİST since 1986. As of 31 December 2016, 50.65 per cent. of the Bank’s shares were held by the İşbank Group (41.17 per cent. held directly by İşbank with the remainder held through subsidiaries, comprising 5.80 per cent. held by Camış Yatırım, 1.90 per cent. held by Milli Reasürans, 0.89 per cent. by Anadolu Sigorta and 0.89 per cent. held by Anadolu Hayat Emeklilik), 8.38 per cent. of the shares were held by Vakıfbank, 44.65<sup>1</sup> per cent. were traded publicly on the BİST (59.6 per cent. of which were 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

---

<sup>1</sup> Both the free float figure and the İşbank Group ownership figure include the shares held by İşbank Group subsidiaries Milli Reasürans, Anadolu Sigorta and Anadolu Hayat Emeklilik that were acquired in the free float of the Bank’s shares on the BİST in December 2016.

("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 2016, 69.9 per cent. of the Group's long-term funds and 59.2 per cent. of the Group's total funding, 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. As of 31 December 2016, the Bank's funding shares from DFIs were as follows: 38 per cent. from the IBRD, 30 per cent. from the EIB, 10 per cent. from KfW, 8 per cent. from the IDB, 5 per cent. from the CEB, 2 per cent. from the IFC, 3 per cent. from the AFD, 2 per cent. from the EBRD, 1 per cent. from OPIC and 0.5 per cent. from OeB.

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, 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 the EIF, having signed a guarantee agreement with a maximum portfolio guarantee amount of EUR 20 million in order to help finance innovative SMEs and small mid caps (defined as companies that have less than 500 employees and which are not SMEs).

DFI Funding	2016	
	Amount	Theme
EIB .....	100m EUR	SME and Midcap
EIB .....	100m EUR	Energy and Environment
		Women
		Employment and Occupational
AFD.....	100m EUR	Health&Safety
		Geothermal
IBRD .....	150m USD	Energy
CEB.....	100m EUR	APEX
		Renewable
		Energy and
KfW.....	150m EUR	Environment

#### ***Relationship with İşbank Provides Access to Significant Expertise***

As of 31 December 2016, İşbank Group held 50.65 per cent. (41.17 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 2016 (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 3,143 million, a total capital adequacy ratio of 14.56 per cent. and a Tier I capital adequacy ratio of 13.84 per cent. as of 31 December 2016. 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 2016 at a compound annual growth rate of 8 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 2016, 55 per cent. of the Bank's total loan portfolio was comprised of loans to project finance, 37 per cent. to corporate marketing and eight 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 35 per cent. and 14 per cent. of the Bank's loan portfolio as of 31 December 2016. 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, or renewable energy, loans in the Bank's loan book was 10 per cent. as of 31 December 2016. The Bank has a well-diversified renewable energy portfolio, of which six per cent. comprised loans to biomass, 32 per cent. to wind, 14 per cent. to geothermal, 46 per cent. to hydro and two per cent. to solar power plant projects as of 31 December 2016. The distribution as of 31 December 2015 was six per cent. to biomass, 34 per cent. to wind, nine per cent. to geothermal and 51 per cent. to hydroelectric power projects. The distribution as of 31 December 2014 was seven per cent. to biomass, 22 per cent. to wind, three per cent. to geothermal and 69 per cent. to hydroelectric power plant projects. The distribution as of 31 December 2013 was seven per cent. to biomass, 18 per cent. to wind and 75 per cent. to hydroelectric power plant projects.

As of 31 December 2016, 65.4 per cent. of the projects financed by the Bank's renewable energy portfolio were in operation. By segment, 91.2 per cent. of the hydroelectric projects, 57.1 per cent. of the biomass projects, 91.3 per cent. of the wind projects, 57.1 per cent. of the geothermal projects and 31.3 per cent. of the solar power plant projects were in operation, respectively. The percentage of renewable energy projects (in terms of power, or megawatts, produced) financed by the Bank that were in operation as at 31 December 2016 was 82 per cent.

As of 31 December 2016, the allocation of loans extended from the proceeds of the issuance in May 2016 of the U.S.\$300 million green/sustainable bond were as follows: 43 per cent. to renewable energy projects, 25 per cent. to electricity distribution projects, 20 per cent. to the port projects, 11 per cent. to health projects and two per cent. to energy efficiency projects.

The Bank has financed a total of 122 projects to date, comprising 47 resource efficiency projects and 75 energy efficiency projects.

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 2016. The share of the Bank's receivables from the top 10 cash loan customers in the overall cash loan portfolio was 20.1 per cent. as of the same 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 2016, the Bank grew its loan portfolio by 26.6 per cent. in TL terms while maintaining its NPL ratio at 0.3 per cent. The NPL ratio of the Bank was 0.2 per cent., 0.4 per cent. and 0.3 per cent. as of 31 December 2014, 2015 and 2016, respectively, lower than the Turkish banking sector's NPL ratios of 2.9 per cent., 3.1 per cent. and 3.2 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 Financial Analysis and Engineering Departments along with its Loan and Loan Monitoring departments. The Bank's specialised and 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 5 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 5.82 per cent. during 2016). 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. The Economic Research Teams provide support by way of their sectoral research studies and analysing new investment project themes.

### ***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 its 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. The Bank increased its corporate governance rating from 9.52 to 9.53 (out of 10) in 2016. Since having been first rated and included in the BİST Corporate Governance Index in 2009, the Bank has continued to maintain its position as one of the top three companies included in the index.

### ***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 through issuances of debt instruments, improving its synergies with its subsidiaries (including to increase its fee-generating capabilities) and constantly strengthening its strong human resources 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, various types of renewable energy, logistics, infrastructure, healthcare and education services investments. The Bank is seeking to diversify the areas of growth with the needs of its corporate clients. Although energy production loans continue to represent a large share of the Group's loan book, corresponding to 35 per cent. of its total loans as of 31 December 2016, the Bank plans to reorient some of this focus towards other sectors, such as infrastructure, 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 (which has been in a declining trend), 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 production and electricity and gas distribution. In the Bank's loan book, the share of project finance loans represented 55 per cent., corporate loans 37 per cent. and APEX loans (which are channelled to leading banks and leasing companies, usually to finance SMEs indirectly) 8 per cent. of the Bank's loan portfolio as of 31 December 2016 (6 per cent. as of 31 December 2015).

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, an April 2015 issuance of notes for an amount of U.S.\$350 million and a May 2016 issuance of a green/sustainable bond for an amount of U.S.\$300 million under the GMTN programme) 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 private development and investment bank of the Republic of Turkey. The IFC as a development finance institution was one of the largest shareholders of the Bank from 1963 to 1979. 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, ICO 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 2016, the Project Finance Department accounted for TL 9.6 billion of loans (55.2 per cent. of the Group's total loans), 96.6 per cent. of which was foreign currency-denominated and the remaining 3.4 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.\$720 million in 2016.

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. In addition, awards received from Bonds & Loans Turkey are as follows: "Syndicated Loan Deal of the Year" in 2016 for the Aksa Gas Distribution Project, and "Infrastructure Finance Deal of the Year" in 2016 for the Galataport Project.

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, leasing, working capital loans, non-cash loans (including letters of guarantee, letters of credit and export credit guarantees) and foreign trade finance operations.

The underlying target of the Bank corporate loans is sustainable development and economical added value. In this respect, the Bank provides financing for investments focusing on Renewable Energy, Energy & Resource Efficiency, Environmental Protection, among the other needs of its clients such as working capital and business development.

The Corporate Marketing Department extends financing to a number of private sector companies ranging from SMEs to corporate companies, with financing solutions including medium and long term loans with an average tenor of four years.

As of 31 December 2016, the Corporate Marketing Department accounted for TL 6.4 billion of loans, (37 per cent. of the total loans), 90 per cent. of which was sourced from DFIs and other free sources and the remaining 10 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 reached TL 1.05 billion as of 31 December 2016, with significant portions of this amount represented by letters of credit provided by the Bank.

The Corporate Marketing Department plays a major role providing cross-selling opportunities for its treasury products, corporate finance activities, advisory services and the products of the Bank's subsidiaries.

*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 both Export Finance Intermediation Loans ("EFIL Loans") and Loans lent through Innovative Access to Finance Project ("IA2F") and also from the CEB, EIB and KfW. The purpose of the EFIL programme Loans is to support companies in their efforts to increase exports and create new job opportunities, whereas the IA2F Project's purpose is to improve access to longer term Islamic finance and to factoring for SMEs and export oriented enterprises. 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 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 30 Participating Financial Institutions, which are comprised of commercial banks, leasing companies, participation banks and factoring companies.

As of 31 December 2016, the total outstanding volume of loans supplied by the Bank through APEX banking reached U.S.\$397 million, accounting for 8 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 the EFIL Loan and IA2F programmes. Since 2004, the Bank has been actively involved in four EFIL Loan programmes, each of which was completed by 30 June 2014. The IA2F Project is ongoing as of 31 December 2016. Through participating in these programmes, the Bank provided a total of more than U.S.\$1 billion to approximately 1,871 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 2016, the Investment Banking business unit generated TL 25.7 million of fees and commissions, accounting for 70.7 per cent. of the Group's total fees and commissions (TL 22.9 million and 56.5 per cent., respectively, in 2015).

### ***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 2016, the Group's total securities portfolio was valued at TL 4.5 billion, as compared to TL 3.9 billion and TL 3.5 billion as of 31 December 2015 and 2014, respectively.

As of 31 December 2016, the Bank's securities portfolio was comprised of Turkish Lira-denominated floating rate securities (51.7 per cent.), Turkish Lira-denominated zero-coupon and fixed securities (21.3 per cent.), foreign currency-denominated zero-coupon and fixed securities (27 per cent.). Moreover, 69.0 per cent. of the Bank's total securities portfolio was classified as "available-for-sale" and 37.1 per cent. of the Bank's total securities portfolio was classified as held-to-maturity as of 31 December 2016.

### ***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 buy-side and sell-side advisory services to both financial and strategic investors in connection with the issuance of debt instruments via public offerings or private placements;
- *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 an investor in the Turkish Growth and Innovation Fund, which was initiated in 2015 by EIF and sponsored by the Bank along with the Undersecretariat of the Treasury and the Small and Medium Enterprises Development Organization of Turkey (“KOSGEB”). The fund was established 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 4 million for 2016 (TL 5.2 million for 2015). 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 2016, the Bank had direct equity interests in nine companies operating in finance and other sectors. As of 31 December 2016, the total book value of the Bank’s investment in subsidiaries and other affiliates was TL 352.3 million (including non-financial subsidiaries and affiliates, such amount was TL 2.9 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 2016.

As of 31 December 2016

Group Company	Field of Activity	Bank's Direct Share	Group's Share	Assets <sup>(1)</sup>	Shareholders' Equity	Market Share <sup>(3)</sup>
				<i>(US \$thousands)</i>		
	Brokerage					
Yatırım Finansman Menkul Değerler A.Ş. ....	House	95.78%	98.51%	231,722	20,311	3.5%
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ....	REIT	59.00%	72.48%	123,694	54,519	N/A
İş Finansal Kiralama A.Ş. <sup>(2)</sup> .....	Leasing	28.56%	57.33%	2,114,065	234,640	N/A
İş Faktoring A.Ş. ....	Factoring	21.75%	100.00%	855,075	36,409	N/A
	Venture Capital Inv.					
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. ....	Trust	16.67%	68.78%	73,146	72,399	N/A

Notes:

- (1) Total Assets (as of 31 December 2016 derived from the Public Disclosure Platform's website).
- (2) Consolidated amounts.
- (3) According to equity trading volume in the nine months ended 30 September 2016 (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 2016. Yatırım Finansman commenced operations on 15 October 1976 as the first capital market corporation of Turkey. Yatırım Finansman's founders were 13 large banks, led 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 moved its head office to the Bank's head office building 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 4.05 per cent. in BİST equity transactions for the year ended 31 December 2016. According to data provided by the BİST, Yatırım Finansman was 11th among licensed brokerage firms in Turkey in terms of equity trading volume as of 31 December 2016. Yatırım Finansman's consolidated net sales and net profit figures for the year ended 31 December 2016 were TL 2,502 million and TL -6,129 thousand, respectively (TL 913 million and TL -1,951 thousand respectively, for the year ended 31 December 2015) while its consolidated assets and equity as of 31 December 2016 amounted to TL 820 million and TL 72 million, respectively (TL 555 million and TL 74 million, respectively, as of 31 December 2015). The volume of assets under Yatırım Finansman's management increased from TL 555 million as of 31 December 2015 to TL 820 million as of 31 December 2016. In addition, Yatırım Finansman was the seventh largest licensed brokerage firm in Turkey in terms of its paid-in capital, which was TL 63.5 million as of 30 September 2016 (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 2016. According to the Public Disclosure Platform of the BİST, TSKB REIT was the 24th largest real estate investment trust in Turkey as of 31 December 2016, with an asset value of U.S.\$124 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.

Within the scope of the company's investment strategy to increase the rent revenues and portfolio diversity, and also taking into account the synergy that will be derived from the merger, the Board of Directors of TSKB REIT decided to start up negotiations with İş REIT in November for the merger of the companies under the name İş REIT.

### ***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 2016, 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 2016, the consolidated total assets and equity of İş Leasing amounted to TL 7,480 million and TL 830 million, respectively (TL 5,581 million and TL 738 million, respectively, as of 31 December 2015). Net current leasing receivables amounted to TL 3,921 million as of the same date (TL 3,249 million as of 31 December 2015). As of 31 December 2016, 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 (24 per cent.), work and construction equipment (19 per cent.), transport (5 per cent.) and other sectors (16 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 2016. The company had TL 3,025 million in total assets and TL 129 million in equity as of 31 December 2016 (TL 1,979 million and TL 100 million, respectively, as of 31 December 2015), while its factoring receivables amounted to TL 2,985 million as of the same date (TL 1,946 million as of 31 December 2015). 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 2016, was Turkey's third largest private equity fund in terms of market value according to the CMB. As of 31 December 2016, 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 2016 was TL 1,060 thousand (TL 773 thousand for 2015). İş Girişim's assets and equity as of 31 December 2016 amounted to TL 259 million and TL 256 million, respectively (TL 259 million and TL 255 million, respectively, as of 31 December 2015).

### ***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 sustainability consultancy) 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 0.013 per cent. and 0.009 per cent. of its total assets as of 31 December 2016 and 31 December 2015, respectively.

During the year ended 31 December 2016, total dividend income received from non-financial subsidiaries amounted to TL 600 thousand which constituted 0.14 per cent. of the Bank's net income. As of 31 December 2016, TSKB Gayrimenkul Değerleme A.Ş. and TSKB Sürdürülebilirlik Danışmanlığı A.Ş. (Escarus) were the

significant long-term strategic non-financial subsidiaries 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 2016, about the non-financial companies in which the Bank owns 10 per cent. or more of the outstanding share capital.

Company	Sector	Bank's Direct Shareholding	Shares owned by the Bank and the Bank's affiliates
TSKB Gayrimenkul Değerleme A.Ş.....	Real Estate Appraisal	99.99%	99.99%
TSKB Sürdürülebilirlik Danışmanlığı A.Ş. ....	Consultancy	80.65%	99.35%
Terme Metal Sanayi ve Ticaret A.Ş.....	Metal Industry	17.83%	18.76%
Ege Tarım Ürünleri ve Lisanslı Depoculuk A.Ş. ....	Warehousing	10.05%	10.05%

### **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 one 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 two 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) five 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) four per cent. for standard and eight 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 eight 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 eight 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 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>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL millions)</i>		
Balance at the beginning of the period.....	37,386	18,438	61,017
Additions <sup>(1)</sup> .....	10,808	44,098	3,566
Recoveries <sup>(2)</sup> .....	(29,713)	(1,490)	(12,953)
Portfolio Sale .....	—		
Write-off <sup>(2)</sup> .....	(43)	(29)	(15)
Balance at the end of the period.....	18,438	61,017	51,615

Notes:

- (1) Including foreign currency effect.
- (2) Excluding portfolio sales.

As of 31 December 2016, restructured performing loans constituted 1.1 per cent. of the Bank's total performing loan portfolio. The ratio of renewed and restructured NPLs to total NPLs as of 31 December 2014, 2015 and 2016 was 19 per cent., 9 per cent., and 21 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>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL millions)</i>		
Renewed and restructured loan accounts	3,433	5,395	10,707

*Loan Portfolio Quality.* The Group's ratios of non-performing loans to total cash loans and to total cash and non-cash loans were 0.17 per cent. and 0.16 per cent., 0.45 per cent. and 0.40 per cent., 0.30 per cent. and 0.27 per cent. respectively, as of 31 December 2014, 2015 and 2016. 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>2014</b>	<b>2015</b>	<b>2016</b>
Total NPL (TL thousands).....	18,438	61,017	51,615
Coverage Ratio <sup>(1)</sup> .....	100.0%	100.0%	100.0%
NPL Ratio .....	0.2%	0.4%	0.3%

Note:

(1) Total amount of specific provisions divided by NPLs.

As a result of the Bank's credit assessment policies described above, the NPL ratio of the Bank has historically been either the lowest or among the lowest in the Turkish banking sector. As of 31 December 2016, 2015 and 2014 the Bank's NPL ratios were 0.3 per cent., 0.4 per cent. and 0.2 per cent., respectively, compared to banking sector average NPL ratios of 3.2 per cent., 3.1 per cent. and 2.9 per cent. over the same periods, 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>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
Corporate.....	14,452	19,348	12,809
Other/SMEs/Miscellaneous Receivables .....	3,986	41,669	38,806
<b>Total</b> .....	<b>18,438</b>	<b>61,017</b>	<b>51,615</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>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
Cash.....	105,479	128,670	158,443
Non-cash commitments and contingencies .....	2,719	2,721	2,714
Others .....	9,562	12,652	16,010
<b>Total</b> .....	<b>117,760</b>	<b>144,043</b>	<b>177,167</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.

Category of Collateral	Types	Evaluation Ratio
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 2016, the Bank's total net exposure to its risk group totalled TL 405 million, an amount corresponding to 13 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 one 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 2016, the Bank is well within the limits set by the BRSA.

### Employees and Benefits

As of 31 December 2016, the Bank had 332 employees. The following table sets forth the number of employees as of the indicated dates.

	<b>Employees</b>
31 December 2014 .....	314
31 December 2015 .....	334
31 December 2016 .....	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 2016, one 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 2014, 2015 and 2016, respectively. As of 31 December 2016, 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 percentage 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 28 September 2016). This policy has been prepared and issued for the purpose of guiding the practices of the Bank pursuant to anti-money 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 20 August 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. In addition to its in-house software system, the Bank utilises an automated system provided by Dow Jones which enables it to monitor and detect suspicious transactions on a daily basis. Moreover, all foreign-currency transfers are separately monitored on a daily basis. 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 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 (20 March 2017)**

Baseline Credit Assessment (BCA)	ba2
Outlook	Not on watch
<b>Foreign Currency (issuer)</b>	
Long-Term Maturity	Ba1
Outlook	Negative
Short-Term Maturity	NP
<b>Domestic Currency (issuer)</b>	
Long-Term Maturity	Ba1
Outlook	Negative
Short-Term Maturity	NP

#### **Fitch (2 February 2017)**

Long-Term Maturity Foreign Currency (issuer)	BB+ (Stable)
Short-Term Maturity Foreign Currency (issuer)	B
Long-Term Maturity National Currency (issuer)	BBB (Stable)
Short-Term Maturity National Currency (issuer)	F3
Support Note	3
National Support Note	BB+
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. The internal systems structure is based upon management's assessment of best market practices both in Turkey and internationally. All the departments work in accordance with the principles and organisational set-up required by the Turkish regulations.

The Bank applies sophisticated risk management methods and techniques available in the international banking arena. Risk management is a dynamic process, 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, statutory regulations, corporate strategies, policies and regulations. The Board of Internal Auditors also provides assurance to the Board of Directors on 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.

### **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 three units concentrating on different activities: (a) the Asset Liability Management (ALM) Unit, (b) the Derivatives Transactions and Treasury Sales Unit, and (c) the Trading Unit. 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 it 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 (interest rate, maturity 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 Presidents in charge of the treasury, financial institutions, development finance institutions, corporate banking, project finance, financial control and budget planning. 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 2016, the Group's total assets increased to TL 24,875 million from TL 21,367 million as of 31 December 2015. 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**

	2014		2015		2016	
	(TL)	(Foreign Currency)	(TL)	(Foreign Currency)	(TL)	(Foreign Currency)
<b>Assets</b>						
Cash and Banks .....	6.9%	6.9%	1.5%	10.3%	4.03%	5.47%
Loans <sup>(1)</sup> .....	21.6%	87.2%	16.3%	81.9%	22.10%	84.39%
Securities Portfolio .....	59.9%	5.5%	39.4%	7.1%	55.36%	6.35%
Others .....	11.6%	0.4%	42.8%	0.7%	18.51%	3.78%
<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> .....	45.6%	98.5%	44.6%	98.7%	26.7%	98.4%
Others .....	54.4%	1.5%	55.4%	1.3%	73.3%	1.6%
<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 2016:

	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 .....	1,264,892	11,133	—	—	—	1,276,025
Loans .....	426,590	1,064,020	3,256,846	12,588,589	—	17,336,045
Securities Portfolio .....	315,505	216,389	253,631	3,623,974	47,643	4,457,142
<b>Total Assets</b> .....	<b>2,212,348</b>	<b>1,399,104</b>	<b>3,620,305</b>	<b>16,423,826</b>	<b>1,219,903</b>	<b>24,875,486</b>
<b>Liabilities</b>						
Funds Borrowed <sup>(1)</sup> .....	1,484,223	266,270	2,170,810	16,949,159	—	20,870,462
Others .....	21,392	44,253	101,857	210,045	3,627,477	4,005,024
<b>Total Liabilities</b> .....	<b>1,505,615</b>	<b>310,523</b>	<b>2,272,667</b>	<b>17,159,204</b>	<b>3,627,477</b>	<b>24,875,486</b>

Note:

- (1) 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 1,757 thousand (0.07 per cent. of the Bank's equity) as of 31 December 2015 and TL 3,675 thousand (0.1 per cent. of the Bank's equity) as of 31 December 2016.

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 two per cent. for foreign currency and five 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 2016:

	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>	413,451	—	—	—	364,625	778,076
Balances with banks .....	465,969	11,133	—	—	20,847	497,949
Trading securities .....	53,716	92,777	135,422	101,739	3,383	387,037
Interbank funds sold .....	191,973	62,961	—	—	—	254,934
Securities available for sale loans .....	333,011	288,125	844,154	1,556,459	46,663	3,068,412
Loans <sup>(1)</sup> .....	1,992,927	5,644,313	6,538,267	3,160,538	—	17,336,045
Held-to-maturity investments .....	180,460	645,935	362,595	186,739	—	1,375,729
Other assets .....	—	272	1,295	2,497	1,173,240	1,177,304
<b>Total assets</b> .....	<u>3,631,507</u>	<u>6,745,516</u>	<u>7,881,733</u>	<u>5,007,972</u>	<u>1,608,758</u>	<u>24,875,486</u>
Interbank funds borrowed .....	1,256,160	74	—	—	—	1,256,234
Miscellaneous payables .....	—	—	—	—	193,612	193,612
Debt securities issued .....	—	—	—	3,486,732	—	3,486,732
Funds borrowed from other financial institutions .....	3,595,439	5,563,880	3,350,968	3,617,209	—	16,127,496
Other liabilities .....	35,138	98,963	174,741	68,705	3,433,865	3,811,412
<b>Total liabilities</b> .....	<u>4,886,737</u>	<u>5,662,917</u>	<u>3,525,709</u>	<u>7,172,646</u>	<u>3,627,477</u>	<u>24,875,486</u>
Asset/liability gap .....	(1,255,230)	1,082,599	4,356,024	(2,164,674)	(2,018,719)	—
Off-balance sheet gap .....	(62,216)	14,267	(140,032)	(247,025)	—	(59,044)
<b>Total gap</b> .....	<u>(1,317,446)</u>	<u>1,096,866</u>	<u>4,215,992</u>	<u>(1,917,649)</u>	<u>(2,018,179)</u>	<u>(59,044)</u>

---

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. 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 2016, the Group's borrowings were 1.9 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>2014</b>	<b>2015</b>	<b>2016</b>
<b>No term</b> .....	—	—	—
Turkish Lira–denominated .....	—	—	—
Foreign currency–denominated.....	—	—	—
<b>Up to three months</b> .....	683,795	687,315	494,259
Turkish Lira–denominated .....	227,819	70,478	47,169
Foreign currency–denominated.....	455,976	616,837	447,090
<b>Greater than three months and less than or equal to 12 months</b> .....	960,942	1,803,151	2,170,810
Turkish Lira–denominated .....	—	41,612	—
Foreign currency–denominated.....	960,942	1,761,539	2,170,810
<b>Over 12 months</b> .....	8,622,910	11,097,201	13,462,427
Turkish Lira–denominated .....	—	143,522	97,938
Foreign currency–denominated.....	8,622,910	10,953,679	13,364,489
<b>Total borrowings</b> .....	<u>10,267,647</u>	<u>13,587,667</u>	<u>16,127,469</u>
Turkish Lira–denominated .....	227,819	255,612	145,107
Foreign currency–denominated.....	10,039,828	13,332,055	15,982,389

## 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 2016, 2015 and 2014 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>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
U.S.\$ .....	(5,248)	(6,769)	(1,955)
Euro.....	(9,217)	(11,755)	(19,425)
Other currencies .....	120	220	73
<b>Total</b> .....	<b>(14,345)</b>	<b>(18,304)</b>	<b>(21,307)</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, national 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 eight 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, eurobonds, syndicated loans, bilateral loans, repo and money market transactions. Borrowings are the Group's main source of both Turkish Lira and foreign currency funding, with a 96 per cent. share in total liabilities (excluding shareholders' equity) as of 31 December 2016, amounting to TL 21.7 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 capacity 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 2016, the balance of the outstanding syndicated term loan facilities obtained by the Bank was approximately U.S.\$274 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 May 2016, the Bank issued the first green/sustainable bond in Turkey and the wider CEEMEA region for an amount of U.S.\$300 million due to mature in 2021. The proceeds from the issuance of the green/sustainable bond were fully disbursed by the end of 2016.

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 and certain import related projects as well as working capital loans.

The Bank has entered into various transactions with DFIs which are indicated at the below table:

DFI Funding	2016	
	Amount	Theme
EIB .....	100m EUR	SME and Midcap
EIB .....	100m EUR	Energy and Environment
AFD.....	100m EUR	Women Employment and Occupational Health&Safety
IBRD.....	150m USD	Geothermal Energy
CEB.....	100m EUR	APEX
KfW.....	150m EUR	Renewable Energy and Environment

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				
	2014	% Change	2015	% Change	2016
	<i>(TL thousands)</i>				
Repos & Money Market .....	2,272,713	3.4%	2,350,540	(46.5)%	1,256,234
Funds Borrowed <sup>(1)</sup> .....	10,267,647	32.3%	13,587,667	18.7%	16,127,496
Securities Issued .....	813,824	150.4%	2,037,571	71.1%	3,486,732
Other.....	447,266	35.7%	607,010	42.0%	861,971
Equity .....	2,424,251	14.8%	2,783,792	12.9%	3,143,053
<b>Total.....</b>	<b>16,225,701</b>	<b>31.7%</b>	<b>21,366,580</b>	<b>16.4%</b>	<b>24,875,486</b>

Note:

(1) Including subordinated loans.

**As of 31 December**

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(%) of Total</i>		
Repos & Money Market.....	14.0%	11.0%	5.0%
Funds Borrowed <sup>(1)</sup> .....	63.3%	63.6%	64.8%
Securities Issued.....	5.0%	9.5%	14.0%
Other .....	2.8%	2.8%	3.6%
Equity.....	14.9%	13.0%	12.6%
<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 eight per cent. calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is four per cent. higher than the legal capital ratio. As of 31 December 2016, the Bank's regulatory capital adequacy ratio was 14.33 per cent. and the Group's regulatory capital adequacy ratio was 14.56 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 Prospectus, the Board of Directors comprises the following:

<b>Name</b>	<b>Position</b>	<b>Year first appointed to the Board</b>
Adnan Bali	Chairman	2011
Ebru Özşuca	Vice Chairman	2014

<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
Yavuz Canevi	Board Member	2015
Fikret Utku Özdemir	Board Member	2016
Kemal Saç	Board Member	2016
Z. Hansu Uçar	Board Member	2015
Kamil Yılmaz	Board Member	2014
Can Yücel	Board Member	2016

### **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.

### **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.

### **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.

### **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 Aydoğan has been a member of the Bank's Board of Directors.

**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.

**Fikret Utku Özdemir (Board Member)**

Fikret Utku Özdemir was born in 1970 in Gaziantep and completed his two-year degree in Nuclear Energy Engineering from Hacettepe University and his bachelor degree in Management from Middle East Technical University. Having started his professional career at İşbank on the Board of Inspectors in 1996, he completed his post-graduate degree in Finance from Edhec Business School in France. Mr Özdemir was appointed as the Deputy Manager of the Corporate Loans Department in 2006, as Unit Manager of the Corporate Loan Allocation Department in 2009 and as Unit Manager of the International Financial Institutions Department in 2013. In 2016, he was appointed and still serves as the Department Manager in charge of Corporate Banking Marketing and Sales. In June 2016, Mr Özdemir was elected as a member of the Bank's Board of Directors.

**Kemal Saç (Board Member)**

Kemal Saç was born in 1968 in Ordu and graduated from the Business Administration Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University in 1992. Following this he worked as Cost Control Coordinator at MNG Holding for a year, before joining İşbank as an Assistant Inspector on the Board of Inspectors in 1993. In 2001, Mr Saç was appointed as Assistant Manager at Financial Affairs Department in which he became a Group Manager in 2005. Since 2008, he has been serving as Unit Manager at the Managerial Reporting and Internal Accounting Department. Kemal Saç also completed the Advanced Management Program (AMP 189) at Harvard Business School in 2015. In June 2016, Mr Saç was elected as a member of the Bank's Board of Directors.

**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.

### **Can Yücel (Board Member)**

Can Yücel was born in 1978 in Ankara and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University in 1999. Having started his professional career at İşbank as an Assistant Inspector on the Board of Inspectors, from 2008 he was promoted to several management positions within the SME Loan Allocation and Corporate Loan Allocation Departments, respectively. In 2011, Mr Yücel was appointed as Project Finance Unit Manager under the Corporate Loan Allocation Department of which he has since become Department Manager in 2016. In June 2016, Mr Yücel was elected as a member of the Bank's Board of Directors.

### **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
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
Aslı Zerrin Hancı	Executive Vice President	2017
Hidayet Yetkin Kesler	Executive Vice President	2017
Aziz Ferit Eraslan <sup>(1)</sup>	Executive Vice President	2015

Note:

(1) Mr Eraslan reports directly to the Audit Committee.

Additional information on each of these Executive Vice Presidents is set forth below:

### **Çiğdem İçel**

#### ***Executive Vice President***

Çiğdem İçel was born in Eskişehir in 1966 and graduated from the Department of Business Administration, Boğaziçi University. Ms İçel began her professional career at the Bank as an Assistant Investment Advisor in the Treasury Department. After serving in a variety of positions, she was appointed as the Head of the

Treasury and Correspondent Banking Department in 1998. Çiğdem İçel was promoted to the Executive Vice President on 27 January 2006. Ms İçel is currently responsible for the Development Finance Institutions, Financial Institutions, Economic Research and Engineering Departments.

### **Ufuk Bala Yücel**

#### ***Executive Vice President***

Ufuk Bala Yücel was born in Istanbul in 1964 and is a graduate of the Department of Political Science, Boğaziçi University. Ms Yücel began her professional career in 1987. After working in several banks, she joined the Bank as the Head of Loans Department in 2002. She was appointed as Group Manager in 2007 and as Executive Vice President on 25 December 2007. Ms Yücel is currently responsible for the Loans, Loan Monitoring and Loan Operations Departments.

### **Gökhan Çanakpınar**

#### ***Executive Vice President***

Gökhan Çanakpınar was born in Ardahan in 1964 and graduated from the Department of Business Administration, Middle Eastern Technical University. Mr Çanakpınar began his professional career at İpekış Mensucat as a Systems Analyst in 1988. After 1990, Mr Çanakpınar served as Project Manager at Isbank for six years. In 1995, he started serving as a Systems Analyst at the Bank and was later appointed as the Head of Application Development Department in 2000. Mr Çanakpınar was promoted to Director of Information Technology Unit in 2011. Since 27 December 2011 he has been working as an Executive Vice President. He is currently in charge of the System and Network Support, Application Development and Support Services Departments.

### **Ece Börü**

#### ***Executive Vice President***

Ece Börü was born in İstanbul in 1966 and graduated from Management Engineering Department of İstanbul Technical University in 1988. Ms Börü joined the Bank as an assistant specialist in the Financial Control Department in 1989. She was promoted to Head of Financial Control in 2000 and to Head of Board of Internal Auditors in 2006. Since 28 November 2013, Ms Börü has been serving as the Executive Vice President of the Bank. She is currently responsible for the Budget Planning and Investor Relations, Financial Analysis and Financial Control Departments.

### **Hakan Aygen**

#### ***Executive Vice President***

Hakan Aygen was born in Konya in 1965 and graduated from Management Engineering Department of İstanbul Technical University. Mr Aygen started his professional career in the non-financial sector in 1989. He joined the Bank in 1995 as an assistant specialist in the Financial Analysis Department and completed his master's degree in Management and Organisation at the Marmara University in 1996. Mr Aygen was appointed to Head of Corporate Finance Department in 2006 and promoted to Group Head in 2011. Having received his Accounting Finance doctorate degree from Marmara University in 2013, he was promoted as Executive Vice President on 28 November 2013. Mr Aygen is currently in charge of the Corporate Finance, Corporate Banking and Project Finance Departments.

## **Aslı Zerrin Hancı**

### ***Executive Vice President***

Aslı Hancı was born in Ankara in 1969 and graduated from the Faculty of Business Administration at Istanbul University in 1990. Miss Hancı began her professional career at Citibank in 1991. She worked in the Treasury departments of both Chase Manhattan and BNP Ak Dresdner Bank. Ms Hancı joined the Bank's Treasury Team in 2005. She was appointed as the Head of Securities Department in 2007 and as Head of the Treasury Department in 2008. Since 1 January 2017, she has been Executive Vice President in charge of the Treasury and the Treasury and Capital Markets Operations Departments.

## **Hidayet Yetkin Kesler**

### ***Executive Vice President***

H. Yetkin Kesler was born in Istanbul in 1966 and graduated from the Department of Industrial Engineering at Boğaziçi University in 1989. He started his career as an Assistant Internal Auditor at Koçbank in 1992, before completing his master's degree in Management Engineering at Istanbul Technical University in 1993. Mr Kesler joined the Bank as a Financial Controller Specialist in 1994 and was appointed as Head of System Development in 2005, as Head of Internal Control in 2011, and as Head of the Enterprise Architecture and Process Management Department in 2013. On 1 January 2017, Mr Kesler was appointed as Executive Vice President responsible for Human Resources and Corporate Communications, Enterprise Architecture and Process Management, Corporate Compliance and Pension and Assistance Funds.

## **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 Stirling University in 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 of İşbank Russia. In October 2015, he was appointed as Executive Vice President responsible for the Board of Internal Auditors and the Risk Management and Internal Control Departments at the Bank.

## **Board Committees**

Pursuant to Commercial Law 6102 and the CMB Corporate Governance Communique 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 who serve on the Board of Directors. The Audit Committee members are selected by the Board of Directors and currently are Kemal Saç and Can Yücel. 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 audit department 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 Fikret Utku Özdemir, Ms Zeynep Hansu Uçar and Ms Özen Çaylı 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 Kemal Saç 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 Hakan Aygen 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 unconsolidated basis for the year ended 31 December 2016 was TL 10,026 thousand (TL 8,202 thousand for the year ended 31 December 2015).

## **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 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 2016: (a) the majority shareholder of the Bank, with a 50.65 per cent. shareholding, was İşbank Group (with 41.17 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) 40.97 per cent. of the Bank's shares were traded publicly on the BİST (59.6 per cent. of which was owned by foreign investors) and (d) the remaining shares were owned by other institutional shareholders.

As of 31 December 2016, the share capital of the Bank was TL 2,050,000,000, consisting of 2,050,000,000 fully paid-up shares. Registered shareholdings in the Bank as of 31 December 2016 were as follows:

Shareholder <sup>(1)</sup>	Shares <sup>(2)</sup>	Percentage
İşbank .....	843,986,017.3	41.17% <sup>(3)</sup>
Vakıfbank .....	171,738,391.6	8.38%
Camiș Yatırım.....	118,828,007.4	5.80%
Public Free Float and Others .....	915,447,585.7	44.65%
<b>Total</b> .....	<b>2,050,000,000.0</b>	<b>100.00%</b>

Notes:

- (1) According to data from the Public Disclosure Platform (Kamuyu Aydınlatma Platformu) (KAP) as of 31 December 2016.
- (2) Each share has a nominal value of one Kuruş. One hundred Kuruş are equal to one Turkish Lira.
- (3) İşbank Group holds 50.65 per cent. of the Bank's shares, with 41.17 per cent. of the shares being held directly and the remainder being held by Camiș Yatırım (5.80%), Milli Reasürans (1.90%), Anadolu Sigorta (0.89%) and Anadolu Hayat Emeklilik (0.89%), 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 certain of its subsidiaries in the free float of the Bank's shares on the BİST in December 2016.

## 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 five 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: five 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 three 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 72 million and TL 52.5 million in cash dividends with respect to 2014 and 2015, respectively. As of the date of this Prospectus, the Bank has announced an intended cash dividend of TL 82 million for 2016.

## **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 one Kuruş has one 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 2016, 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 unconsolidated basis. İşbank Group holds 50.65 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 2016, 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 2016 (Source: BRSA and bank data) and its lending market share was 8.5 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 2016, 39.1 per cent. of the Bank's total shares were on free float, of which 59.6 per cent. was owned by foreign investors.

The remaining 1.9 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 the 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 underperformed. 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 2016, the Bank's total net exposure to its risk group totalled TL 405 million, an amount corresponding to 13 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					
	2014		2015		2016	
	Amount	Percentage of Related Item	Amount	Percentage of Related Item	Amount	Percentage of Related Item
	<i>(TL thousands, except percentages)</i>					
Cash loans .....	271,858	2.5%	484,797	3.6%	405,458	2.3%
Non-cash loans .....	117,676	8.1%	117,734	6.6%	7,878	0.65%
Derivatives .....	97,317	1.0%	116,656	1.0%	417,925	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 eight 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 three 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 one 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 December 2016, Commercial Bank of Qatar acquired the remaining 25 per cent. stake of Alternatifbank A.Ş. from Anadolu Endüstri Group. In February 2017, BBVA acquired a 9.95 per cent. stake in Garanti Bankası A.Ş. from Dogus Group, thereby increasing its stake to 49.85 per cent. Also in February 2017, the state-owned interests in Halkbank (51.11%) and Ziraat (100%) were transferred to the Turkish sovereign wealth fund.

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. In February 2016, the BRSA granted permission to Vakıf Katılım Bankası A.Ş. to start operations as a participation bank. Bank of China Limited acquired the approval of the banking regulator to establish a deposit bank in Turkey with a paid in capital of U.S.\$ 300 million in May 2016 and transferred the required capital to Turkey in December 2016. In July 2016, the banking licence of participation bank Asya Katılım Bankası A.Ş. was abolished. 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:

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of banks <sup>(1)</sup> ..	46	45	45	45	44	45	45	47	47	47

Note:

(1) Total number of banks includes deposit-taking banks, investment banks and development banks, but excludes participation banks (Islamic banks).

Source: Turkish Banks Association ([www.tbb.org.tr](http://www.tbb.org.tr))

As of 31 December 2016, 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 21 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 abolishment of Bank Asya’s banking licence by the BRSA, the number of participation banks operating in Turkey decreased to five.

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 CAGR of 17.9 per cent. from 31 December 2009 to 31 December 2016, driven by loan book expansion and customer deposits growth, which increased by a CAGR of 23.5 per cent. and 15.9 per cent., respectively, between 31 December 2009 and 31 December 2016, in each case according to the BRSA. Despite strong growth of net loans and customer deposits since 2009, 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 70.4 per cent. and 62.0 per cent., respectively, as of 31 December 2016 according to BRSA data, whereas the eurozone’s banking sector had loan and deposit penetration ratios of 164 per cent. and 158 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								
	2009	2010	2011	2012	2013	2014	2015	2016	CAGR <sup>(1)</sup>
	<i>(TL millions, except CAGR<sup>(1)</sup>)</i>								
<b>Balance sheet</b>									
Loans.....	355,285	479,018	621,379	716,307	939,772	1,118,887	1,339,149	1,558,034	23.5%
Total assets.....	773,357	932,371	1,119,911	1,247,653	1,566,190	1,805,426	2,130,600	2,455,262	17.9%
Deposits.....	487,909	583,947	656,276	724,296	884,457	987,463	1,171,251	1,372,359	15.9%
Shareholders’ equity.....	98,833	114,979	123,007	157,553	165,954	201,116	228,142	262,390	15.0%
<b>Income statement</b>									
Net Interest Income .....	38,758	35,895	36,056	47,837	52,353	59,705	70,409	83,488	11.6%
Net Fees and Commission Income.....	10,846	11,459	13,345	14,704	17,444	19,355	21,037	22,762	11.2%
Total income.....	57,275	58,955	61,669	73,831	84,397	91,116	102,979	126,767	12.0%
Net Profit.....	18,490	20,518	18,177	21,539	22,473	22,935	23,886	34,224	9.2%
<b>Key ratios</b>									
Loans/deposits.....	72.8%	82%	94.7%	98.9%	106.3%	116.6%	118.0%	117.5%	
Net interest margin .....	5.4%	4.3%	3.4%	4.1%	3.7%	3.6%	3.5%	3.7%	

Return on average equity	25.2%	22.2%	16.8%	16.8%	15.1%	13.2%	12.0%	15.0%
Capital adequacy ratio ..	19.3%	17.7%	15.5%	17.3%	14.6%	15.7%	15.0%	15.1%

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.

Source: *BRSA monthly bulletin (www.bddk.org.tr)*

## Competition

The Turkish banking industry is highly competitive and relatively concentrated with the top 10 deposit-taking banks accounting for 80.8 per cent. of total assets of deposit-taking banks as of 31 December 2016 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 2016 according to the unconsolidated financial statements published in the Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)). These three state-controlled banks accounted for 33.5 per cent. of deposit-taking Turkish banks’ performing loans and 34.0 per cent. of customer deposits as of 31 December 2016. 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 45.1 per cent. of deposit-taking Turkish banks’ performing loans and approximately 44.6 per cent. of customer deposits as of 31 December 2016 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 Qatar National Bank, TEB Holding and Sberbank, respectively, as of 31 December 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 2016, the Bank ranked 18th among Turkish banks in terms of assets according to figures published by the BRSA. As of 31 December 2016, 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 6.5 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 most recently amended on 27 September 2016 (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 satisfy the conditions of this group.
- (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 utilising 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 other 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 satisfy the conditions of this group.

- (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 1.0 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) commercial cash loans defined in Group I above, for which the general reserve is calculated at 0.5 per cent. of the total commercial cash loan portfolio, (b) commercial non-cash loans defined in Group I above, for which the general reserve is calculated at 0.1 per cent. of the total commercial non-cash commercial loan portfolio, (c) cash and non-cash loans defined in Group I for SMEs and relating to transit trade, export, export sales and deliveries and services, activities resulting in gains of foreign currency and syndicate loans used for the financing of large-scale public tenders, for which the general loan loss reserve is calculated at 0 per cent.) for standard loans defined in Group I above and a general reserve calculated at 2.0 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 (except for: (i) commercial cash loans, cash loans for SMEs and relating to transit trade, export, export sales and deliveries and services, activities resulting in gains of foreign currency and syndicate loans used for the financing of large-scale public tenders, for which the general loan loss reserve is calculated at 1.0 per cent., and (ii) non-cash loans related to the items stated in (i) above for which the general loan loss reserve is calculated at 0.2 per cent.). The exceptions regarding the loan loss reserve calculation stated above will be applied to the respective loans defined in Group I and Group II until 31 December 2017. 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 onwards.

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 eight 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 four per cent. general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group I, and an eight 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. In June 2016, the BRSA published a regulation (as amended from time to time), which will replace the Regulation on Provisions and Classification of Loans and Receivables as of 1 January 2018 in order to ensure compliance (by 1 January 2018) with the requirements of IFRS and the Financial Sector Assessment Program (a joint programme of the International Monetary Fund and the World Bank). This regulation requires banks to adopt IFRS 9 principles related to the assessment of credit risk by the end of 2017 and to set aside general provisions in line with such principles, unless an exemption is granted by the BRSA.

On 14 December 2016, the BRSA published amendments to the Regulation on Provisions and Classification of Loans and Receivables, adding new provisional articles related to the restructuring of loans and other receivables and to the delay periods within the state of emergency. The Provisional Article 12 states that (among other things) the loans and other receivables classified as non-performing loans by the banks may be restructured up to two times until 31 December 2017. Such restructured loans may be classified under Group II if: (a) in the case of the first restructuring, there is no overdue debt as of the date of the re-classification and the last three payments prior to the date of the re-classification have been made timely and in full, and (b) in the case of the second restructuring, there is no overdue debt as of the date of the re-classification and the last six payments prior to the date of the re-classification have been made timely and in full. Loans and other receivables classified under Group II after the restructuring are monitored under “Renewed/Restructured Loans Account”. Information regarding renewed/restructured loans and other receivables shall be disclosed in the financial reports that are made publicly available at the end of each year and in the interim periods. Furthermore, the Provisional Article 13 (entered into force retrospectively as of 21 July 2016) states that (among other things) the delay periods of payments stipulated for the loans defined in Groups II, III, IV and V may be counted as of 21 January 2017 for the obligations of the credit debtors that have been liquidated, assigned to the Directorate General of Foundations or the Treasury or to which the SDIF is assigned as the trustee as per the Decrees having the Force of Law enforced within the scope of the state of emergency declared across the country by the Decree of the Council of Ministers dated 20 July 2016 and the public officials discharged within the scope of the state of emergency and the assets of such real persons and legal entities that are subject to injunctions.

## **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 eight 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 eight per cent. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is four per cent. higher than the legal capital ratio of eight 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 unconsolidated 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 was 0.625 per cent. for 2016 and 1.25 per cent. for 2017, 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 unconsolidated 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 three per cent. for Group 4 banks, two per cent. for Group 2 banks, one point five per cent. for Group 2 banks and one 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 included revisions relating to internal systems and internal capital adequacy ratios and entered into force on 20 January 2016 and, with regard to the 2013 Equity Regulation and the 2016 Capital Adequacy Regulation, entered 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 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 collateralised 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 were 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 six 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 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 one-month, three-month, six-month and one-year maturities .....	12%	12%
Deposit/participation accounts with maturities of one-year and longer .....	8%	8%

<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 one-year maturity (including one-year).....	19%	24%
Other liabilities up to two-year maturity (including two-year) .....	13%	19%
Other liabilities up to three-year maturity (including three-year) .....	7%	14%
Other liabilities up to five-year maturity (including five-year).....	6%	6%
Other liabilities longer than five-year maturity .....	5%	4%

Note:

(1) Required reserve ratio for new liabilities are applicable as of 23 October 2015.

As of the date of this 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 .....	10.5%
Deposits/participation accounts up to one-month maturity (including one-month).....	10.5%
Deposits/participation accounts up to three-month maturity (including three-month).....	10.5%
Deposits/participation accounts up to six-month maturity (including six-month) .....	7.5%
Deposits/participation accounts up to one-year maturity .....	5.5%
Deposits/participation accounts with maturities of one-year and longer.....	4%
Other liabilities up to one-year maturity (including one-year).....	10.5%
Other liabilities up to three-years maturity (including three-years) .....	7%
Other liabilities longer than three-year maturity .....	4%

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 unconsolidated 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 unconsolidated 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 Turkish Commercial Code (No. 6102) and 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**

The BRSA published amendments to the Communiqué on Financial Statements to be Disclosed to the Public, which entered into force on 31 March 2016, and set forth principles of disclosure of annotated financial statements of banks in accordance with the Communiqué on Public Disclosure regarding Risk Management of Banks and the 2013 Equity Regulation. The amendments reflect the updated requirements relating to information to be disclosed to the public in line with the amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios, liquidity coverage ratios and leverage ratios. Rules relating to equity items presented in the financial statements were also amended in line with the amendments to the 2013 Equity Regulation. Furthermore, the changes require publication of a loan agreement of the bank or a prospectus relating to a loan or debt instrument, which will be taken into account in the calculation of the capital of a (parent company) bank as an element for additional principal capital (i.e., additional Tier 1 capital) and supplementary capital (i.e., Tier II capital), on the bank's website. Additionally, banks are required to make necessary disclosures on their websites immediately upon repayment of a debt instrument, depreciation or conversion of a share certificate or occurrence of any other material change.

In addition, the BRSA published the Communiqué on Public Disclosure regarding Risk Management of Banks, which expands the scope of public disclosure to be made in relation to risk management (which entered into force on 31 March 2016) in line with the disclosure requirements of the Basel Committee. According to this regulation, each bank is required to announce information regarding their consolidated and/or unconsolidated risk management related to risks arising from or in connection with securitisation, counterparty, credit, market and its operations in line with the standards and procedures specified in this regulation. In this respect, banks are required to adopt a written policy in relation to its internal audit and internal control process.

## **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 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.

## CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions of the Notes (the “Conditions”) which (except for the paragraphs in italics) will be endorsed on the definitive Certificates issued in respect of the Notes:*

The U.S.\$300,000,000 Fixed Rate Resetable Tier 2 Sustainable Notes due 2027 (the “Notes”, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 and forming a single series with the Notes) of Türkiye Sınai Kalkınma Bankası A.Ş. (the “Bank” or the “Issuer”) are issued subject to and with the benefit of a Fiscal Agency Agreement dated 28 March 2017 (such agreement as amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) made among the Issuer, Citigroup Global Markets Deutschland AG as registrar (the “Registrar”), Citibank, N.A., London Branch as fiscal agent and principal paying agent (the “Fiscal Agent”) and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the “Paying Agents”) and the other agents named in it (together with the Fiscal Agent, the Registrar and the other Paying Agents, the “Agents”). The holders of the Notes are entitled to the benefit of a Deed of Covenant (the “Deed of Covenant”) dated 28 March 2017 and made by the Issuer. The original of the Deed of Covenant is held by the Fiscal Agent on behalf of the Noteholders at its specified office.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the Noteholders at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. References in these Conditions to any Agent shall include any successor appointed under the Agency Agreement.

*The Notes may not be redeemed or purchased prior to the Maturity Date except as otherwise set out in Condition 8. The Maturity Date is 29 March 2027 and the first call date (referred to as the Issuer Call Date herein) will be 29 March 2022. Accordingly, the Notes will not be redeemed within the first five years following the Issue Date, except as otherwise set out in Condition 8.*

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

#### **1.1 Form and Denomination**

The Notes are issued in registered form in amounts of U.S.\$200,000 and in integral multiples of U.S.\$1,000 in excess thereof (each an “Authorised Denomination”). A note certificate (each a “Certificate”) will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which will be kept by the Registrar. The Notes are issued pursuant to the Turkish Commercial Code (No. 6102), the Capital Markets Law (No. 6362) of the Republic of Turkey (“Turkey”) and Communiqué No: VII-128.8 on Debt Instruments of the Capital Markets Board of Turkey (in Turkish: *Sermaye Piyasası Kurulu*) (the “CMB”). The proceeds of the Notes shall be paid in cash in a single sum to the Issuer.

#### **1.2 Title**

Title to the Notes passes only by registration in the register of Noteholders. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, “Noteholder” and (in relation to a Note) “holder” means the person in whose name a Note is registered in the register of Noteholders.

For a description of the procedures for transferring title to book-entry interests in the Notes, see “*Book-Entry Clearance Systems*”.

## **2 Transfers of Notes and Issue of Certificates**

### **2.1 Transfers**

A Note may be transferred in an Authorised Denomination only by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the other Agents.

### **2.2 Delivery of new Certificates**

Each new Certificate to be issued upon a transfer of the Notes will, within five business days of receipt by the Registrar or the relevant other Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition 2, “business day” shall mean a day on which commercial banks are open for general business, including dealings in foreign currencies, in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described in “The Global Certificate – Registration of Title”, owners of interests in the Notes will not be entitled to receive physical delivery of Certificates.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant other Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

### **2.3 Formalities free of charge**

Registration of a transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment by the Noteholder of (or the giving of such indemnity as the Issuer or any Agent may reasonably require in respect of) any tax or other governmental charges which may be imposed in relation to such transfer.

### **2.4 Closed Periods**

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

### **2.5 Regulations**

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

## **3 Status**

### **3.1 Subordination**

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and claims for payment by the Issuer in respect of the Notes (including claims for any damages awarded for breach of

obligations in respect thereof) shall, in the case of a Subordination Event and for so long as that Subordination Event subsists, rank:

- (a) subordinate in right of payment to the payment of all Senior Obligations;
- (b) *pari passu* without any preference among themselves and with all Parity Obligations; and
- (c) in priority to all payments in respect of Junior Obligations.

In addition, no amount will, in the case of a Subordination Event and for so long as that Subordination Event subsists, be paid under the Notes (including claims for any damages awarded for breach of obligations in respect thereof) until all payment obligations in respect of Senior Obligations have been satisfied.

### **3.2 No Set-off or Counterclaim**

All payment obligations of, and payments made by, the Issuer under and in respect of the Notes must be determined and made without reference to any right of set-off or counterclaim of any holder of the Notes, whether arising before or in respect of any Subordination Event. Following a Subordination Event and for so long as that Subordination Event subsists and prior to all payment obligations in respect of Senior Obligations having been satisfied, no holder of the Notes shall exercise any right of set-off or counterclaim in respect of any amount owed to such holder by the Issuer in respect of the Notes and any such rights shall be deemed to be waived.

### **3.3 No Link to Derivative Transactions**

The Issuer will not: (a) link its obligations in respect of the Notes to any derivative transaction or derivative contract in a way which would result in a violation of Article 8(2)(b) of the Equity Regulation; or (b) provide in any manner for such obligations to be the subject of any guarantee or security.

### **3.4 Interpretation**

In these Conditions:

“BRSA” means the Banking Regulation and Supervision Agency (*Bankacılık Düzenleme ve Denetleme Kurumu*) of Turkey or such other governmental authority in Turkey having primary bank supervisory authority with respect to the Issuer;

“Equity Regulation” means the BRSA Regulation on the Equity of Banks (published in the Official Gazette dated 5 September 2013 (No. 28756), with an effective date of 1 January 2014), as amended, modified, supplemented or superseded from time to time;

“Junior Obligations” means any class of share capital (including ordinary and preferred shares) of the Issuer together with any obligations of the Issuer in respect of any securities or other instruments, including any present and future subordinated loans or debt instruments (as provided under Article 7 of the Equity Regulation), or other payment obligations of the Issuer, which obligations in each case rank, or are expressed to rank, junior to the Issuer’s obligations under the Notes;

“Parity Obligations” means any obligations of the Issuer in respect of any securities or other instruments, including any present and future subordinated loans or debt instruments (as provided under Article 8 of the Equity Regulation), or other payment obligations of the Issuer, which in each case rank, or are expressed to rank, *pari passu* with the Issuer’s obligations under the Notes;

“Senior Obligations” means any of the Issuer’s present and future indebtedness and other obligations (including, without limitation (a) obligations for any Senior Taxes, statutory preferences and other legally-required payments, (b) obligations to depositors and trade creditors, and (c) obligations under hedging and other financial instruments), other than its obligations under: (i) the Notes; (ii) any Parity Obligations; and (iii) any Junior Obligations;

“Senior Taxes” means any tax, levy, fund, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) including, without limitation, the Banking and Insurance Transactions Tax (*Banka ve Sigorta Muameleleri Vergisi*) imposed by Article 28 of the Expenditure Taxes Law (No. 6802), income withholding tax pursuant to the Decrees of the Council of Ministers of Turkey (No. 2011/1854 and 2010/1182), Articles 15 and 30 of the Corporate Income Tax Law (No. 5520) and Article 94 and Provisional Article 67 of the Income Tax Law (No. 193), any reverse VAT imposed by the VAT Law (No. 3065), any stamp tax imposed by the Stamp Tax Law (No. 488) and any withholding tax imposed by, or anti-tax haven regulations under Article 30.7 of the Corporate Income Tax Law (No. 5520); and

“Subordination Event” means any distribution of the assets of the Issuer on a dissolution, winding-up or liquidation of the Issuer whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation of indebtedness (*konkordato*) or any analogous proceedings referred to in the Banking Law (No. 5411), the Turkish Commercial Code (No. 6102) or the Turkish Execution and Bankruptcy Code (No. 2004).

## **4 Covenants**

### **4.1 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 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 (a “Material Adverse Effect”), the conduct by it of the Permitted Business.

### **4.2 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.\$25,000,000 (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 Material Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or such Material Subsidiary with an unrelated Person.

### **4.3 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 each such annual financial statements of the Issuer shall be accompanied by a report of the Issuer's 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 each such interim financial statements of the Issuer shall be accompanied by a review report of the Issuer's auditors thereon.

### **4.4 Merger, Amalgamation, Consolidation, Sale, Assignment or Disposal**

So long as any of the Notes remains outstanding, the Issuer shall not merge, amalgamate or consolidate with or into, or sell, assign or otherwise dispose of all or substantially all of its property and assets (whether in a single transaction or a series of related transactions) to, any other person (a "New Bank") without the prior approval of the Noteholders by way of an Extraordinary Resolution unless either:

- (a)
  - (i) the New Bank is incorporated, domiciled and resident in Turkey and executes a deed poll and such other documents (if any) as may be necessary to give effect to its assumption of all of the obligations, covenants, liabilities and rights of the Issuer in respect of the Notes (together, the "Documents") and (without limiting the generality of the foregoing) pursuant to which the New Bank shall undertake in favour of each Noteholder to be bound by the Notes, these Conditions and the provisions of the Agency Agreement and the Deed of Covenant as fully as if it had been named in the Notes, these Conditions, the Agency Agreement and the Deed of Covenant in place of the Issuer; and
  - (ii) the Issuer (or the New Bank) delivers to the Fiscal Agent a legal opinion from a leading firm of lawyers in each of Turkey and England to the effect that, subject to no greater limitations as to enforceability than those which would apply in any event in the case of the Issuer, the Documents constitute or, when duly executed and delivered, will constitute, legal, valid and binding obligations of the New Bank, with each such opinion to be dated not more than seven days prior to the date of such merger, amalgamation or consolidation or sale, assignment or other disposition,

and provided that (A) no Event of Default (as defined in Condition 11 below) has occurred and is continuing and (B) such merger, amalgamation or consolidation or sale, assignment or other disposition does not and would not (I) result in any other default or breach of the obligations and covenants of the Issuer under the Notes or of the New Bank on its assumption of such obligations and covenants in accordance with the provisions of this Condition 4.4 or (II) otherwise have a Material Adverse Effect, as determined by reference to the Issuer immediately prior to, and to the New Bank immediately after, the relevant merger, amalgamation or consolidation or sale, assignment or other disposition; or

- (b) the surviving legal entity following any such merger, amalgamation or consolidation is the Issuer.

## 4.5 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 the 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;

“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;

“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; and

“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.

## **5 Interest**

### **5.1 Interest Rate and Interest Payment Dates**

The Notes bear interest:

- (a) in respect of the period from, and including, 28 March 2017 (the “Issue Date”) to, but excluding, the Issuer Call Date at the rate of 7.625 per cent. per annum (the “Initial Interest Rate”); and
- (b) in respect of the period from, and including, the Issuer Call Date to, but excluding, the Maturity Date (the “Reset Period”), at the rate per annum equal to the aggregate of: (i) the Reset Margin; and (ii) the 5 Year Mid-Swap Rate (the “Reset Interest Rate” and, together with the Initial Interest Rate, each a “Rate of Interest”), as determined by the Fiscal Agent on the Reset Determination Date.

Interest will be payable semi-annually in arrear on each of 29 March and 29 September (each an “Interest Payment Date”) in each year up to, and including, the Maturity Date, except that the first

payment of interest, to be made on 29 September 2017, will be in respect of the period from, and including, the Issue Date to, but excluding, 29 September 2017.

In the case of any Write-Down (as defined in Condition 6.1) of the Notes, interest will be paid on the Notes:

- (i) if the Notes are Written-Down in full, on the date of the Write-Down (the “Write-Down Date”) and in respect of: (A) the period from (and including) the Interest Payment Date immediately preceding the Write-Down Date (or, if none, the Issue Date) to (but excluding) the Write-Down Date and (B) the Prevailing Principal Amount(s) of the outstanding Notes during that period; and
- (ii) if the Notes are not Written-Down in full, on the Interest Payment Date immediately following such Write-Down (the “Partial Write-Down Interest Payment Date”) and calculated as the sum of the amount of interest payable in respect of:
  - (A) the period from (and including) the Interest Payment Date immediately preceding the Write-Down Date (or, if none, the Issue Date) to (but excluding) the Write-Down Date; and
  - (B) the period from (and including) the Write-Down Date to (but excluding) the Partial Write-Down Interest Payment Date,and, in each case, calculated in respect of the Prevailing Principal Amount(s) of the outstanding Notes during those respective periods.

Interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (i) in the case of Notes that are represented by a Global Certificate, the aggregate Prevailing Principal Amount of the outstanding Notes represented by such Global Certificate; or
- (ii) in the case of Notes in definitive form, U.S.\$1,000 (the “Calculation Amount”),

and, in each case, multiplying such sum by the number of days in such period (determined as provided in the definition of “30/360” below), and rounding the resultant figure to the nearest U.S.\$0.01 (with U.S.\$0.005 being rounded upwards). Where the Prevailing Principal Amount of a Note in definitive form is a multiple of the Calculation Amount, the amount of interest 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 such Prevailing Principal Amount, without any further rounding. For any Prevailing Principal Amount of a Note in definitive form that is not a multiple of the Calculation Amount, the amount of interest payable in respect of such Prevailing Principal Amount shall be determined in the same manner as for a Global Certificate above.

In the case of a period for which interest is to be calculated where different Prevailing Principal Amounts have applied, the above calculation shall be performed separately for each sub-period within that period during which the Prevailing Principal Amount was different and the aggregate of the amounts resulting from such calculations shall be the interest payable in respect of the relevant period.

## **5.2 Determination and notification of Reset Interest Rate**

The Fiscal Agent will at, or as soon as practicable after, the Relevant Time determine the Reset Interest Rate and cause it to be notified to the Issuer and any stock exchange on which the Notes are for the time being listed and notice thereof to be published in accordance with Condition 13 as soon as

possible after such determination but in no event later than the fourth London Business Day thereafter. 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.

### **5.3 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 5 shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the other Agents and all Noteholders and (in the absence of wilful default or bad faith) no liability to the Issuer or the Noteholders shall attach to the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

### **5.4 Interest Accrual**

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. 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 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 13.

### **5.5 Interpretation**

In these Conditions:

“5 Year Mid-Swap Rate” means the annual mid-swap rate for U.S. Dollar swap transactions with a maturity of five years (quoted on a semi-annual basis), expressed as a percentage, which appears on the Screen Page at the Relevant Time. If such rate does not appear on the Screen Page at the Relevant Time, the 5 Year Mid-Swap Rate will be the percentage per annum determined by the Fiscal Agent on the basis of the arithmetic mean of the bid and offered rates quoted by the Reference Banks at the Relevant Time for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating U.S. Dollar interest rate swap transaction with an acknowledged dealer of good credit in the swap market, which swap transaction has a term of five years commencing on the Issuer Call Date and is in a Representative Amount, where the floating leg (calculated on an Actual/360 day count basis) is equivalent to the rate for deposits in U.S. Dollars for a three month period offered at the Relevant Time by the principal London offices of leading swap dealers in the New York City interbank market to prime banks in the London interbank market. The Fiscal Agent will request each of the Reference Banks to provide such quotations. If three or more quotations are so provided, the 5 Year Mid-Swap Rate will be the percentage reflecting the arithmetic mean of those quotations, eliminating the highest such quotation (or, in the event of equality, one of the highest) and the lowest such quotation (or, in the event of equality, one of the lowest). If only two quotations are so provided, it will be the arithmetic mean of the quotations provided. If only one quotation is so provided, it will be such quotation. If no quotations are provided, the 5 Year Mid-Swap Rate will be 2.081 per cent. per annum;

“30/360” means the number of days in the Interest Period or the Relevant Period, as the case may be, to (but excluding) the relevant payment date, divided by 360, calculated on the basis of a year of 360 days with twelve 30-day months and, in the case of an incomplete month, the number of days elapsed;

“Actual/360” means the actual number of days in the Interest Period or the Relevant Period, as the case may be, to (but excluding) the relevant payment date, divided by 360;

“Business Day” means a day (other than a Saturday or Sunday) 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 London and New York City;

“Initial Principal Amount” means, in respect of a Note at any time, U.S.\$1,000 for each U.S.\$1,000 in principal amount of that Note as of the Issue Date;

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

“Issue Date” means 28 March 2017;

“Issuer Call Date” means 29 March 2022;

“Maturity Date” means 29 March 2027;

“Prevailing Principal Amount” means, in respect of a Note at any time, the Initial Principal Amount of that Note as reduced (on one or more occasions) by any Write-Down (as defined in Condition 6.1) at or prior to such time;

“Reference Banks” means five leading swap dealers in the New York City interbank market as selected by the Fiscal Agent after consultation with the Issuer;

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

“Relevant Time” means at or around 11:00 a.m. (New York City time) on the Reset Determination Date;

“Representative Amount” means an amount that is representative of a single transaction in the relevant market at the Relevant Time;

“Reset Determination Date” means the third Business Day immediately preceding the Issuer Call Date;

“Reset Margin” means 5.544 per cent. per annum; and

“Screen Page” means the display page on the relevant Reuters information service designated as the “ICESWAP1” page or such other page as may replace it on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, in each case, for the purpose of displaying equivalent or comparable rates to the 5 Year Mid-Swap Rate.

## **6 Loss Absorption upon the Occurrence of a Non-Viability Event**

*Under Article 8(2)(g) of the Equity Regulation, to be eligible for inclusion as Tier 2 capital of the Issuer, it should, among other things, be possible pursuant to the terms of the Notes for the Notes to be written-down or converted into equity of the Issuer upon the decision of the BRSA in the event it is probable that the operating licence of the Issuer may be revoked pursuant to Article 71 of the Banking Law (No. 5411) (as further defined below, a Non-Viability Event). For the purposes of the Notes, the Issuer has elected pursuant to Article 8(2)(g) of the Equity Regulation to provide for the permanent write-down of the Notes and not their conversion into equity on the occurrence of a Non-Viability Event as set out below.*

*As of the date of this Prospectus, there are a number of corrective, rehabilitative and restrictive measures that the BRSA may require to be taken under Articles 68 to 70 of the Banking Law (No. 5411) prior to any determination of Non-Viability of the Issuer. In conjunction with any such determination by the BRSA, losses may be absorbed by shareholders of the Issuer upon the revocation of the Issuer's operating licence pursuant to Article 71 of the Banking Law (No. 5411) and its subsequent liquidation in accordance with the provisions of the Banking Law (No. 5411) and Turkish Commercial Code (No. 6102). However, the Write-Down of the Notes under the Equity Regulation may take place before any such revocation and liquidation.*

*Pursuant to the first paragraph of Condition 6.1, while the Notes may be Written-Down before any revocation and liquidation as described in the preceding paragraph, the Write-Down must take place in conjunction with such revocation of the Issuer's operating licence pursuant to Article 71 of the Banking Law (No. 5411) and subsequent liquidation in accordance with the Banking Law (No.5411) and Turkish Commercial Code (No. 6102) in order that the respective rankings described in Condition 3.1 are maintained and the relevant loss(es) are absorbed by Junior Obligations to the maximum extent possible. In this respect, such action will be taken as is decided by the Board of the BRSA. Where a Write-Down of the Notes does take place before the liquidation of the Issuer, Noteholders would only be able to claim and prove in such liquidation in respect of the Prevailing Principal Amount of the outstanding Notes following the Write-Down.*

## **6.1 Write-Down of the Notes**

If a Non-Viability Event occurs at any time, the Issuer shall:

- (a) *pro rata* with the other Notes and all other Parity Loss-Absorbing Instruments; and
- (b) in conjunction with, and such that no Write-Down (as defined below) shall take place without there also being:
  - (i) the maximum possible reduction in the principal amount of, and/or corresponding conversion into equity being made in respect of, all Junior Loss-Absorbing Instruments (including Additional Tier I Capital (*İlave Ana Sermaye*)) in accordance with the provisions of such Junior Loss-Absorbing Instruments; and
  - (ii) the implementation of Statutory Loss-Absorption Measures, involving the absorption by all other Junior Obligations (including Common Equity Tier I Capital (*Çekirdek Sermaye*)) to the maximum extent allowed by law of the relevant loss(es) giving rise to the Non-Viability of the Issuer within the framework of the procedures and other measures by which the relevant loss(es) of the Issuer giving rise to the Non-Viability Event may be absorbed by such Junior Obligations pursuant to Article 71 of Banking Law (No. 5411) and/or otherwise under Turkish law and regulations,

reduce the then Prevailing Principal Amount of each outstanding Note by the relevant Write-Down Amount (any such reduction, a "Write-Down", and "Written-Down" and "Writing Down" shall be construed accordingly).

For these purposes, any determination of a Write-Down Amount shall take into account the absorption of the relevant loss(es) by all Junior Obligations to the maximum extent possible or otherwise allowed by law and the Writing Down of the Notes *pro rata* with all other Parity Loss-Absorbing Instruments, thereby maintaining the respective rankings described under Condition 3.1 above.

The Issuer shall notify the Noteholders of any Non-Viability Event in accordance with Condition 13 as soon as practicable upon receiving notice thereof from the BRSA; *provided* that prior to the publication of such notice the Issuer shall deliver to the Fiscal Agent the statement(s) in writing received from (or published by) the BRSA of its determination of such Non-Viability Event. The Issuer

shall further notify the Noteholders in accordance with Condition 13 and deliver to the Fiscal Agent the statement(s) in writing received from (or published by) the BRSA specifying the Write-Down Amount as soon as practicable upon receiving notice thereof from the BRSA.

A Non-Viability Event may occur on more than one occasion and the Notes may be Written-Down on more than one occasion, with each such Write-Down to involve the reduction of the then Prevailing Principal Amount of each outstanding Note by the relevant Write-Down Amount.

Noteholders will have no further claim against the Issuer in respect of any Written-Down Amount of the Notes and if, at any time, the Notes are Written-Down in full, the Notes shall be cancelled following payment of interest accrued and unpaid to (but excluding) the date of such final Write-Down and Noteholders will have no further claim against the Issuer in respect of any such Notes.

## **6.2 Interpretation**

For the purposes of this Condition 6:

“Junior Loss-Absorbing Instruments” means any Loss-Absorbing Instrument that is or represents a Junior Obligation;

“Loss-Absorbing Instrument” means any security or other instrument or payment obligation that has provision for all or some of its principal amount to be reduced and/or converted into equity (in accordance with its terms or otherwise) on the occurrence or as a result of a Non-Viability Event (which shall not include ordinary shares or any other instrument that does not have such provision in its terms or otherwise but which is subject to any Statutory Loss Absorption Measure);

“Non-Viability Event” means the determination by the BRSA that, upon the incurrence of a loss by the Issuer (on a consolidated or non-consolidated basis), the Issuer has become, or it is probable that the Issuer will become, Non-Viable;

“Non-Viable” means, in the case of the Issuer, where the Issuer is at the point at which the BRSA may determine that: (i) its operating licence is to be revoked pursuant to Article 71 of the Banking Law (No. 5411) and (ii) the Issuer be liquidated in accordance with the provisions of the Banking Law (No. 5411) and Turkish Commercial Code (No. 6102), and “Non-Viability” shall be construed accordingly;

“Parity Loss-Absorbing Instruments” means any Loss-Absorbing Instrument that is or represents a Parity Obligation;

“Statutory Loss Absorption Measure” means any procedure or measure under the laws of Turkey by which the relevant loss(es) of the Issuer giving rise to the Non-Viability Event may be absorbed by Junior Obligations; and

“Write-Down Amount”, in respect of an outstanding Note, means the amount by which the Prevailing Principal Amount of such Note as of the date of the relevant Write-Down is to be Written-Down, which shall be determined as described in Condition 6.1 and may be all or part only of such Prevailing Principal Amount, in each case as specified in writing (including by way of publication) by the BRSA, and “Written-Down Amount” shall be construed accordingly.

*While a Write-Down of the Notes may take place before the absorption of the relevant loss(es) giving rise to the Non-Viability Event to the maximum extent possible by Junior Obligations, such loss absorption might be taken into account by the BRSA, where relevant, in the determination of the Write-Down Amount in order for the respective rankings described in Condition 3.1 to be maintained on any Write-Down as provided in Condition 6.1.*

## **7 Payments**

### **7.1 Payments in respect of Notes**

Payment of principal and interest on a Note will be made by transfer to the registered account of the relevant Noteholder or by U.S. Dollar cheque drawn on a bank that processes payments in U.S. Dollars mailed by uninsured mail at the risk of the holder entitled to the Note to the registered address of such Noteholder if it does not have a registered account. Notwithstanding anything else herein to the contrary, payments of interest due otherwise than on an Interest Payment Date and payments of principal will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the “record date”) being the 15th day before the due date for the payment of interest (or, if such 15th day is not a London Business Day, the first London Business Day prior to such 15th day).

For the purposes of this Condition 7.1, a Noteholder’s registered account means the U.S. Dollar account maintained by or on behalf of it with a bank that processes payments in U.S. Dollars, details of which appear on the register of Noteholders at the close of business: (a) in the case of principal, on the second Payment Business Day (as defined in Condition 7.4) before the due date for payment; and (b) in the case of a payment of interest due on an Interest Payment Date, on the relevant record date, and a Noteholder’s registered address means its address appearing on the register of Noteholders at that time. Payment of the interest due in respect of each Note on redemption will be made in the same manner as payment of the principal amount of such Note.

In this Condition 7.1, “London Business Day” means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign currencies) in London.

### **7.2 Payments subject to Applicable Laws**

Payments in respect of principal and interest on the Notes are 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 and any regulations or agreements thereunder or official interpretations thereof (“FATCA”) or any law implementing an intergovernmental approach to FATCA.

### **7.3 No Commissions**

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition 7.

### **7.4 Payment on Business Days**

Where payment is to be made: (a) by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated; and (b) by cheque, the cheque will be mailed on or before the Payment Business Day preceding the due date for payment; *provided* that, with respect to both subparagraphs (a) and (b), in the case of a payment of interest due otherwise than on an Interest Payment Date, or any payment of principal, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of an Agent (provided that if such Certificate is

surrendered later than 10:00 a.m. (London time) on any Payment Business Day, then such payment may be initiated or mailed (as applicable) on the following Payment Business Day).

A Noteholder will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or a cheque mailed in accordance with this Condition arrives after the due date for payment or is lost in the post.

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 Notes held through the facilities of Clearstream, Luxembourg or Euroclear or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

In these Conditions, "Payment Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign currencies) in New York City, London and Istanbul and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

#### **7.5 Partial Payments**

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal or interest in fact paid.

#### **7.6 Agents**

The names of the initial Agents and their initial specified offices are set out immediately following these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

- (a) there will at all times be a Fiscal Agent;
- (b) so long as the Notes are listed on the Irish Stock Exchange, there will at all times be a Paying Agent (which may be the Fiscal Agent) having a specified office in such place as may be required by the rules and regulations of the Irish Stock Exchange or any other relevant authority;
- (c) there will at all times be a Paying Agent (which may be the Fiscal Agent) in a jurisdiction other than the jurisdiction in which the Issuer is incorporated; and
- (d) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes to the specified office of an Agent will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

### **8 Redemption and Purchase**

#### **8.1 Redemption at Maturity**

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their then aggregate Prevaling Principal Amount on the Maturity Date.

#### **8.2 Redemption for Taxation Reasons**

If 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 24 March 2017, on the next Interest Payment Date, the Issuer would:

- (a) 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, where such requirement cannot be avoided by the Issuer taking reasonable measures available to it; or
- (b) no longer be entitled to claim a deduction in calculating its tax liability in a Relevant Jurisdiction in respect of the payment of interest to be made on such Interest Payment Date, or the value of such deduction to the Issuer, as compared to what it would have been on 24 March 2017, is, or would be, reduced,

then, subject to Condition 8.8, 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 13 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes then outstanding, at any time at their then aggregate Prevailing Principal Amount together with interest accrued and unpaid to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition 8.2, the Issuer shall deliver to the Fiscal Agent:

- (i) in the case of sub-paragraph (a) above: (A) a certificate signed by two authorised signatories 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 (B) if applicable in accordance with Condition 8.8, a copy of the BRSA's written approval for such redemption of the Notes (with, if necessary, an English translation thereof) and (C) 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 such change or amendment; or
- (ii) in the case of sub-paragraph (b) above: (A) a certificate signed by two authorised signatories of the Issuer stating that the requirement referred to in sub-paragraph (b) above will apply on the next Interest Payment Date, (B) if applicable in accordance with Condition 8.8, a copy of the BRSA's written approval for such redemption of the Notes (with, if necessary, an English translation thereof) and (C) an opinion of independent tax advisers of recognised standing to the effect that on the next Interest Payment Date the Issuer is or will no longer be entitled to claim such deduction (or the value of such deduction has or will be so reduced) as a result of such change or amendment.

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

The Issuer may, subject to Condition 8.8, at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all, but not some only, of the Notes then outstanding, on the Issuer Call Date at their then aggregate Prevailing Principal Amount together with interest accrued and unpaid to but excluding the Issuer Call Date.

*The Notes may not be redeemed or purchased prior to the Maturity Date except as otherwise set out in Condition 8. The Maturity Date is 29 March 2027 and the first call date (referred to as the Issuer Call Date herein) will be 29 March 2022. Accordingly, the Notes will not be redeemed within the first five years following the Issue Date, except as otherwise set out in Condition 8.*

#### **8.4 Redemption upon a Capital Disqualification Event**

If a Capital Disqualification Event occurs at any time after the Issue Date, the Issuer may, subject to Condition 8.8, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes then outstanding at any time at their then aggregate Prevailing Principal Amount together with interest accrued and unpaid to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition 8.4, the Issuer shall deliver to the Fiscal Agent (i) a copy of the confirmation in writing by the BRSA required for the purposes of limb (ii) of the definition of Capital Disqualification Event, if applicable, and (ii) a certificate signed by two authorised signatories of the Issuer stating that such Capital Disqualification Event has occurred.

For the purposes of this Condition 8.4:

- (a) "Capital Disqualification Event" means if, as a result of (i) any change in applicable law or regulation (including the Equity Regulation), or (ii) the application or official interpretation thereof, which change in application or official interpretation is confirmed in writing by the BRSA, all or any part of the aggregate Prevailing Principal Amount of the outstanding Notes is not eligible for inclusion as Tier 2 capital of the Issuer; and
- (b) "Tier 2 capital" means tier 2 capital as provided under Article 8 of the Equity Regulation.

#### **8.5 Purchases**

Except to the extent permitted by applicable law, the Notes shall not be purchased by, or otherwise assigned and/or transferred to, or for the benefit of (a) any entity which is controlled by the Issuer or over which the Issuer has significant influence (as contemplated in the Banking Law (No. 5411) and the Equity Regulation) (a "Related Entity") or (b) the Issuer. If so permitted, and subject to Condition 8.8, the Issuer or any Related Entity may at any time purchase or otherwise acquire Notes in any manner and at any price in the open market or otherwise. Subject to applicable law, such Notes may be held, resold or, at the option of the Issuer or any Related Entity for those Notes held by it, surrendered to any Paying Agent and/or the Registrar for cancellation.

#### **8.6 Cancellations**

All Notes that are redeemed by or on behalf of the Issuer will forthwith be cancelled and, accordingly, may not be held, re-issued or resold.

#### **8.7 Notices Final**

Upon the expiry of any notice as is referred to in Conditions 8.2, 8.3 and 8.4 above, the Issuer shall be bound to redeem the Notes in accordance with the terms of such Condition.

#### **8.8 Conditions to redemption or purchase**

Neither the Issuer nor any Related Entity may redeem or purchase the Notes, as applicable, before the Maturity Date other than as provided in this Condition 8.

Any redemption or purchase of Notes in accordance with this Condition 8 (other than redemption on the Maturity Date) is subject to, if and to the extent then required by the BRSA or the Equity Regulation, the Issuer giving notice to the BRSA and the BRSA granting permission to the Issuer to redeem or purchase the Notes, as applicable.

## **9 Taxation**

### **9.1 Payment without Withholding**

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 pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes 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:

- (a) to a holder (or to a third party on behalf of a holder) who is liable for Taxes in respect of the Note by reason of such holder having some connection with any Relevant Jurisdiction other than the mere holding of the Note; or
- (b) presented for payment in Turkey; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder 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, in no event will the Issuer be required to pay any additional amounts in respect of the Notes for, or on account of, any withholding or deduction required pursuant to FATCA (including pursuant to any agreement described in Section 1471(b) of the Code) or any law implementing an intergovernmental approach to FATCA.

### **9.2 Interpretation**

In these Conditions:

- (a) “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 by the Issuer in accordance with Condition 13; and
- (b) “Relevant Jurisdiction” means 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.

### **9.3 Additional Amounts**

Any reference in these Conditions to any amounts payable 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 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.

## **11 Events of Default**

If any of the following (each an “Event of Default”) occurs:

- (a) 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) a Subordination Event occurs; or
- (c) any order is made by any competent court or resolution is passed for the winding-up, dissolution or liquidation of the Issuer,

the holder of any Note may:

- (i) in the case of (a) above, institute proceedings for the Issuer to be declared bankrupt or insolvent or for there otherwise to be a Subordination Event, or for the Issuer’s winding-up, dissolution or liquidation, and prove in the winding-up, dissolution or liquidation of the Issuer; and/or
- (ii) in the case of (b) or (c) above, claim or prove in the winding-up, dissolution or liquidation of the Issuer,

but (in either case) may take no further or other action to enforce, claim or prove for any payment by the Issuer in respect of the Notes and may only claim such payment in the winding-up, dissolution or liquidation of the Issuer.

In any of the events or circumstances described in (b) or (c) above, the holder of any outstanding Note may give notice to the Issuer that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its then Prevailing Principal Amount, together with interest accrued and unpaid to (but excluding) the date of repayment, subject to the subordination provisions described under Condition 3.1 above.

The holder of any Note may at its discretion institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Notes (other than, without prejudice to the provisions above, any obligation for the payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations), provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any amount or amounts sooner than the same would otherwise have been payable by it, except with the prior approval of the BRSA.

No remedy against the Issuer other than as provided above shall be available to the holders of Notes, whether for the recovery of amounts owing in respect of the Notes or otherwise in respect of any Event of Default or in respect of any breach by the Issuer of any of its obligations, covenants or undertakings under the Notes.

## **12 Replacement of Certificates**

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs and expenses as may be incurred in connection with the replacement 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 Certificates must be surrendered before replacements will be issued.

## **13 Notices to the Noteholders**

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority

on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

## **14 Meetings of Noteholders and Modification**

### **14.1 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, these Conditions 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. of the then aggregate Prevailing Principal Amount of the Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more person(s) present holding or representing more than 50 per cent. of the then aggregate Prevailing Principal Amount of the Notes for the time being outstanding, or at any adjourned meeting one or more person(s) present whatever the Prevailing Principal Amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions (including modifying the Maturity Date 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 amending the Deed of Covenant in certain respects) the necessary quorum for passing an Extraordinary Resolution will be one or more person(s) present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the then aggregate Prevailing Principal Amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

The Agency Agreement provides that: (a) a resolution in writing signed on behalf of the Noteholders of not less than 75 per cent. of the then aggregate Prevailing 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. of the then aggregate Prevailing 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.

### **14.2 Modification**

The Fiscal Agent and the Issuer may agree in writing, without the consent of the Noteholders, 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, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

## **15 Further Issues**

The Issuer may from time to time without the consent of the Noteholders create and issue further notes having terms and conditions the same as those of the Notes, or the same in all respects save for the amount and date

of the first payment of interest and the date from which interest starts to accrue, which may be consolidated and form a single series with the outstanding Notes.

## **16 Rights of Third Parties**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, the Agency Agreement or the Deed of Covenant, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

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

### **17.1 Governing Law**

The Agency Agreement, the Deed of Covenant and the Notes are, and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant and the Notes will be, governed by and construed in accordance with English law, except for the provisions of Condition 3 which will be governed by, and construed in accordance with, Turkish law.

### **17.2 Jurisdiction of courts of England**

The Issuer irrevocably agrees for the benefit of the Noteholders that the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes) and accordingly submits to the exclusive jurisdiction of the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales). The Issuer waives any objection to the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) on the grounds that they are an inconvenient or inappropriate forum.

The Noteholders may take any suit, action or proceedings arising out of or in connection with the Notes (including any proceedings relating to any non-contractual obligations arising out of or in connection with the Notes) (together referred to as “Proceedings”) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions to the extent allowed by law.

### **17.3 Consent to Enforcement**

The Issuer agrees, without prejudice to the enforcement of a judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) according to the provisions of Article 54 of the International Private and Procedural Law of Turkey (No. 5718), that if any action is brought in relation to the Issuer in a court in Turkey in connection with the Notes, in addition to other permissible legal evidence pursuant to the Civil Procedure Code of Turkey (No. 6100), any judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) 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 (No. 6100) and Articles 58 and 59 of the International Private and Procedural Law of Turkey (No. 5718).

#### **17.4 Appointment of Process Agent**

The Issuer hereby irrevocably and unconditionally agrees that service of process in England may be made upon the London branch of Türkiye İş Bankası A.Ş. (with an address on the Issue Date of 8 Princes Street, London EC2R 8HL, England) in relation to any proceedings in England in connection with the Notes. 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.

#### **17.5 Other Documents**

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the exclusive jurisdiction of the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) and appointed an agent in England for service of process, on terms substantially similar to those set out above.

## THE GLOBAL CERTIFICATE

*The Global Certificate will contain the following provisions that apply to the Notes in respect of which it is issued while they are represented by the Global Certificate, some of which modify the effect of the Conditions of such Notes. Terms defined in the Conditions of the Notes have the same meaning in paragraphs one to six below.*

### **1 Accountholders**

For so long as any of the Notes are represented by the Global Certificate, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular Prevailing Principal Amount of such Notes (each an “Accountholder”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the Prevailing Principal Amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such Prevailing Principal Amount of such Notes (and the expression “Noteholders” and references to “holding of Notes” or purchase or other acquisition of Notes and to “holder of Notes” shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, solely in the nominee for the relevant clearing system (the “Relevant Nominee”) in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

### **2 Cancellation**

Cancellation of any Note following its redemption or purchase by the Issuer or any of its Subsidiaries will be effected by reduction in the Prevailing Principal Amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the Global Certificate.

### **3 Payments**

Payments of principal in respect of Notes represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of the Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to Euroclear or Clearstream, Luxembourg, which in turn are expected to distribute such amounts to their accountholders in accordance with the relevant system’s rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

Payments of principal and interest in respect of the Global Certificate will be made, or procured to be made, by or on behalf of the Issuer for settlement on the relevant payment date in accordance with the Agency Agreement.

### **4 Notices**

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system

for communication by it to entitled Accountholders in substitution for notification as required by Condition 13. Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to such clearing system.

While any of the Notes held by a Noteholder are represented by the Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through the applicable clearing system's operational procedures and otherwise in such manner as the Fiscal Agent and the applicable clearing system may approve for this purpose.

## **5 Registration of Title**

Registration of title to Notes in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate and a successor clearing system is not appointed by the Issuer within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances title to a Note may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that Certificates in respect of Notes so transferred may not be available until 21 days after the request for transfer is duly made.

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal or interest in respect of the Notes.

## **6 Transfers**

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective accountholders in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect accountholders, as more fully described under "Book-Entry Clearance Systems".

## **7 Exchange for Certificates**

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Certificates 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) the Issuer has been notified that 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 (c) the Issuer has or will become obliged to pay additional amounts that it would not be obliged to pay were the Notes represented by the Global Certificate in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (as applicable) or any person acting on their behalf (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

## TAXATION

This is a general summary of certain Turkish and other tax considerations in connection with an investment in the Notes. This summary does not address all aspects of Turkish or any other tax law. While this summary is considered to be a correct interpretation of existing laws in force on the date of this Prospectus, there can be no assurance that those laws or the interpretation of those laws will not change. This summary does not discuss all of the tax consequences that may be relevant to an investor in light of such investor's particular circumstances. **Prospective investors are advised to consult their tax advisers with respect to the tax consequences of the purchase, ownership or disposition of the Notes (or the purchase, ownership or disposition by an owner of beneficial interests therein) as well as any tax consequences that may arise under the laws of any state, municipality or other taxing jurisdiction.**

References to "resident" herein refer to tax residents of Turkey and references to "non-resident" herein refer to persons who are not tax residents of Turkey.

### 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 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 upon the characteristics of the 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,
- seven per cent. withholding tax for notes with an original maturity of at least one year and less than three years,
- three 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.

Such withholding tax is the final tax for a non-resident person and no further declaration is required.

Interest income derived by a resident corporation or individual is subject to further declaration and the withholding tax paid can be offset from the tax calculated on the return. For resident individuals, the entire gain is required to be declared if the interest income derived exceeds TL 27,000 for 2014 together with the gains from other marketable securities and real income from immovable property that were subjected to withholding. For resident corporations, the total interest income is subject to declaration.

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 number 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 such 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. (inclusive) 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) that 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 relevant jurisdiction in which 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 jurisdiction on the basis of resident taxpayer status, as a resident of the relevant jurisdiction 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.

## SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan Securities plc, Société Générale and Standard Chartered Bank (the “**Joint Lead Managers**”) have, pursuant to a subscription agreement dated 24 March 2017 (the “Subscription Agreement”) and made among the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 100 per cent. of the principal amount of Notes. The Issuer has agreed to pay the Joint Lead Managers a combined management, underwriting and selling commission and certain costs and expenses incurred by them in connection with the issue of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

While application has been made by the Bank to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market, the Notes constitute a new class of securities of the Bank with no established trading market. The Bank cannot provide any assurances to investors that the prices at which the Notes (or beneficial interests therein) will sell in the market will not be lower than the initial offering price or that an active trading market for the Notes will develop. The Joint Lead Managers have advised the Bank that they currently intend to make a market in the Notes; however, they are not obligated to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. No assurance can be given that the application to the Irish Stock Exchange to admit the Notes to listing on the Official List and trading on the Main Securities Market will be accepted.

In connection with the offering, one or more Joint Lead Manager(s) may engage in transactions that stabilise, maintain or otherwise affect the market price of the Notes during and after the offering. 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.

The Joint Lead Managers 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 Joint Lead Managers or their respective affiliates may have performed investment banking and advisory services for the Bank and its affiliates from time to time for which they may have received fees, expenses, reimbursements and/or other compensation. The Joint Lead Managers or their respective affiliates may, from time to time, engage in transactions with and perform advisory and other services for the Bank and its affiliates in the ordinary course of their business. Certain of the Joint Lead Managers and/or their respective affiliates have acted and expect in the future to act as a lender to the Bank 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 Joint Lead Managers 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 Bank and/or other members of the Group. In addition, certain of the Joint Lead Managers and/or their respective affiliates hedge their credit exposure to the Bank and/or other members of the Group 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.

The Joint Lead Managers 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. The Joint Lead Managers make no assurances as to (i) whether the Notes will meet investor criteria and expectations regarding environmental impact and sustainability performance for any investors; (ii) whether the use of the net proceeds will be used for Eligible Projects; or (iii) the characteristics of the Eligible Projects, including their environmental and sustainability criteria.

## **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

Each Joint Lead Manager has agreed that (except in accordance with Regulation S) it will not offer, sell or deliver the Notes: (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering might violate the registration requirements of the Securities Act.

## **Turkey**

The Notes have not been and will not be offered or sold within Turkey under the provisions of the Capital Markets Law No. 6362. Each Joint Lead Manager has represented and agreed that neither they, nor any of their respective affiliates, nor any person acting on their behalf, has engaged or will engage in any directed selling efforts within Turkey in connection with the Notes. Each Joint Lead Manager has further represented and agreed that neither they nor any of their respective affiliates, nor any person acting on their behalf: (a) has engaged or will engage in any form of general solicitation or general advertising in connection with any offer and sale of the Notes in Turkey, or (b) will make any disclosure in Turkey in relation to the Issuer, the Notes or the Prospectus without the prior consent of the Issuer, save as may be required by applicable law, court order or regulation. Notwithstanding the foregoing, pursuant to the BRSA decision dated 6 May 2010 No. 3665 and in accordance with Decree 32, residents of Turkey may purchase or sell the Notes offshore on an unsolicited (reverse inquiry) basis in the secondary markets only; **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.

## **United Kingdom**

Each Joint Lead Manager has represented and agreed that: (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (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 Bank and (b) 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.

## **General**

No action has been taken by the Bank or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes (or beneficial interests therein), or possession or distribution of this Prospectus or any other offering or publicity material relating to the Notes, in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes (or beneficial interests therein) or have in its possession, distribute or publish any Prospectus, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes (or beneficial interests therein) by it will be made on the same terms.

## **GENERAL INFORMATION**

### **Authorisation**

The issuance and sale of the Notes by the Bank and the execution and delivery by the Bank of the transaction documents have been authorised pursuant to the authority of the officers of the Bank under a resolution of its Board of Directors dated 30 January 2017.

### **Listing**

An application has been made to the Irish Stock Exchange to admit the Notes to listing on the Official List and trading on the Main Securities Market; however, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to the Official List and trading on the Main Securities Market will be granted on or before the Issue Date, subject only to the issue of the Notes. The expenses in connection with the admission of the Notes to the Official List and to trading on the Main Securities Market are expected to amount to approximately €5,000.

### **Listing Agent**

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Bank in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

### **Clearing Systems**

The Global Certificate has been accepted into the applicable systems used by Euroclear and Clearstream, Luxembourg (ISIN code XS1584113184 and Common Code number 158411318).

### **Significant or Material Change**

There has been: (a) no significant change in the financial or trading position of either the Group or the Bank since 31 December 2016 and (b) no material adverse change in the financial position or prospects of either the Group or the Bank since 31 December 2016.

### **Interests of Natural and Legal Persons Involved in the Issue**

So far as the Bank is aware, no natural or legal person involved in the issue of the Notes has an interest, including a conflicting interest, that is material to the issue of the Notes.

### **Independent Auditors**

The BRSA Financial Statements as of and for the year ended 31 December 2014 have been audited by KPMG in accordance with the “Regulation on Authorisation and Activities of Institutions to Perform Independent Audit at Banks” as published in the Official Gazette No. 26333 on 1 November 2006 and the “Standards on Auditing” which are a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority (“POA”).

The BRSA Financial Statements as of and for the years ended 31 December 2015 and 2016 have been audited by KPMG in accordance with the “Regulation on Independent Audit of Banks” as published in the Official

Gazette No. 29314 on 2 April 2015 by the BRSA and the “Independent Standards on Auditing” which are a component of the Turkish Auditing Standards published by the POA.

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.

### **Litigation**

There are no governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Bank is aware) that may have, or have had, during the 12 months prior to the date of this Prospectus, a significant effect on the Group’s financial position or profitability.

### **Documents Available for Inspection**

The Group produces audited consolidated and unconsolidated annual financial statements. The BRSA Financial Statements are originally produced in Turkish and translated into English. Copies of the independent auditors’ audit reports and audited consolidated BRSA Financial Statements of the Group for the years ended 31 December 2016, 2015 and 2014 and the independent auditors’ audit reports and audited unconsolidated BRSA Financial Statements of the Bank for the years ended 31 December 2016, 2015 and 2014 (in English) may be obtained, and copies of the Bank’s articles of association (with a certified English translation thereof) and the transaction documents referred to herein (including the forms of the Notes, the Deed of Covenant and the Agency Agreement) will be available in physical form for inspection, for so long as the Notes remain outstanding, at the offices of the Fiscal Agent and the Bank at Meclisi Mebusan Cad. No 81 Fındıklı 34427 İstanbul, Turkey, with such financial statements also being available on the Bank’s website at <http://www.tskb.com.tr/en/investor-relations/financial-information> (with respect to the Group’s consolidated BRSA financial statements and the Bank’s unconsolidated BRSA Financial Statements) (such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Prospectus). The telephone number for the Bank’s headquarters is +90 212 334 5050.

### **Material Contracts**

Except as disclosed in this Prospectus under “Business of the Group,” the Bank has not entered into any material contract outside the ordinary course of its business that could result in the Bank being under an obligation or entitlement that is material to its ability to meet its obligations in respect of the Notes.

## **APPENDIX 1**

### **OVERVIEW OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND BRSA ACCOUNTING PRINCIPLES**

The financial statements and financial information included in this Prospectus have been prepared in accordance with Turkish Accounting Standards (i.e., TAS), Turkish Financial Reporting Standards (i.e., 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 summarise 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 recognised 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 recognised for all taxable temporary differences and deferred tax assets are recognised 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 utilised. On the other hand, under the BRSA Principles, it is not permitted to recognise 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, the it shall be calculated deferred tax base is required to be calculated 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.

**PRINCIPAL OFFICE OF THE BANK**

**Türkiye Sınai Kalkınma Bankası A.Ş.**

Meclisi Mebusan Cad.  
No: 81 Fındıklı 34427  
İstanbul  
Turkey

**GLOBAL COORDINATORS**

**Citigroup Global Markets Limited**

Citigroup Centre  
33 Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**Standard Chartered Bank**

One Basinghall Avenue  
London EC2V 5DD  
United Kingdom

**JOINT LEAD MANAGERS**

**Citigroup Global Markets Limited**

Citigroup Centre  
33 Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**HSBC Bank plc**

8 Canada Square  
London E14 5HQ  
United Kingdom

**J.P. Morgan Securities plc**

25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

**Société Générale**

29 boulevard Haussmann  
75009 Paris  
France

**Standard Chartered Bank**

One Basinghall Avenue  
London EC2V 5DD  
United Kingdom

**FISCAL AGENT, PAYING AGENT AND TRANSFER AGENT**

**Citibank, N.A., London Branch**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**REGISTRAR**

**Citigroup Global Markets Deutschland AG**

Reuterweg 16  
60323 Frankfurt am Main  
Germany

**LEGAL COUNSEL TO THE JOINT LEAD MANAGERS AS TO ENGLISH LAW**

**Allen & Overy LLP**

One Bishops Square  
London E1 6AD  
United Kingdom

**LEGAL COUNSEL TO THE JOINT LEAD MANAGERS AS TO TURKISH LAW AND TURKISH TAX COUNSEL**

**Gedik & Eraksoy Avukatlık Ortaklığı**  
River Plaza, Floor 17  
Büyükdere Caddesi , Bahar Sokak No. 13  
TR-34394  
Levent, İstanbul, Turkey

**LEGAL COUNSEL TO THE BANK AS TO ENGLISH LAW**

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

**LEGAL COUNSEL TO THE BANK AS TO TURKISH LAW**

**Paksoy Ortak Avukatlık Bürosu**  
Orjin Maslak, Eski Büyükdere Cad. No:27 K:11 343948  
Maslak, İstanbul, Turkey

**LISTING AGENT**

**Arthur Cox Listing Services Limited**  
Earlsfort Centre  
Earlsfort Terrace  
Dublin 2  
Ireland

**AUDITORS TO THE BANK**

**KPMG**  
Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik A.Ş.  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No:29  
34805 Beykoz-İstanbul  
Turkey

**EY Türkiye İstanbul Ofisi**  
Orjin Maslak Plaza  
Maslak Mahallesi Eski Büyükdere Caddesi  
No: 27, Kat:1-5  
Sanyer  
34398 İstanbul  
Turkey