

## BASE PROSPECTUS



**FINANSBANK A.Ş.**  
**US\$2,000,000,000**

### **Global Medium Term Note Programme**

Finansbank A.Ş., a Turkish banking institution organised as a public joint stock company registered with the İstanbul Trade Registry under number 237525 (the “Bank” or “Issuer”) has established this US\$2,000,000,000 Global Medium Term Note Programme (the “Programme”), under which it may from time to time issue notes (the “Notes”) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below) or investor(s).

Notes may be issued in either bearer or registered form (respectively, “Bearer Notes” and “Registered Notes”); provided that the Notes may be offered and sold in the United States only in registered form. As of the time of each issuance of Notes under the Programme, the maximum aggregate nominal amount of all Notes outstanding under the Programme will not exceed US\$2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement (as defined below)), subject to increase as described herein.

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

### **INVESTING IN THE NOTES INVOLVES RISKS. PROSPECTIVE INVESTORS SHOULD CONSIDER THE FACTORS SET FORTH UNDER “RISK FACTORS” FOR A DISCUSSION OF CERTAIN OF THESE RISKS.**

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

This base prospectus (this “Base Prospectus”) has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU) (the “Prospectus Directive”). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to Notes that are to be admitted to trading on the regulated market of the Irish Stock Exchange plc (the “Irish Stock Exchange”) (the “Main Securities Market”) or on another regulated market for the purposes of Directive 2004/39/EC (known as the Markets in Financial Instruments Directive (the “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 Notes issued under the Programme during the period of 12 months after the date of this Base Prospectus to be admitted to its official list (the “Official List”) and trading on the Main Securities Market. References in this Base Prospectus to any Notes being “listed” (and all related references) shall mean that, unless otherwise specified in the applicable Final Terms, such Notes have been admitted to the Official List and trading on the Main Securities Market.

Application has been made to the Capital Markets Board (the “CMB”) of the Republic of Turkey (“Turkey”), in its capacity as competent authority under Law No. 6362 (the “Capital Markets Law”) of Turkey relating to capital markets, for the issuance and sale of the Notes by the Bank outside of Turkey. The Notes cannot be sold before the necessary approvals are obtained from the CMB. The CMB approval relating to the issuance of Notes based upon which any offering of the Notes will be conducted was obtained on 7 June 2016 and (to the extent and in the form required by applicable law or regulation) the written approval of a particular Tranche of Notes will be obtained from the CMB on or before any sale and issuance of such Tranche of Notes. The maximum debt instrument amount that the Bank can issue under such approval is US\$2,000,000,000 (or its equivalent in other currencies) in aggregate; provided that the aggregate outstanding nominal amount of the debt instruments denominated in Turkish Lira issued by the Bank (whether under this approval or otherwise) may not exceed TL 5,000,000,000. It should be noted that, regardless of the outstanding Note amount, unless the Bank obtains new approvals from the Banking Regulation and Supervision Agency (the “BRSA”) and the CMB, the aggregate debt instrument amount issued under such approval (whether issued under the Programme or otherwise) cannot exceed US\$2,000,000,000 (or its equivalent in other currencies).

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

Notice of the aggregate nominal amount of a tranche of Notes, interest (if any) payable in respect of such Notes, the issue price of such Notes and certain other information that is applicable to such Notes will be set out in a final terms document (the “Final Terms”). With respect to each Series of Notes to be listed on the Irish Stock Exchange, the applicable Final Terms will be filed with the Central Bank of Ireland. Copies of such Final Terms will also be published on the Issuer’s website at [www.finansbank.com.tr/en/investor-relations/financial-information/Default.aspx](http://www.finansbank.com.tr/en/investor-relations/financial-information/Default.aspx).

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

The Programme is expected to be rated “BBB-” (for long-term) and “F3” (for short-term) by Fitch Ratings Ltd. (“Fitch”) and “(P)Ba1” (for long-term) and “(P)NP” (for short-term) by Moody’s Investors Service Limited (“Moody’s”) and, together with Fitch and Standard & Poor’s Credit Market Services Europe Limited (“S&P”), the “Rating Agencies”). The Bank has also been rated by the Moody’s and Fitch, as set out on page 129 of this Base Prospectus. Each of the Rating Agencies is established in the European Union (the “EU”) and is registered under Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”). As such, each of the Rating Agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority (the “ESMA”) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Notes issued under the Programme may be either rated or unrated. Where a Tranche of Notes is rated (other than an unsolicited rating), such rating will be disclosed in the applicable Final Terms and (if rated by Fitch and/or Moody’s) will not necessarily be the same as the rating assigned to the Programme by Fitch or Moody’s, as the case may be. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

*Arranger*

**Standard Chartered Bank**

*Dealers*

**BNP Paribas**

**BofA Merrill Lynch**

**Citigroup**

**Commerzbank**

**HSBC**

**ING**

**J.P. Morgan**

**Mizuho Securities**

**Morgan Stanley**

**MUFG**

**QNB Capital**

**Société Générale Corporate  
& Investment Banking**

**Standard Chartered Bank**

**UniCredit**

The date of this Base Prospectus is 27 April 2017

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

## **RESPONSIBILITY STATEMENT**

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

The Issuer, having made all reasonable enquiries, confirms that: (a) this Base 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 Base Prospectus is true and accurate in all material respects and is not misleading, (c) any opinions, predictions or intentions expressed in this Base Prospectus (or any of the documents incorporated herein by reference) on the part of the Issuer are honestly held or made by the Issuer and are not misleading in any material respects, and there are no other facts the omission of which would make this Base 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 Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

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

To the fullest extent permitted by law, neither the Arranger nor any of the Dealers accepts any responsibility for the information contained or incorporated by reference into this Base Prospectus or any other information provided by the Issuer in connection with the Programme or for any statement made, or purported to be made, by the Arranger or a Dealer or on its behalf in connection with the Programme. Each of the Arranger and each Dealer accordingly disclaims all and any liability that it might otherwise have (whether in tort, contract or otherwise) in respect of the accuracy or completeness of any such information or statements. The Arranger and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

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

Neither this Base Prospectus nor any other information supplied by (or on behalf of) the Issuer or any of the Arranger or Dealers in connection with the Programme or any Notes: (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Arranger or any of the Dealers that any recipient of this Base Prospectus or any such other information supplied in connection with the Programme or any Notes should invest in the Notes (or beneficial interests therein). Each investor contemplating investing in the Notes (or beneficial interests therein) should determine for itself the relevance of the information contained in (including incorporated by reference into) this Base Prospectus and make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer based upon such investigation as it deems necessary.

Neither this Base Prospectus nor, except to the extent explicitly stated herein, any such other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Arranger or any of the Dealers to any person to subscribe for or to invest in the Notes (or beneficial interests therein).

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes (or beneficial interests therein) shall in any circumstances imply that the information contained herein 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 Programme is correct as of any time subsequent to the date indicated in the document containing the same.

None of the Issuer, the Arranger, the Dealers or any of their respective counsel or other representatives is making any representation to any offeree or investor in the Notes regarding the legality of its investment under any applicable 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

The Notes have not been and will not be registered under the Securities Act or under the securities or “blue sky” laws of any state of the United States or any other U.S. jurisdiction. Each investor, by purchasing a Note (or a beneficial interest therein), agrees (or shall be deemed to have agreed) that the Notes (or beneficial interests therein) may be reoffered, resold, pledged or otherwise transferred only upon registration under the Securities Act or pursuant to the exemptions from the registration requirements thereof described under “Transfer and Selling Restrictions.” Each investor also will be deemed to have made certain representations and agreements as described therein. Any resale or other transfer, or attempted resale or other attempted transfer, of the Notes (or a beneficial interest therein) that is not made in accordance with the transfer restrictions may subject the transferor and/or the transferee to certain liabilities under applicable securities laws.

The distribution of this Base Prospectus and/or the offer or sale of Notes (or beneficial interests therein) might be restricted by law in certain jurisdictions. None of the Issuer, the Arranger or the Dealers represent that this Base Prospectus may be lawfully distributed, or that any 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 Issuer that is intended to permit a public offering of any Notes (or beneficial interests therein) or distribution of this Base Prospectus in any jurisdiction in which 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 this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, in each case except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes (or beneficial interests therein) may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes (or beneficial interests therein). In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes (or beneficial interests therein) in (*inter alia*) the United States, the European Economic Area (including the United Kingdom), Turkey, Switzerland, Japan, the People’s Republic of China (the “PRC”), Thailand, Singapore and the Hong Kong Special Administrative Region of the PRC. See “Transfer and Selling Restrictions.”

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

**IMPORTANT – EEA RETAIL INVESTORS** – If the Final Terms in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes, from 1 January 2018, are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“*MiFID II*”); (ii) a customer

within the meaning of Directive 2002/92/EC (“*IMD*”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “*PRIPs Regulation*”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

In making an investment decision, investors must rely upon their own examination of the Issuer and the terms of the Notes (or beneficial interests therein) being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the “*SEC*”) or any other securities commission or other regulatory authority in the United States and, other than the approvals of the Banking Regulation and Supervision Agency (the “*BRSA*”), the CMB, the Central Bank of Ireland and the Irish Stock Exchange 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 and the Irish Stock Exchange to the extent described herein) approved this Base Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary might be unlawful.

None of the Arranger, the Dealers, the Issuer, any of their respective affiliates or any other person acting on its or their behalf makes any representation to any actual or potential investor in the Notes regarding the legality of its investment under any applicable laws or regulations. Any investor in the Notes should ensure that it is able to bear the economic risk of an investment in the Notes for an indefinite period of time.

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

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the applicable Notes, the merits and risks of investing in such Notes and the information contained in (including incorporated by reference into) this Base Prospectus or any applicable supplement hereto,
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the applicable Notes and the impact its investment in such Notes will have on its overall investment portfolio,
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the applicable Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency,
- (d) understands thoroughly the terms of the applicable Notes and is familiar with the behaviour of financial markets, and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that might affect its investment in the Notes and its ability to bear the applicable risks.

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

The Issuer has obtained the CMB approval (dated 7 June 2016 and numbered 29833736-105.03.01-E.6563 (the “*CMB Approval*”)) and the BRSA approval (dated 21 April 2017 and numbered 20008792-101.01[31]-E.6545 (the “*BRSA Approval*” and, together with the CMB Approval, the “*Programme Approvals*”)) required for the issuance of Notes under the

Programme. The maximum debt instrument amount that the Bank can issue under such approval is US\$2,000,000,000 (or its equivalent in other currencies) in aggregate; provided that the aggregate outstanding nominal amount of the debt instruments denominated in Turkish Lira issued by the Bank (whether under this approval or otherwise) may not exceed TL 5,000,000,000. It should be noted that, regardless of the outstanding Note amount, unless the Bank obtains new approvals from the BRSA and the CMB, the aggregate debt instrument amount issued under such approval (whether issued under the Programme or otherwise) cannot exceed US\$2,000,000,000 (or its equivalent in other currencies). In addition to the Programme Approvals, to the extent (and in the form) required by applicable law or regulation, an approval in respect of each Tranche of Notes shall also be obtained by the Issuer prior to the issue date (the “*Issue Date*”) of such Tranche of Notes. The Issue Date will be specified in the applicable Final Terms. The Issuer shall maintain or obtain (as applicable) all authorisations and approvals of the CMB necessary for its offer, sale and issue of Notes under the Programme. Consequently, the scope of the Programme Approvals might be amended and/or new approvals from the CMB and/or the BRSA might be obtained from time to time. Pursuant to the Programme Approvals, the offer, sale and issue of Notes under the Programme has been authorised and approved in accordance with Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, “*Decree 32*”), the Turkish Banking Law No. 5411 of 2005, as amended (the “*Banking Law*”) and its related legislation and regulations, the Capital Markets Law and Communiqué No. VII-128.8 on Debt Instruments of the CMB (the “*Communiqué on Debt Instruments*”) or its related regulations. The Notes issued under the Programme prior to the date of the CMB Approval were issued under previously existing CMB approvals.

In addition, the Notes (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the Programme Approvals. Under the CMB Approval, the CMB has authorised the offering, sale and issue of Notes on the condition that no sale or offering of Notes (or beneficial interests therein) may be made by way of public offering or private placement in Turkey. Notwithstanding the foregoing, pursuant to the BRSA decisions dated 6 May 2010 No. 3665 and dated 30 September 2010 No. 3875 and in accordance with Decree 32, residents of Turkey: (a) in the secondary markets only, 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, and (b) in both the primary and secondary markets, may purchase or sell Notes (or beneficial interests therein) denominated in Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis. Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes (or beneficial interests therein) in offshore transactions on an unsolicited (reverse inquiry) basis; *provided that* (for each of clauses (a) and (b)) such purchase or sale is made through licensed banks authorised by the BRSA or licensed brokerage institutions authorised pursuant to CMB regulations and the purchase price is transferred through such licensed banks. As such, Turkish residents should use such licensed banks or licensed brokerage institutions while purchasing the Notes (or beneficial interests therein) and transfer the purchase price through such licensed banks. Monies paid for purchases of Notes are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund of Turkey (*Tasarruf Mevduatı Sigorta Fonu*) (the “*SDIF*”).

Pursuant to the Communiqué on Debt Instruments, the Issuer is required to notify the Central Registry Agency (*Merkezi Kayıt Kuruluşu A.Ş.*) (trade name: Central Registry Istanbul (*Merkezi Kayıt Istanbul*)) (the “*CRA*”) within three İstanbul business days from the applicable Issue Date of a Tranche of Notes of the amount, Issue Date, ISIN (if any), interest commencement date, maturity date, interest rate, name of the custodian and currency of such Notes and the country of issuance.

Reference is made to the “Index of Terms” for the location of the definitions of certain terms defined herein.

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

Some statements in this Base Prospectus might be deemed to be forward-looking statements. Forward-looking statements include (without limitation) statements concerning the Issuer’s plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this Base Prospectus, the words “anticipates,” “estimates,” “expects,” “believes,” “intends,” “plans,” “aims,” “seeks,” “may,” “might,” “will,” “should” and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled “Risk Factors,” “Business of the Group” and other sections of this Base Prospectus 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 might differ materially from those expressed in these forward-looking statements.

The Bank has identified certain of the risks inherent in these forward-looking statements and these are set out under "Risk Factors."

The Issuer has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although the Bank's management believes that the expectations, estimates and projections reflected in these forward-looking statements in this Base Prospectus are reasonable as of the date of this Base Prospectus, if one or more of the risks or uncertainties inherent in these forward-looking statements materialise(s), including those identified below or that the Issuer has otherwise identified in this Base Prospectus, or if any of the Bank's underlying assumptions prove to be incomplete or inaccurate, then the Bank's actual results of operation might vary from those expected, estimated or predicted and those variations might be material.

There might 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 Base Prospectus. Therefore, potential investors should not consider the factors discussed under "Risk Factors" to be a complete discussion of all potential risks or uncertainties of investing in the Notes.

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

## U.S. INFORMATION

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

The Notes (or beneficial interests therein) may be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons only in registered form and in transactions exempt from registration under the Securities Act in reliance upon Rule 144A under the Securities Act ("*Rule 144A*") or any other applicable exemption. Each investor in Registered Notes that is a U.S. Person or is in the United States is hereby notified that the offer and sale of any Notes (or beneficial interests therein) to it might be made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A or under Section 4(a)(2) of the Securities Act.

Each investor in the Notes will be deemed, by its acceptance or purchase of any such Notes (or beneficial interests therein), to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes (or beneficial interests therein) as set out in "Transfer and Selling Restrictions."

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Bank maintains its books and prepares its statutory financial statements in Turkish Lira in accordance with the BRSA Accounting and Reporting Regulation related to the procedures and principles regarding banks' accounting practices (the “*BRSA Accounting and Reporting Regulation*” or “*BRSA Principles*”), other regulations of the BRSA regarding accounting records of banks, circulars and pronouncements published by the BRSA and the Turkish Accounting Standards, which is applied to the extent matters are not regulated under Turkish laws. The Bank's consolidated and unconsolidated annual statutory financial statements (the “*BRSA Financial Statements*”) incorporated by reference herein as of and for the years ended 31 December 2014, 2015 and 2016 have been prepared and presented in accordance with the BRSA Accounting and Reporting Regulation.

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 assets held for trading), financial assets available-for-sale, derivative financial instruments and equity participations quoted on stock exchanges, which are presented on a fair value basis if reliable measures are available, and (b) loans and receivables, investments categorised as held-to-maturity and other financial assets, which are presented at amortised cost.

The BRSA Financial Statements and independent auditors' reports thereon incorporated by reference herein have been audited in accordance with the BRSA Accounting and Reporting Regulation and the International Standards on Auditing. The BRSA Financial Statements for the years ended 31 December 2014, 2015 and 2016 were audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi, a member firm of Ernst & Young Global Limited (“*Ernst & Young*”). The audit reports on the BRSA Financial Statements emphasise that: (a) the effect of the differences between the accounting principles summarised in Section 3 thereof and the accounting principles generally accepted in countries in which the financial statements are to be distributed and International Financial Reporting Standards (“*IFRS*”) have not been quantified and reflected in the financial statements, (b) the accounting principles used in the preparation of the financial statements differ materially from IFRS and (c) accordingly, the financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS. See Ernst & Young's reports on the applicable BRSA Financial Statements incorporated by reference into this Base Prospectus.

According to Turkish legislation, the Bank is required to rotate its external auditors every seven years. At the Bank's General Assembly Meeting held on 27 March 2014, Ernst & Young was appointed as the independent auditor of the Bank until the end of March 2015 as per Article 399 of the Turkish Commercial Code (Law No. 6102). At the General Assembly Meetings held on 31 March 2015, 24 March 2016 and 30 March 2017, Ernst & Young was again appointed as the independent auditor of the Bank until the end of March 2016, 2017 and 2018, respectively.

Unless otherwise indicated, the financial information presented herein is based upon the BRSA Financial Statements incorporated by reference herein and has been extracted from the BRSA Financial Statements without material adjustment. The BRSA Financial Statements incorporated by reference into this Base Prospectus, 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). Such English language BRSA Financial Statements were not prepared for the purpose of their inclusion in this Base Prospectus. To supplement the Group's consolidated financial statements presented in accordance with the BRSA Accounting and Reporting Regulation, the Group uses certain ratios and measures included in this Base Prospectus that would be considered non-GAAP financial measures. 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 generally accepted accounting principles.

The BRSA Financial Statements of the Group and the Bank have not been prepared in accordance with IFRS. Consequently, there may be material differences had IFRS been applied to the financial information. A summary of certain significant differences between the BRSA Accounting and Reporting Regulation and IFRS as they apply to the Group is included in Appendix A (“*Overview of Significant Differences between IFRS and BRSA Accounting Principles*”). Such BRSA Financial Statements also: (a) are not comparable to generally accepted accounting principles in the United States and (b) have not been prepared in accordance with the international accounting standards adopted pursuant to Article 3 of Regulation (EC) No. 1606/2002.



While neither the Bank nor the Group is required by law to prepare its accounts under any accounting standards other than under the BRSA Accounting and Reporting Regulation, including under IFRS, the Bank's management has elected to publish annual consolidated financial statements that have been prepared in accordance with IFRS. IFRS financial statements are not used for any regulatory purposes and the Bank's management uses the BRSA Financial Statements for the management of the Bank and certain communications with investors. As the Bank's management uses the BRSA Financial Statements and IFRS financial statements are prepared infrequently, IFRS financial statements are not included in (or incorporated by reference into) this Base Prospectus.

The Bank utilises several internal definitions of small and medium-sized enterprise ("*SME*") based upon criteria including annual turnover, credit limits and/or average assets under management; *however*, with respect to certain published financial information concerning SMEs, the Bank uses the BRSA definition of SME (as defined in the Regulation on SMEs, their Definitions, Qualifications and Classification published in the Official Gazette dated 18 November 2005, numbered 25997) in order to render such data comparable to that of other Turkish banks. Such BRSA definition of SME includes companies with an annual turnover or total balance sheet assets of less than or equal to TL 40 million and companies with less than 250 employees (the "*BRSA SME Definition*").

The Bank utilises several internal definitions of corporate customers based upon criteria including annual sales and/or credit limits; *however*, with respect to certain published financial information concerning corporate customers, the Bank defines corporate customers as those companies that are larger than SMEs (in terms of annual turnover, total assets or number of employees) as defined by the BRSA SME Definition in order to render such data comparable to that of other Turkish banks (the "*Corporate Definition*").

Certain figures included in, or incorporated by reference into, this Base Prospectus have been subject to rounding adjustments (*e.g.*, certain U.S. Dollar amounts have been rounded to the nearest million). Accordingly, figures shown for the same category presented in different tables might vary slightly and figures shown as totals in certain tables might 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 the Bank's estimates have been prepared with due care. The data concerning the Group included herein, whether based upon external sources or based upon the Group's internal research, constitute the Group's best current estimates of the information described.

### ***Alternative Performance Measures***

To supplement the Bank's consolidated and unconsolidated financial statements presented in accordance with the BRSA Accounting and Reporting Regulations, the Bank uses certain ratios and measures included in this Base Prospectus that might be considered to be "alternative performance measures" (each an "**APM**") as described in the ESMA Guidelines on Alternative Performance Measures (the "**ESMA Guidelines**") published by the European Securities and Markets Authority on 5 October 2015. The ESMA Guidelines provide that an APM is understood as "a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework." The ESMA Guidelines also note that they do not apply to APMs "disclosed in accordance with applicable legislation, other than the applicable financial reporting framework, that sets out specific requirements governing the determination of such measures."

The APMs included in this Base Prospectus are not alternatives to measures prepared in accordance with the BRSA Accounting and Reporting Regulations and might be different from similarly titled measures reported by other companies. The Bank's management believes that this information, when considered in conjunction with measures reported under the BRSA Accounting and Reporting Regulations, is useful to investors because it provides a basis for measuring the organic operating performance in the periods presented and enhances investors' overall understanding of the Group's financial performance. In addition, these measures are used in internal management of the Group, along with financial measures reported under the BRSA Accounting and Reporting Regulations, in measuring the Group's performance and comparing it to the performance of its competitors. Furthermore, because the Group has historically reported certain APMs to investors, the Bank's management believes that the inclusion of APMs in this Base Prospectus provides consistency in the Group's financial reporting and thus improves investors' ability to assess the Group's trends and performance over multiple periods.

APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with the BRSA Accounting and Reporting Regulations.

For the Group, measures that might be considered to be APMs in this Base Prospectus (and that are not defined or specified by the BRSA Accounting and Reporting Regulations or any other legislation applicable to the Bank) include (without limitation) the following (such terms being used in this Base Prospectus as defined below):

*Cost-to-income ratio:* For a particular period, this is: (a) operating expenses for such period *divided by* (b) net operating income.

*Deposits to total assets (total deposits including bank deposits):* As of a particular date, this is: (a) the total deposits (including bank deposits) as of such date *divided by* (b) total assets as of such date.

*Loans-to-deposits:* As of a particular date, this is: (a) the total loans as of such date *as a percentage of* (b) the total deposits as of such date.

*Net interest margin:* For a particular period, this is: (a) net interest income for such period *divided by* (b) average interest earning assets for such period.

*Net fees and commissions income as a percentage of average total assets:* For a particular period, this is: (a) net fees and commissions income *divided by* (b) average total assets (computed by calculating the average of the quarter-end balances during the relevant reporting period).

*Net operating income as a percentage of average total assets:* For a particular period, this is (a) net operating income (computed by calculating the sum of net interest income, net fees and commissions income, dividends from subsidiaries, net trading gains, profit from held-to-maturity securities and other operating income) *divided by* (b) average total assets for such period.

*NPL coverage ratio:* As of a particular date, this is: (a) the total loan loss provision as of such date *as a percentage of* (b) the total non-performing loans as of such date.

*Non-performing loans to total gross cash loans:* As of a particular date, this is: (a) the total non-performing loans as of such date *as a percentage of* (b) the total gross cash loans as of such date.

*Other operating expenses as a % of average total assets:* For a particular period, this is: (a) other operating expenses for such period *divided by* (b) average total assets.

*Return on average shareholders' equity:* For a particular period, this is: (a) net profit minus minority shares of net profit for such period *divided by* (b) average shareholders' equity excluding minority shares for such period.

*Return on average total assets:* For a particular period, this is: (a) net profit for such period *as a percentage of* (b) average total assets for such period.

*Specific provisions for loan losses to non-performing loans:* As of a particular date, this is: (a) the provisions for probable loan losses as of such date *as a percentage of* (b) the loans as of such date.

*Specific provisions for loan losses to total loans:* As of a particular date, this is: (a) the provisions for probable loan losses as of such date *as a percentage of* (b) the total non-performing loans as of such date.

*Total loans (net of provisions) to total assets:* As of a particular date, this is: (a) the total loans (net of provisions) as of such date *divided by* (b) total assets as of such date.

Reconciliations for the above APMs to the applicable financial statements are not included as they are not required by the ESMA Guidelines in these circumstances, including as a result of Article 29 thereof where the items described in the

APM are directly identifiable from the financial statements (e.g., where an applicable APM is merely a calculation of one item in the financial statements as a percentage of another item in the financial statements).

The following are definitions of certain terms that are used in the calculations of the APMs listed above (such terms as so defined above having the same meaning when used elsewhere in this Base Prospectus):

*Average interest-earning assets:* For a particular period, this is computed by taking the average of the quarter-end balances of the Bank's available-for-sale investment securities (net), investment securities held to maturity (net), financial assets at fair value through profit or loss (net), money market placements, loans and receivables, leasing receivables (net) and factoring receivables.

*Average shareholders' equity:* For a particular period, this is the average of the amount of shareholders' equity 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 during such period.

*Average total assets:* For a particular period, this is the average of the amount of total 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 during such period.

*Net interest income:* For a particular period, this is total interest income from interest-earning assets during such period *minus* total interest expense on interest-bearing liabilities during such period.

### ***Currency Presentation and Exchange Rates***

In this Base Prospectus, all references to:

- “*Turkish Lira*” and “*TL*” refer to the lawful currency for the time being of Turkey,
- “*euro*” and “*€*” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the EU, as amended,
- “*U.S. Dollars*,” “*US\$*” and “*\$*” refer to United States dollars,
- “*Renminbi*” and “*RMB*” refer to the lawful currency of the PRC, which (for the purposes of this Base Prospectus) excludes the Hong Kong Special Administrative Region of the PRC, the Macao Special Administration Region of the PRC and Taiwan, and
- “*Sterling*” and “*£*” refer to pounds sterling.

No representation is made that the Turkish Lira, Dollar or euro amounts in this Base Prospectus could have been or could be converted into euro, U.S. 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 Risk.”

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

In this Base Prospectus, “Bank” means Finansbank A.Ş. on a standalone basis and “Group” means the Bank and its subsidiaries (or, with respect to consolidated accounting information, entities that are consolidated into the Bank).

In this Base Prospectus, any reference to Euroclear Bank SA/NV (“*Euroclear*”), Clearstream Banking S.A. (“*Clearstream, Luxembourg*”) and/or the Depository Trust Company (“*DTC*”) shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Fiscal Agent.

In this Base Prospectus, any reference to “law” shall (unless the context otherwise requires) be deemed to include regulations and other legal requirements.

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

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

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

All data relating to the Turkish banking sector in this Base Prospectus have been obtained from the BRSA’s website at [www.bddk.org.tr](http://www.bddk.org.tr), the Banks Association of Turkey’s website at [www.tbb.org.tr](http://www.tbb.org.tr) or the website of the Interbank Card Center (*Bankalararası Kart Merkezi*) at [www.bkm.com.tr/bkm](http://www.bkm.com.tr/bkm), and all data relating to the Turkish economy, including statistical data, have 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 websites of the Turkish Treasury (“*Undersecretariat of Treasury*”) at [www.hazine.gov.tr](http://www.hazine.gov.tr) or the European Central Bank at [www.ecb.eu](http://www.ecb.eu). Such data have been extracted from such websites without material adjustment, but may not appear in the exact same form on such websites or elsewhere. Such websites do not, and should not be deemed to constitute a part of, or be incorporated into, this Base Prospectus.

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

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

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents that have previously been published and have been filed with the Central Bank of Ireland shall be incorporated into, and form part of, this Base Prospectus:

- the independent auditors' audit reports and audited consolidated BRSA Financial Statements of the Group for each of the years ended 31 December 2014, 2015 and 2016,
- the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Bank for the years ended 31 December 2014, 2015 and 2016,
- the terms and conditions of the Notes contained in the previous base prospectus dated 5 February 2014 (on pages 52 to 82 (inclusive)) prepared by the Issuer in connection with the Programme,
- the terms and conditions of the Notes contained in the previous base prospectus dated 27 April 2015 (on pages 65 to 97 (inclusive)) prepared by the Issuer in connection with the Programme, and
- the terms and conditions of the Notes contained in the previous base prospectus dated 25 April 2016 (on pages 67 to 99 (inclusive)) prepared by the Issuer in connection with the Programme.

Any documents (or portions thereof) themselves incorporated by reference into the documents incorporated by reference into this Base Prospectus shall not form part of this Base Prospectus.

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

Copies of documents incorporated (or portions of which have been incorporated) by reference into this Base Prospectus can be obtained without charge from the registered office of the Bank and from the Bank's website: <https://www.qnbfinansbank.com/en/investor-relations/financial-information/Default.aspx> (such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Base Prospectus).

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

## AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any re-sales or other transfers of Notes (or beneficial interests therein) that are "restricted securities" within the meaning of Rule 144 under the Securities Act, the Issuer has undertaken in a deed poll dated 27 April 2017 (the "*Deed Poll*") to furnish, upon the request of an investor in such Notes, to such investor or to a prospective purchaser designated by such investor, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes (or beneficial interests therein) to be transferred remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "*Exchange Act*") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

## STABILISATION

In connection with the issue of any Tranche of Notes, one or more relevant Dealer(s) named as the stabilising manager(s) in the applicable Final Terms (the "*Stabilising Manager(s)*") (or persons acting on behalf of any Stabilising Manager(s)) may over-allot such Notes or effect transactions with a view to supporting the market price of such 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 relevant Tranche of 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 of

the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) 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.

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Appendix A - Overview of Significant Differences between IFRS and BRSA Accounting Principles

## OVERVIEW

*This overview might not contain all of the information that might be important to prospective investors in the Notes. This entire Base Prospectus, including the more detailed information regarding the Bank's business and the financial statements incorporated by reference into this Base Prospectus, should be read carefully. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Base Prospectus are forward-looking statements that also involve uncertainties as described under "Cautionary Statement Regarding Forward-Looking Statements."*

### The Bank

#### General

The Bank is a Turkish private commercial bank that provides banking products and services to retail, corporate, commercial and SME banking and other customers through a network of branches operating in major cities throughout Turkey. As of 31 December 2016, according to the most recent statistics published before the date of this Base Prospectus on the Public Disclosure Platform (*Kamuyu Aydınlatma Platformu*) ([www.kap.gov.tr](http://www.kap.gov.tr)) ("*Public Disclosure Platform*"), the Bank was the fifth largest private bank in Turkey in terms of Bank-only total assets with TL 101,503.1 million total assets. The Bank is currently a subsidiary of Qatar National Bank ("*QNB*"), which purchased a 99.81% stake in the Bank from the National Bank of Greece ("*NBG*") on 15 June 2016 pursuant to a share purchase agreement (the "*Share Purchase Agreement*"). In accordance with the Communiqué No. II-27.2 on Squeeze-Out and Sell-Out Rights (the "*Communiqué*"), the shareholders of the Bank (other than QNB) had a right to sell their shares in the Bank to QNB within a three month period starting on 16 June 2016. At the end of such period, as of 16 September 2016, 99.88% of the shares of the Bank were owned by QNB and the remaining shares were traded on the Borsa İstanbul. See "Share Capital and Ownership – Share Sale."

Since its initial entry to the Turkish banking market in 1987, the Bank has grown its branch network significantly. The Bank's branch network increased from 309 branches as of 31 December 2006 to 630 branches as of 31 December 2016. As of such date, the Bank's branch network consisted of 605 full-service branches, 17 retail-only branches, 4 corporate-only branches and 4 commercial-only branches located in 53 commercial centres in Turkey, mainly in İstanbul, İzmir, Ankara and Antalya. The Bank also has a branch at the Atatürk Airport Free Trade Zone in İstanbul and one branch in Bahrain. Following significant investment in its branch network, the Group now aims to maintain the number of its branches at approximately the current levels. The Group, through the Bank and its subsidiaries and other affiliates, also undertakes leasing, factoring, insurance and investment banking activities. As of 31 December 2016, the Group had total assets of TL 104,325.8 million, loans and receivables of TL 62,637.1 million, total deposits of TL 53,865.2 million and total equity of TL 10,303.8 million.

In addition to its branch network, the Group has made significant investments in alternative delivery channels such as automated teller machine ("*ATM*") and point-of-sale ("*POS*") networks, internet banking, mobile banking and a call centre. In October 2012, the Group launched Enpara.com, an online banking platform designed to provide banking and payment services to retail customers in Turkey without the use of any physical branches. Since its establishment, Enpara.com has grown its registered customer base from 18,000 customers to over 633,000 customers as of 31 December 2016, with 76.7% of such customers not having been pre-existing customers of the Group.

The Group has three main business segments: retail banking, SME banking and corporate and commercial banking, additional information about each of which is provided below:

- **Retail Banking.** The Group's retail banking activities consist primarily of mortgages, consumer lending, credit and debit card services, deposits, investments and insurance products. The Group's offerings to retail customers are divided into three main further sub-groups: (a) private banking, which serves individuals with liquid assets under management exceeding TL 750,000 through customised service offerings, (b) the affluent segment, which serves individuals with assets under management between TL 100,000 and TL 750,000, offering features such as dedicated relationship managers and a diverse set of banking and non-banking services and benefits and (c) the mass market segment with a wide variety of products and services. Retail banking has been one of the principal drivers of the Group's growth during recent years. As of 31 December 2016, the Group had approximately 4.0 million retail banking customers (excluding credit card customers) and performing retail loans and receivables (including mortgage, credit card and consumer loans (which comprise personal need loans, overdrafts and auto loans)) of TL 22,001.4 million, representing 35.5% of the Group's performing



loans and receivables (representing total gross loans, including financial assets at fair value through profit and loss, *minus* specific provisions).

- *SME Banking.* The Bank's SME banking activities consist primarily of revolving credit lines, instalment loans, overdrafts, business housing loans and demand deposits. As one of the first banks in Turkey to focus on this segment, the Bank started its SME banking operations at the beginning of 2003 to support Turkish small businesses. The SME banking segment consists of: (a) Agricultural Banking, (b) SME Banking Small Enterprises, which serves enterprises with annual revenues of up to TL 4 million, and (c) SME Banking Medium Enterprises, which serves enterprises with annual revenues between TL 4 million and TL 40 million. In recent years, SME banking has represented an increasingly important part of the Group's overall loan portfolio. As of 31 December 2016, the Group's SME banking operations had more than 385,000 active customers and performing loans and receivables of TL 18,947.6 million, representing 30.5% of the Group's performing loans and receivables.
- *Corporate and Commercial Banking.* The Group's corporate and commercial banking activities primarily consist of traditional and non-cash lending, project and structured finance, trade finance, cash management, corporate syndication, secondary market transactions, deposit taking and certificated debt instruments. The corporate and commercial banking segment consists of: (a) corporate banking, which serves large businesses (including multinational corporations), and (b) commercial banking, which serves enterprises with annual revenues between TL 20 million and TL 300 million. As of 31 December 2016, the Group's corporate and commercial banking operations had approximately 11,000 customers and performing loans and receivables of TL 21,065.7 million, representing 34.0% of the Group's performing loans and receivables.

The Group also undertakes leasing, factoring, insurance and investment banking activities through its subsidiaries and other affiliates. The Bank's registered office is located at Esentepe Mahallesi, Büyükdere Cad., Kristal Kule Binası, No:215, Şişli, İstanbul, Turkey, telephone number +90-212-318-5155. Its registration number is 237525.

## Key Strengths

The Bank's management believes that the Group has a number of key strengths that enable the Group to compete effectively in the Turkish banking sector. The Bank's management sees these key strengths as being:

- *Versatile platform enabling the Group to take advantage of strategic opportunities.* Since its establishment in 1987, the Group has grown into a full-service financial institution with an independent management team and an extensive nationwide distribution network serving approximately 5.4 million active customers as of 31 December 2016. This extensive distribution network, combined with the Group's focus on traditional banking activities and complemented by the provision of ancillary services (including investment banking, brokerage, leasing, factoring and asset management) and important partnerships with leading financial institutions (e.g., a partnership with Sompo in basic insurance and with Cigna in life insurance and private pensions), have allowed the Group to maintain a strong competitive position across all of its key customer segments. The Group also has been able to refocus its operations in response to changes in the Turkish banking regulatory environment in recent years. For example, between 2005 and 2011, the Turkish banking sector experienced a significant increase in retail lending (particularly in higher-yielding segments such as credit cards and consumer lending), largely due to strong domestic demand driven by relatively low interest rates and strong micro fundamentals. During this period, the Group significantly increased the size of its retail banking network (both in terms of branches and other distribution channels, such as ATMs) and the ratio of its retail loans to performing loans and receivables, on a Bank-only basis, grew from 33.8% as of 31 December 2005 to 61.2% as of 31 December 2011. During the same period, the ratio of retail loans to performing loans and receivables for Türkiye İş Bankası A.Ş. ("*İşbank*"), Türkiye Garanti Bankası A.Ş. ("*Garanti*"), Akbank T.A.Ş. ("*Akbank*") and Yapı ve Kredi Bankası A.Ş. ("*Yapı Kredi Bank*") and, together with İşbank, Garanti and Akbank, the "*Private Sector Peers*") was 37.0% in 2005 and 33.0% in 2011 according to the BRSA. Beginning in 2012, Turkey's widening current account deficit prompted regulatory authorities to take measures to curb retail lending and encourage business lending in order to reduce imports and grow exports. These measures included, among other things, increasing general reserve requirements for retail loans, increasing the risk-weighting for consumer loans in calculating capital adequacy ratios and introducing regulations to limit the growth of credit card usage, as well as reducing the general reserve requirements for cash and non-cash loans obtained by SMEs for export purposes. In response to these measures, the Group has been successfully shifting

the concentration of its loan portfolio from retail lending to SME and corporate lending. As of 31 December 2016, 64.5% of the Bank's performing loans and receivables were to SME and corporate and commercial customers, compared to 61.6% and 56.8% as of 31 December 2015 and 2014, respectively. The Group has been able to shift its loan portfolio more towards SME and corporate and commercial lending by: (a) opening new branches and maintaining the existing branches that provide SME services, (b) refocusing certain of its human and other resources to serve SME and corporate and commercial customers, (c) engaging in targeted marketing efforts and using its proprietary credit underwriting framework and behaviour monitoring tools to increase market share and (d) launching new products and utilizing new technologies to maximise the customer experience of SME and corporate and commercial clients. The Bank's management believes that its size and the structure of its operations enable it to move more quickly to capitalise on such changes in the market than is possible for many other Turkish banks.

- *Strong capital position and diversified sources of funding.* The Group has a strong capital position and, as of 31 December 2016, had a common equity Tier I ("CET1") ratio of 12.38%, which is well above the BRSA's regulatory minimum CET1 ratio of 4.5% (based upon Basel III as adopted by the BRSA), and a total capital adequacy ratio of 14.3%, which exceeded the total capital adequacy ratios of each of the Group's Private Sector Peers. The Bank's leverage ratio was 6.3% as of 31 December 2016, in comparison to the average leverage ratio of its Private Sector Peers, which was 8.8%. The Bank's management believes that its strong capital position has supported its ability to attract deposits and diversify its sources of funding. The Bank has demonstrated strong deposit growth, with an increased emphasis on demand deposits, which typically have a lower cost of funding than time deposits and that, from 31 December 2013 to 31 December 2016, have grown at a compound annual growth rate ("CAGR") of 12.0% compared to an average of 16.8% for the Group's Private Sector Peers during the same period according to their BRSA financial statements. The Bank's loans-to-deposits ratio has grown to 118.5% as of 31 December 2016 (compared to an average of 112.9% for its Private Sector Peers according to their BRSA financial statements). The Group has also entered into long-term financings in the form of syndicated loans and eurobond issuances, among other transactions, to match the medium- to long-term nature of its loan and investment portfolio. Institutional borrowings (including bank deposits, funds borrowed, money market transactions, marketable securities issued and subordinated loans) constituted 28.1% of the Bank's overall liabilities as of 31 December 2016, compared to an average of 25.6% for the Group's Private Sector Peers as of the same date according to their BRSA financial statements.
- *Sophisticated risk management tools.* A prudent credit risk management practice is instilled at every stage of the Group's credit process. At the origination stage, clients are approved on the basis of scorecards for credit card, consumer and SME segments, and approval score cut-off points are constantly being monitored and revised if necessary depending upon macro-economic conditions. From the origination stage onwards, credit quality is monitored closely on an on-going basis via behavioural scorecards, and necessary actions are taken depending upon the changes in behavioural scores. As described elsewhere in this Base Prospectus, the Group also employs a conservative provisioning policy with a non-performing loan ("NPL") coverage ratio of 83.9% as of 31 December 2016 compared to an average of 82.6% for the Group's Private Sector Peers as of the same date according to their BRSA bank-only financial statements. In addition to managing credit risk, the Group actively utilises hedging instruments to protect itself from currency and maturity mismatches.
- *Innovative distribution channels and technology platform.* The Bank's management believes that, from the Group's inception, it has been at the forefront of innovation in banking products and services in Turkey. For example, in 1999 the Bank was the first Turkish bank to introduce a credit card with an instalment structure. More recently, the Bank was the first in Turkey to establish a pure online banking model (EnPara.com) under its umbrella, which website serves a more affluent and technologically savvy client base who are more expensive to serve under the traditional branch business model. On the technological front, the Group serves its customers through state-of-the-art alternative delivery channels, including internet and telephone banking platforms that utilise cutting edge technologies such as client-recognizing interfaces. From 31 December 2012 to 31 December 2016, the number of the Group's internet and mobile banking customers (consisting of all customers with at least one successful log-in and completed transaction within the prior three-month period but excluding customers from Enpara.com) increased from 663,000 to 1,363,000 and, as of 31 December 2016, represented 25.2% of the Group's total customers. This innovation is a necessary component of enabling the Group to maintain close relationships with its customers and compete successfully.

- *Growth in targeted customer segments.* Since 2005, the Group has targeted growth in selected customer segments that its management regarded to be more profitable than other segments. For example, during the rapid growth in the Turkish retail banking sector from 2005 to 2011, the Bank increased its market share in credit cards, mortgages, personal need loans (excluding overdrafts) and retail deposits at CAGRs of 37.6%, 35.9%, 75.6% and 30.1%, respectively, according to the BRSA. Over the same period, the Bank's market share (as a percentage of the total banking sector) grew from 6.9% to 14.2% in credit cards, 7.5% to 8.2% in mortgages, 1.3% to 5.1% in personal need loans and overdrafts and 2.7% to 5.0% in retail deposits. The Group's focus on higher-yielding segments of the retail lending market allowed it to outperform its Private Sector Peers during this period, on average and on a BRSA bank-only basis, in terms of pre-tax net return on assets, net operating income as a percentage of average total assets, risk-adjusted net operating income as a percentage of average total assets and net fees and commissions income as a percentage of average total assets.

Following the shift in the regulatory environment towards SME and corporate and commercial lending, the Group has utilised its extensive distribution network and strong focus on customer service to increase its footprint in SME loans, commercial instalment loans and business demand deposits, which grew, on a Bank-only basis, at CAGRs of 6.6%, 11.1% and 15.0%, respectively, from 31 December 2014 to 31 December 2016. The Bank has also benefitted from the government announcement in December 2016 that the Undersecretariat of Treasury will provide a guarantee for SME loans up to an aggregate amount of TL 25 billion via the Credit Guarantee Fund (*Kredi Garanti Fonu*), which aims to boost economic growth, support companies with high potential that have difficulty accessing funding due to collateralisation constraints. SME and corporate and commercial banking customers have also been an important component of the Group's demand deposit base, representing 47.8% of the Group's Turkish Lira-denominated demand deposits as of 31 December 2016, compared to 51.5% as of 31 December 2015.

- *Experienced management team.* The Group benefits from an experienced and committed executive management team that has successfully delivered the Group's growth initiatives and will continue to drive future strategy. The key members of the Group's senior management have served the Group, on average, for 13 years as of the date of this Base Prospectus, which demonstrates a commitment to the Group and results in continuity in senior management, providing an invaluable asset to the Group. In addition, the Group's senior managers have, on average, 25 years of experience in the financial services and related industries, both in Turkey and abroad.

## Strategy

The Bank's overall strategy is to establish a leading position in the Turkish banking market, in terms of return on average total assets, while focusing more heavily on its SME and corporate and commercial banking businesses. To this end, the Group aims to build lifelong and successful partnerships with all of its stakeholders through understanding and fulfilling their needs. The key elements of the Group's strategy are set out below:

- *Grow the loan book, primarily across the SME and corporate and commercial segments.* The Group intends to increase the size of its loan book by focusing on growth in its SME and corporate and commercial loan portfolio, while selectively growing its retail loan portfolio. The Group has shifted its primary focus since 2012 to its SME and corporate and commercial banking segments, where it aims to capture additional market share over the medium term. The Group's management believes that there is a significant opportunity to continue to increase its market share in SME and corporate and commercial banking and aims to continue to achieve above-market growth in its SME and corporate and commercial loan business. To achieve this objective, the Group has focused on higher-quality service for its customers. For example, product and service lines previously serving SME businesses in various segments and divisions of the Group were combined into one division, with the marketing and sales activities of these segments streamlined to more effectively apply best practices and focus on growing the Group's SME banking activities. In the corporate and commercial business segment, the Group has made organizational changes such as branch specialization and centralization of operational tasks in an effort to boost cost effectiveness, sales effectiveness and customer service. The Group has made significant progress in executing this aspect of its strategy. The Bank's year-on-year growth rate of its business loans was 23.2% and 16% for 2015 and 2016, respectively, which compares to 20.9% and 18.7% for its Private Sector Peers for the same periods according to the bank-only financials published in the Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)). On a BRSA bank-only basis, the Group's market share in the SME and corporate and commercial loan markets as of 31 December 2016 were 4.7% and

2.3%, respectively, and the Bank's branches represent 5.8% of all bank branches in Turkey. As of 31 December 2016, the Group had TL 40,013.3 million in SME and corporate and commercial performing loans and receivables, compared to TL 34,727.0 million as of 31 December 2015 and TL 27,156.9 million as of 31 December 2014. As of 31 December 2016, the Group's SME banking and corporate and commercial loans per branch on a BRSA bank-only basis amounted to an average of TL 129.5 million, compared to an average of TL 64.0 million for the Group's Private Sector Peers according to the bank-only financials published in the Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)).

- *Increase net operating income through the maturing of the branch network and its alternative delivery channels, including Enpara.com.* From 31 December 2010 to 31 December 2016, the size of the Group's total branch network increased by 127 branches. Having invested heavily in its branch network over several years through 2013, the Group has more recently aimed to maintain the number of its branches at approximately the current levels. In 2016, the number of the Group's branches was reduced by 12 branches as a result of routine and on-going analysis to optimise branch locations. The Group's average branch age (9.96 years as of 31 December 2016) is low compared to its Private Sector Peers (average branch age of 21.24 years as of 31 December 2016 according to statistics published by the Banks Association of Turkey). Based upon the observed performance of a subset of the Group's branches (with an average age of less than 9.96 years as of 31 December 2016), the Group's management expects the newer branches to generate more deposits and loans per branch as they mature. In addition to supporting its branch network, the Group intends to continue to increase its investments in alternative delivery channels, particularly in mobile banking and internet-based channels. The Group's management also intends to increase the volume of products and services offered through Enpara.com, which began offering relatively small loans at competitive interest rates in August 2014.
- *Continue to reduce cost of risk.* Since 2012, the Group has shifted the composition of its loan book towards SME and corporate and commercial loans and reduced its exposure to retail loan products. As of 31 December 2016, the ratio of the Group's performing loans and receivables from credit cards, mortgages, SME loans and corporate and commercial loans to the total performing loans and receivables was 15.1%, 8.2%, 30.4% and 34.3%, respectively, compared to 16.3%, 8.8%, 30.8% and 30.8%, respectively, as of 31 December 2015. The Bank's management expects the change in the composition of the loan book to lead to a lower cost of risk and a relatively lower level of additional provisions going forward. As of 31 December 2016, the specific cost of risk for SME loans and corporate and commercial loans was 2.9% and 1.5%, respectively, and 3.6% and 2.0% for credit cards and consumer loans, respectively. As of the same date, the Bank's general provisions rate was 0.5% for SMEs and 1.0% for corporate and commercial loans compared to 4.0% for each of credit cards and general purpose loans.
- *Continue to focus on cost efficiency.* The Group intends to build upon existing cost management policies and initiatives by maintaining its strong focus on cost control and seeking ways to optimise its costs. This focus will be driven by the increase in the Group's scale of operations while aiming to eliminate any inefficiency that may arise as the number of the Group's customers increases. The Group intends to maintain its current number of branches and focus on increasing the productivity of its existing branch network as measured by customer deposits, gross loans and profit per branch. A particular focus is being made to decrease the ratio of operating expenses to total assets through the development of the Bank's newer branches to produce results similar to those demonstrated by the Bank's more established branches. The Group intends to further promote cost efficiency and lower operating expenses by reducing its sales network personnel and increasing the number of loans managed per sales person. The Group expects to achieve this in part due to the relatively lower servicing costs associated with SME and corporate and commercial loans compared to retail credits. The Group's business banking segment also has a higher number of products per customer (3.9 as of 31 December 2016) when compared with the retail segment (3.0 as of 31 December 2016). For 2014, 2015 and 2016, the Group's other operating expenses (which excludes personnel costs but includes, *inter alia*, operational lease related expenditures, repair and maintenance expenses and advertising and promotional expenses), which amounted to TL 848.1 million, TL 914.3 million and TL 968.0 million, respectively, increased in line with inflation.
- *Maintain diversified sources of funding and a strong capital base.* The Group seeks to maintain its loans-to-deposits ratio (plus its Turkish Lira-denominated bonds) at or around current levels (118.5% as of 31 December 2016 on a Bank-only basis, (compared to an average of 112.9% as of 31 December

2016 for its Private Sector Peers on a bank-only basis, according to their BRSA financial statements). The Bank expects to maintain its CETI ratio above 12% (on a BRSA Bank-only basis), which is well above the current required threshold (*i.e.*, 4.5%) established by the BRSA.

- *Continue to attract and develop talent.* Fully aware that its success hinges crucially on the quality, satisfaction and commitment of its workforce, the Group intends continuously to seek to attract top talent and develop its employees throughout their careers so as to help them achieve their full potential. Measures to achieve this objective start at the initial recruitment stage of the employees, followed by educational programmes and training opportunities as their careers progress, and the process is supported by a detailed performance appraisal system. The Group also utilises the experiences of its successful managers through coaching and mentoring programmes for future candidates for managerial positions.

## The Programme

*The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the Conditions of any particular Tranche of Notes, the applicable Final Terms. The summary only relates to the types of Notes that are currently described in full in this Base Prospectus in accordance with Commission Regulation 809/2004. Other types of Notes can be issued by the Issuer under the Programme, and where any such Notes are: (a) admitted to trading on the Main Securities Market or another regulated market for the purposes of Directive 2004/39/EC or (b) otherwise offered to the public in the European Economic Area in circumstances that require the publication of a prospectus under the Prospectus Directive, a supplement to this Base Prospectus or a drawdown prospectus will be prepared and published by the Issuer.*

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

**Issuer:** ..... Finansbank A.Ş.

**Description:** ..... Global Medium Term Note Programme

**Arranger:** ..... Standard Chartered Bank (the “Arranger”)

**Dealers:** .....  
 BNP Paribas  
 Citigroup Global Markets Limited  
 Commerzbank Aktiengesellschaft  
 HSBC Bank plc  
 ING Bank N.V., London Branch  
 J.P. Morgan Securities plc  
 Merrill Lynch International  
 Mizuho International plc  
 Morgan Stanley & Co. International plc  
 MUFG Securities EMEA plc  
 QNB Capital LLC  
 Société Générale  
 Standard Chartered Bank  
 UniCredit Bank AG

and any other Dealer(s) appointed in accordance with the Programme Agreement.

**Risk Factors:** ..... There are certain factors that might affect the Issuer’s ability to fulfil its obligations under the Notes. In addition, there are certain risk factors that are material for the purpose of assessing the market risks associated with the Notes. For a discussion of certain risk factors relating to Turkey, the Bank and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, including certain risks related to the structure of particular Series of Notes and certain market risks, see “Risk Factors.”

**Certain Restrictions:** ..... Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances that comply therewith (see “Subscription and Sale” and “Transfer and Selling Restrictions”), including the following restriction applicable at the date of this Base Prospectus:

**Notes having a maturity of less than one year:** Notes having, on the Issue Date thereof, a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits

contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent.

**Fiscal Agent:** ..... The Bank of New York Mellon, London Branch

**Representation of Noteholders:** .. There will be no trustee.

**Programme Size:** ..... Up to US\$2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding as of the time of each issuance of Notes under the Programme. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

**Distribution:** ..... Notes may be distributed by way of private or (other than in the United States) public placement and in each case on a syndicated or non-syndicated basis.

**Currencies:** ..... Each Series of Notes may be denominated in euro, Sterling, U.S. Dollars, RMB, yen, Turkish Lira or, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer(s) or investor(s) and set out in the applicable Final Terms.

Payments of principal and interest on a Note denominated in Turkish Lira will be made by the Bank in Turkish Lira; *however*, if such Note is not represented by a Global Note held by DTC (or a nominee thereof), the holder of such Note (or a beneficial interest therein) may make an irrevocable election to receive an individual forthcoming payment in U.S. Dollars. See Condition 7.10 in “Terms and Conditions of the Notes.”

Payments of principal and interest on a Note denominated in a specified currency (the “*Specified Currency*”) other than U.S. Dollars for which DTC is the clearing system will be made by the Bank in such Specified Currency to the Exchange Agent but will be paid (after conversion by the Exchange Agent) to the investor(s) in such Note in U.S. Dollars; *however*, if an investor wishes to receive such payment in the applicable Specified Currency, then it may make an affirmative election to receive payment on such Note in the applicable Specified Currency. See Condition 7.11 in “Terms and Conditions of the Notes.”

**Maturities:** ..... Each Series of Notes will have such maturity as may be agreed between the Issuer and the relevant Dealer(s) or investor(s), subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

**Issue Price:** ..... Notes will be issued on a fully-paid basis and may be issued at an issue price that is at par or at a discount to, or premium over, par (for each Note, its “*Issue Price*”).

**Form of Notes:** ..... Each Series of Notes may be issued in bearer or registered form as set out in the applicable Final Terms. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. See “Form of the Notes.”

Each Series of Notes may be fixed rate notes (“*Fixed Rate Notes*”), floating rate notes (“*Floating Rate Notes*”) or zero coupon notes (“*Zero Coupon Notes*”).

**Fixed Rate Notes:** ..... For each Series of Fixed Rate Notes, interest will be payable on such Interest Payment Dates as may be agreed between the Issuer and the relevant Dealer(s) or investor(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and such Dealer(s) or investor(s).

<b><i>Floating Rate Notes:</i></b> .....	<p>Each Series of Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as of the Issue Date of the first Tranche of the Notes of the relevant Series),</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service, or</li> <li>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s) or investor(s).</li> </ul> <p>The margin (if any) relating to a Tranche of Floating Rate Notes will be agreed between the Issuer and the relevant Dealer(s) or investor(s). Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes in respect of each Interest Period will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction (as such term is used in Condition 6.6), as set out in the applicable Final Terms.</p>
<b><i>Zero Coupon Notes:</i></b> .....	<p>Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.</p>
<b><i>Redemption:</i></b> .....	<p>The applicable Final Terms for a Tranche of Notes will indicate either that such Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or an Event of Default) or that such Notes also will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s) or investor(s) and set out in the applicable Final Terms.</p>
<b><i>Denomination of Notes:</i></b> .....	<p>Each Series of Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) or investor(s) and set out in the applicable Final Terms, except that the minimum denomination of each Note will be: (a) such minimum amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any applicable laws or regulations and (b) equal to, or greater than, €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency as of the applicable issue date).</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution. See “Certain Restrictions - Notes having a maturity of less than one year” above.</p>
<b><i>Taxation; Payment of Additional Amounts:</i></b> .....	<p>All payments in respect of the Notes and Coupons 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 (“<i>Taxes</i>”) 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 Bank will (subject to certain exceptions) pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts that would have been receivable in respect of the Notes or Coupons, as</p>



the case may be, in the absence of the withholding or deduction. See “Taxation – Certain Turkish Tax Considerations” and “Terms and Conditions of the Notes – Condition 9.1.”

All payments in respect of the Notes will be made subject to any withholding or deduction required pursuant to FATCA, as provided in Condition 7.1; *it being understood* that, in accordance with Condition 9.1, no additional amount will be payable by the Bank in respect of any such withholding or reduction. See “Terms and Conditions of the Notes – Condition 9.”

<b>Negative Pledge:</b> .....	Subject to certain exceptions, the Conditions (except, for any Series, as altered in the Final Terms for such Series) provide that so long as any of the Notes remains outstanding, the Bank will not create or have outstanding any Security Interest upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness unless the Bank, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that: (a) all amounts payable by it under the Notes are secured by the Security Interest equally and rateably with the Relevant Indebtedness, (b) another Security Interest or (whether or not it includes the giving of a Security Interest) another arrangement is provided for the benefit of the Noteholders as is approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders or (c) such Security Interest is provided as is approved by an Extraordinary Resolution of the Noteholders. See “Terms and Conditions of the Notes – Condition 4.”
<b>Certain Covenants:</b> .....	The Conditions (except, for any Series, as altered in the Final Terms for such Series) provide that the Bank agrees to certain covenants, including covenants limiting transactions with affiliates. See “Terms and Conditions of the Notes – Condition 5.”
<b>Events of Default:</b> .....	The Conditions (except, for any Series, as altered in the Final Terms for such Series) provide that the Notes will be subject to certain Events of Default including (among others) non-payment, breach of obligations, cross-acceleration and certain bankruptcy and insolvency events. See “Terms and Conditions of the Notes – Condition 11.”
<b>Status of the Notes:</b> .....	The Notes and any relevant Coupons will (except to the extent provided otherwise in the applicable Final Terms) be senior, direct, unsubordinated and (subject to the negative pledge in Condition 4) unsecured obligations of the Bank and rank and will rank <i>pari passu</i> , without any preference among themselves, with all outstanding unsecured and unsubordinated obligations of the Bank, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ rights. The Notes will be issued pursuant to the Turkish Commercial Code (Law No. 6102), the Capital Markets Law and the Communiqué on Debt Instruments.
<b>Rating:</b> .....	The Programme is expected to be rated “BBB-” (for long-term) and “F3” (for short-term) by Fitch and “(P)Ba1” (for long-term) and “(P)NP” (for short-term) by Moody’s. Series of Notes may be rated or unrated. Where a Tranche of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating (if any) assigned to the Programme by the relevant rating agency. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.
<b>ERISA:</b> .....	Subject to certain conditions, the Notes may be invested in by an “employee benefit plan” as defined in and subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), a “plan” as defined in and subject to Section 4975 of the Code or any entity whose underlying assets are deemed to include “plan assets” of any of the foregoing plans or arrangements. See “Certain Considerations for ERISA and Other U.S. Employee Benefit Plans.”

<b>Listing:</b> .....	<p>An application has been made to the Irish Stock Exchange for Notes issued under the Programme during the period of 12 months after the date of this Base Prospectus to be admitted to its Official List and trading on the Main Securities Market.</p> <p>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer(s) or investor(s). Notes that are neither listed nor admitted to trading on any market may also be issued. The Final Terms for a Tranche will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or market(s).</p>
<b>Governing Law:</b> .....	The Notes, the Agency Agreement, the Programme Agreement, the Deed of Covenant and the Deed Poll, and any non-contractual obligations arising out of or in connection therewith, are (or will be) governed by, and construed in accordance with, English law.
<b>Selling Restrictions:</b> .....	There are restrictions on the offer, sale and transfer of the Notes (or beneficial interests therein) in ( <i>inter alia</i> ) Turkey, the United States, the European Economic Area (including the United Kingdom), Switzerland, Thailand and Singapore, the PRC, the Hong Kong Special Administrative Region of the PRC and Japan, and there will be such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See “Transfer and Selling Restrictions.”
<b>United States Selling Restrictions:</b> .....	Regulation S (Category 2), Rule 144A and Section 4(a)(2). Bearer Notes with a term of greater than one year will be issued in compliance with rules identical to those provided in: (a) U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (“ <i>TEFRA D</i> ”) or (b) U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (“ <i>TEFRA C</i> ”) such that the Bearer Notes will not constitute “registration required obligations” under section 4701(b) of the Code, as specified in the applicable Final Terms. Such rules impose certain additional restrictions on transfers of the Bearer Notes (or, for Bearer Global Notes, beneficial interests therein).

## RISK FACTORS

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

*In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision as these risk factors cannot be deemed complete. Potential investors should consult with an appropriate professional adviser to make their own legal, tax, accounting and financial evaluation of the merits and risk of investment in the Notes.*

The following is a description of the principal risks associated with the Notes and the Group's business as of the date of this Base Prospectus; *however*, the Bank does not represent that the risks set out in the statements below are exhaustive or that other risks might not arise in the future.

### ***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*

Credit risk is the most significant risk to which the Group is exposed. The Group is subject to inherent risks concerning the credit quality of borrowers and other counterparties, which has affected and will continue to affect the value of the Group's assets, particularly if economic conditions in Turkey deteriorate.

Changes in the credit quality of the Group's customers and counterparties arising from systemic risks in the Turkish and global financial system 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 individuals to service their personal debt. The ratio of the Group's NPLs to its total gross cash loans was 5.2%, 6.3% and 5.8% as of 31 December 2014, 2015 and 2016, respectively (with respect to the Turkish banking sector, 2.9%, 3.1% and 3.3%, respectively, according to BRSA bank-only statistics). The ratio of the Group's Group II loans to total gross cash loans was 5.5%, 5.6% and 6.7% as of 31 December 2014, 2015 and 2016, respectively. The Bank's NPL ratio has been higher than the sector average due to the Bank having a higher risk NPL portfolio than the sector average, including in the consumer and credit cards segments. In addition, the Bank has not engaged in NPL sales as regularly as its peers. In addition, the declining performance of a number of the Group's customers operating in certain sectors in Turkey (such as tourism, construction and energy) due to the political and economic environment negatively impacted the Bank's NPL ratio in 2015 and their continued declining performance as a result of recent political and economic instability could further adversely impact the Bank's NPL ratio and the value of the Group's assets. These conditions might have a negative impact on the credit quality of the Group's loan portfolio.

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 a borrower in extending credit, the Group might not correctly assess the creditworthiness of its credit applicants. In addition, as the Group's loan portfolio has grown substantially, the Group has extended credit to new customers, many of whom may have more limited credit histories. In particular, the Group has relatively high levels of exposure to retail customers, whose loans generally yield higher interest income but also tend to have higher levels of default than loans to corporate customers (as of 31 December 2016, 35.5% of the Group's total loans were retail loans, including mortgage, credit card and consumer loans). Although such new loans are subject to the Group's credit review and monitoring practices, they might be subject to higher credit risks compared to borrowers with whom the Group has greater experience. Furthermore, the Group's exposures to certain borrowers (particularly for loans for infrastructure and 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 also has exposure to the Turkish government through

the Group's participation in financing state-sponsored infrastructure projects, which might be susceptible to increased credit risk in the event of an economic downturn in Turkey or deterioration of the Turkish government's creditworthiness. See "Risk Management – Credit Risk" and "- Counterparty Risk." The Group's exposure to credit risk might lead to a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

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

The Turkish banking sector is highly competitive among both private and state-controlled banks. A small number of these banks represent a major share of the Turkish banking market and, as of 31 December 2016, the top eight banking groups (including the Group), three of which were state-controlled, held 83.1% of the banking sector's total loan portfolio in Turkey (excluding participation banks and development and investment banks), 84.0% of the total bank assets (excluding participation banks and development and investment banks) in Turkey and approximately 82.5% of total customer deposits in Turkey (source: *BRSA*).

The Bank's major competitors include the Private Sector Peers and state-controlled financial institutions T.C. Ziraat Bankası A.Ş. ("*Ziraat Bank*"), Türkiye Vakıflar Bankası T.A.O. ("*Vakıfbank*") and Türkiye Halk Bankası A.Ş. ("*Halkbank*"). As of 31 December 2016, all of the Group's major competitors were larger than the Group in terms of assets. The Bank's competitors might have access to greater resources and be more effective in the development and/or marketing of technologically-advanced products and services that compete directly with the Group's products and services, which might lead customers to use competitors' products instead of the Group's products. Accordingly, the Group might not be able to maintain its market share if it is not able to match its competitors' pricing and/or keep pace with its competitors' development of new products and services. Also, 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 actions by government-controlled financial institutions, in addition to on-going competitive pressures from private financial institutions, are expected to put downward pressure on net interest margins in at least the short term.

In addition to QNB (see "Share Capital and Ownership – Share Sale" for further information regarding the agreement between NBG and QNB for QNB's purchase of NBG's direct and indirect 99.81% stake in the Bank), other foreign financial institutions have shown a strong interest in competing in the banking sector in Turkey. HSBC Bank, UniCredito Italiano, Banco Bilbao Vizcaya Argentaria S.A. ("*BBVA*"), BNP Paribas, Citigroup, ING, Sberbank, Bank Hapoalim, Bank Audi, Burgan Bank, Commercial Bank of Qatar, Industrial and Commercial Bank of China and Bank of Tokyo-Mitsubishi UFJ are among the many non-Turkish financial institutions that have purchased or made investments in Turkish banks or opened their own Turkish offices. 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' existing presence in Turkey might lead to further competitive pressures. Foreign competitors might have greater resources and more cost-effective funding sources than the Group. If competitors can offer better lending rates to clients or higher interest rates on deposits, then the Group could lose customers or market share, be forced to reduce its margins or be forced to look for more expensive funding sources, among other impacts. This, in turn, could negatively affect the Group's profitability. In addition, the Group might not be able to offset competitive pressures in certain industry sectors.

In addition, Turkish banks traditionally have tended to hold a significant proportion of their assets in Turkish government securities. Since 2008, interest rates in Turkey have declined substantially, which has made holding government bonds a less profitable strategy. Banks have reacted by shifting funds towards higher-yielding assets, such as loans to customers (particularly to retail and SME customers). The increased competition for customers resulting from such reallocations, however, may reduce lending margins. As a result of increased competition in conjunction with the lower interest rate environment, the margins the Group can achieve on its products may decrease. Further competitive pressures might result in continued margin compression, which could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Reputation Risk – Negative public opinion regarding the Group, the Bank's controlling shareholder or the Turkish banking industry might negatively affect the Group's business and/or its relationship with its customers*

The Group's reputation is one of its most important assets. Reputational risk, including the risk to earnings and capital from negative public opinion, is inherent in the financial services business. Negative public opinion can result from any number of causes, including misconduct by employees (including any non-compliance with sanctions, anti-money laundering, anti-bribery or any other applicable laws), severe or prolonged financial losses, the outcome of regulatory investigations or bank stress tests related to the Group or the Bank's controlling shareholder, or uncertainty about the financial soundness or reliability of the Group, the Bank's controlling shareholder or the Turkish banking industry. Negative public opinion might adversely affect the Group's ability to keep and attract customers, depositors and investors, as well as its relationships with regulators and the general public, which in turn might have a material adverse effect on its business, financial condition, results of operations and/or prospects.

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

In the course of its business activities, the Group is exposed to a variety of risks, including credit risk, market risk, liquidity risk and operational risk, and it might fail to manage risks adequately in some circumstances. See "Risk Management." Although the Group invests substantial time and effort in risk management strategies and techniques, it might be exposed to unidentified, unquantified or unanticipated risks. If circumstances arise that the Group has not identified or anticipated adequately, or if the security of its risk management systems is compromised, then the Group's losses might be greater than expected, which might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

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 recent global financial crisis might not always accurately predict future risk exposures that, as a result of unforeseen events, could be significantly greater than historical measures. If its measures to assess and mitigate risk prove insufficient, then the Group might experience material unexpected losses that could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects. For example, assets held by the Group that are not traded on public markets might be assigned values that might not accurately measure the actual risks of such assets, resulting in potential losses that the Group has not anticipated.

The Group's subsidiaries have their own risk management teams and procedures, which (in the context of their respective businesses and regulatory environment) are generally consistent with those of the Group. The Group's audit and risk committees coordinate with, and monitor the risk management policies and positions of, the Group's subsidiaries. Such coordination and monitoring might not be sufficient to ensure that the subsidiaries' respective risk management teams and procedures will be able to manage risks to the same degree as the Bank's risk management team and procedures. Any failure of a subsidiary's risk management procedures to assess and mitigate risk might have a material adverse impact on the Group's reputation, business, financial condition, results of operations and/or prospects. 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.

*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). As of 31 December 2016, the Group's net foreign currency exposure was a short position of TL 1,644.9 million (compared to a short position of TL 247.8 million as of 31 December 2015) resulting from an on balance sheet short position of TL 13,554.9 million (compared to a TL 12,749.2 million short position as of 31 December 2015) and an off balance sheet long position of TL 11,910.0 million (compared to a TL 12,501.4 million long position as of 31 December 2015). Taking into account the application of fair value hedge accounting to a debt obligation with the notional amount of U.S.\$380 million (TL 1,342.1 million) recorded on the balance sheet, the Group's net foreign currency short position in 2016 was TL 302.8 million. Such measures might not be successful in mitigating all market risk and the Group's exposure to market risks might lead to a material adverse effect on the Group's business, financial condition, results of operations and/or prospects. Certain of such risks are described in greater detail below.

*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*

The Group's profitability has been, and might continue to be, negatively affected in both the short- and long-term as a result of a number of factors, including a slowdown of economic growth in Turkey and a low interest rate environment (see “-Reduction in Earnings on Securities Portfolio” and “-Interest Rate Risk” below), increased competition (particularly as it impacts net interest margins (see “-Competition in the Turkish Banking Sector” above)) and regulatory actions, including those that seek: (a) to limit the growth of Turkish banks through various conventional and unconventional policy measures, including increased reserve requirements, increased general provisioning requirements, increased capital requirements and higher risk weighting for general purpose loans, or (b) to impose limits or prohibitions on fees and commissions charged to customers or otherwise affect payments received by the Group from its customers, see “- Banking Regulatory Matters” and “Turkish Regulatory Environment”. For 2016, the Group's return on average total assets was 1.3% (compared to 1.5% for the sector (excluding participation banks), on a bank-only basis, according to the BRSA) and the return on average shareholders' equity of the Group was 12.7% (compared to 13.0% for the sector, on a bank-only basis, according to the BRSA). There can be no assurance that the Group will be able to maintain such levels of profitability.

The Group's results were negatively impacted in 2014, 2015 and 2016 due to refunds paid to individual clients who benefited from a final court ruling against Turkish banks giving the clients the right to claim back previously paid loan filing commissions. For 2014, 2015 and 2016, the Group paid TL 95.3 million, TL 203.0 million and TL 93.9 million, respectively, to individual clients in respect of such refunds. This court ruling is consistent with the overall regulatory approach of the BRSA in recent years to limit the growth of the retail lending sector and impose limits with respect to fees and commissions charged to retail customers. Similar to other Turkish banks, the Group has amended its loan pricing policies and procedures in response to this court ruling and BRSA regulations, but claims in relation to prior periods might continue to be paid in 2017 and beyond, which in turn might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

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

The Group's reporting currency is Turkish Lira; *however*, a significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly in U.S. Dollars and euro, and fluctuations in exchange rates might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects. For example, the Group had loans and receivables denominated in U.S. Dollars and euro totalling the equivalent of TL 8,836.5 million and TL 7,764.3 million, respectively, as of 31 December 2016, representing 14.1% and 12.4% of the Group's total loans and receivables as of such date. The Group had deposits denominated in U.S. Dollars and euro totalling the equivalent of TL 14,664.0 million and TL 6,331.0 million, respectively, as of 31 December 2016, which represented 14.1% and 6.1% of the Group's total liabilities as of such date.

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, the Group's net profit/(loss) is affected by changes in the value of the Turkish Lira with respect to foreign currencies (see “—Exchange Rates—The value of the Turkish Lira fluctuates against other currencies” below). 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, the Group is exposed to exchange rate risk to the extent that its assets and liabilities are mismatched. The Group seeks to manage the gap between its foreign currency-denominated assets and liabilities by (among other things) matching the volumes and maturities of its foreign currency-denominated loans against its foreign currency-denominated funding or by entering into currency hedges. Although regulatory limits prohibit the Bank and the Group from having a net currency short or long position of greater than 20% of the total capital used in the calculation of its regulatory capital adequacy ratios, if the Bank or the Group were to become unable to manage the gap between its foreign currency-denominated assets and liabilities, then volatility in exchange rates could lead to losses, which might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

Although the Group has adopted procedures and policies aimed at minimizing this risk (see “Risk Management – Foreign Exchange Risk” for further information), these measures might not adequately protect the Group's business,

financial condition, results of operations and/or prospects from the effect of exchange rate fluctuations or may limit any benefit that the Group might otherwise receive from favourable movements in exchange rates.

Furthermore, if the Turkish Lira were to depreciate materially against the U.S. Dollar or the euro (which represent a significant portion of the foreign currency debt of the Group's corporate and commercial customers), then it would be more difficult for the Group's customers with income primarily or entirely denominated in Turkish Lira to repay their foreign currency-denominated debt, which might have a material adverse effect on the Group's NPLs and asset quality. Similarly, 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) might adversely affect the financial condition of Turkey as a whole, including its inflation rate, and might have a negative effect on the Group's business, financial condition, results of operations and/or prospects.

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

The Group's results of operations depend significantly 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 margin is the difference between interest income and interest expense divided by average interest-earning assets. Net interest income contributed 67.7%, 81.4% and 79.7% of the Group's operating income for 2014, 2015 and 2016, respectively, and net interest margin was 5.6%, 6.2% and 6.4%, respectively, during 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 central banks in other jurisdictions, domestic and international economic and political conditions and other factors. Income from financial operations is particularly vulnerable to interest rate volatility.

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. An increase in interest rates (such as the large increases that the Central Bank implemented in its January 2014 meeting to combat the increase in Turkey's current account deficit) could cause interest expense on deposits (which are typically short-term and reset interest rates frequently) to increase more significantly and/or quickly than interest income from loans (which are short-, medium- and long-term), resulting in a potential reduction in net interest income. In addition, an increase in interest rates might also reduce demand for loans from the Group, and thus its ability to originate loans. Further, a significant fall in average interest rates charged on loans to customers that is not fully matched by a decrease in interest rates on funding sources, or a significant rise in interest rates on funding sources that is not fully matched by a rise in interest rates charged, to the extent such exposures are not hedged, might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects. As long as the Turkish financial markets remain volatile and subject to uncertainty, mismatch between the Group's short-term liabilities (e.g., deposits) and long-term assets might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

The Central Bank has alternated between increasing and tightening liquidity in recent years. For example, on 24 March 2016, the Central Bank took its first step towards normalisation and reduced the upper limit of its interest rate corridor by 25 basis points to 10.50% due to the reduction in the need for a wide interest rate corridor in line with the easing of global volatility. The Central Bank announced that it plans to maintain its tight liquidity stance as a result of the improving trend in the underlying core inflation rate. On 20 April 2016, following the appointment of the new Central Bank governor, the Central Bank reduced the upper limit of its interest rate corridor further by 50 basis points to 10.00%, but left its one-week repo rate and overnight borrowing rate unchanged. From then until September 2016, the Central Bank cut its rates each month, totalling 250 basis points; *however*, following the sharp depreciation of the Turkish Lira, upside risk on inflation and market volatility, the Central Bank stopped its interest rate-cutting process in October 2016 and, on 24 November 2016, the Central Bank's Monetary Policy Committee ("*Monetary Policy Committee*") increased the upper bound of the interest rate corridor by 25 basis points to 8.50% from 8.25% and its one-week repo rate (policy rate) by 50 basis points to 8.00% from 7.50% (which increase was the first rate hike since January 2014), while leaving its overnight borrowing rate unchanged at 7.25%. On 24 January 2017, the Monetary Policy Committee kept the one-week repo rate at 8.00%, while increasing the upper bound of the interest rate corridor by 75 basis points to 9.25% and the late liquidity window lending rate by 100 basis points to 11.00%. Following the meeting of the Monetary Policy Committee, the Central Bank announced that a significant increase in inflation is expected in the short term due to delayed pass-through effects and the volatility in food prices. Accordingly, the Monetary Policy Committee decided to increase its monetary tightening in order to attempt to mitigate the inflation outlook. On 26 April 2017, while the Central Bank held its one-week repo rate and overnight borrowing rate unchanged, it increased the rate at its late liquidity window from 11.75% to 12.25%.

Any increase in interest rates applicable to Turkish Lira-, U.S. Dollar- or euro-denominated obligations might result in a decline (including to a loss) in the Group's net interest income. For example, the Group's management believes that a 500 basis point increase in interest rates applicable to Turkish Lira-denominated obligations and a 200 basis point increase in interest rates applied to each of euro- and U.S. Dollar-denominated obligations in the Group's banking book could have resulted in a loss of TL 1,011.8 million, TL 177.3 million and TL 184.4 million, respectively, in the Group's net interest income for 2016.

The Group uses derivative instruments and other measures in order to manage exposures to interest rate risk and foreign currency risks, which could be affected by changes in interest rates. There is a risk that these hedging arrangements and other measures will not be adequate to protect the Group from the risks of changing interest rates or that hedging counterparties might default.

*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 could also lose liquidity through a withdrawal of deposits, whether as a result of a loss of confidence or otherwise. The Group's inability to meet its net funding requirements due to inadequate liquidity might materially adversely affect its business, financial condition, results of operations and/or prospects.

The Group relies primarily on short-term liabilities in the form of deposits (typically term deposits with terms of zero to 70 days) as its source of funding and has a mix of short-, medium- and long-term assets in the form of retail loans and loans to corporations (including mortgages and credit cards) and investment securities, which might result in asset-liability maturity gaps and liquidity problems. In addition, depositors might withdraw their funds at a rate faster than the rate at which borrowers repay their loans. For example, if the Group's retail customers become or remain unemployed, then they might save less, or consume more of their money deposited with the Group, which could negatively affect the Group's access to deposit-based funding. An inability on the Group's part to access funds might 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 syndicated loan facilities or transactions in the international capital markets if conditions in these markets, or its credit ratings or financial condition, were to deteriorate.

The Group also relies upon non-deposit funding (which includes repos and money market funds, funds borrowed, subordinated loans and marketable securities issued), which as of 31 December 2016 accounted for 28.1% of the Group's total liabilities. The Group's loan-to-deposit ratio (the Group's total amount of loans and receivables excluding NPLs (as defined below) divided by total deposits) was 116.3% as of 31 December 2016. If growth in the Group's deposit portfolio does not keep pace with growth in its loan portfolio, then the Group might need to become more reliant upon non-deposit funding sources such as securities offerings, some of which might create additional risks of their own such as increased liquidity and/or interest rate gaps and exposure to volatility in international capital markets.

A rising interest rate environment might compound the risk of the Group not being able to access funds at favourable rates or at all. This and other factors might 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 outside the Group's control, such as general market conditions, monetary policies pursued by the Central Bank and central banks in other jurisdictions (including any decision of the U.S. Federal Reserve to further tighten its monetary policy, which had a material adverse effect on perceptions of liquidity in the Turkish financial system in the past), currency fluctuations, severe disruption of the financial markets or negative views about the prospects of the Turkish banking sector or the sectors to which the Group lends. 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) might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects. For instance, the Group's liquidity might be impaired if: (a) the Group faces increased difficulty in selling its assets, particularly if other entities in distressed situations are seeking to sell similar assets or if the market value of assets, including financial instruments underlying derivative



transactions, has become difficult to ascertain (as has occurred in the recent past), (b) the financial institutions that the Group interacts with exercise their set-off rights or their rights to require additional collateral, (c) the Group's customers with outstanding but undrawn loans draw down these credit lines at a rate that is higher than the Group anticipates, (d) as the Group's contingency plan for liquidity stress scenarios relies in part upon its ability to obtain funding from the Central Bank, there is an unavailability of cash and balances from the Central Bank and a lack of similar source of accessible financing, which might severely impede the Group's ability to manage a period of liquidity stress (as of 31 December 2016, cash and balances with the Central Bank represented 12.6% of the Group's total assets), and (e) there is an increase in credit spreads, credit losses or credit reserves, as well as any restriction on inter-bank credit and other credit. In case of a liquidity crisis, wholesale funding would likely become more difficult to obtain, which might adversely affect borrowing using certain capital market instruments (such as "future flow" transactions and eurobonds). See also "Foreign Currency Borrowing and Refinancing Risk" below.

If any of the foregoing risks materialise, then the Group might not be able to obtain funding on commercially reasonable terms as and when required, or at all. The Group's inability to collect deposits or refinance or replace deposits and other liabilities with alternative funding 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 might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects. For further information on the Group's liquidity risk management policy, see "Risk Management – Liquidity Risk."

Similarly, if a credit rating of Turkey and/or the Bank's controlling shareholder is downgraded or put on negative watch, then the Group might experience higher levels of cost of funding and/or difficulty accessing certain sources of international or wholesale funding, see "– Access to Capital – The Group might have difficulty raising capital on acceptable terms, if at all".

*Foreign Currency Borrowing and Refinancing Risk – The Group relies to an extent upon foreign currency-denominated debt, which might result in difficulty in refinancing or might increase its cost of funding, particularly if the Group and/or Turkey suffer(s) a rating downgrade*

While the Bank's principal source of funding comes from deposits, these funds are short-term by nature and thus do not enable the Bank to match fund its medium- and long-term assets. In addition, price competition for wholesale deposits has made such deposits less attractive. As a result, the Bank has raised (and likely will seek to increase its raising of) longer-term funds from syndicated loans, "future flow" transactions, eurobond issuances, bilateral loans and other transactions, almost all of which have been denominated in foreign currencies as such long-term financing is not widely available within Turkey. As of 31 December 2016, the Group's total foreign currency-denominated borrowings were TL 21,843.9 million, constituting 20.9% of its consolidated assets, and 67.2% of such borrowings had an original maturity exceeding one year. 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. Particularly in light of the historical volatility of emerging market financings, the Group: (a) might have difficulty extending and/or refinancing its existing foreign currency-denominated indebtedness, hindering its ability to avoid the interest rate risk inherent in maturity mismatches of assets and liabilities, and (b) is susceptible to devaluations of the Turkish Lira (which would thus increase the amount of Turkish Lira that it would need to make payments on its foreign currency-denominated obligations). Should these risks materialise, these circumstances might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

A downward change in the ratings published by rating agencies of either Turkey, members of the Group or the Bank's controlling shareholder might increase the costs of new indebtedness and/or the refinancing of the Group's existing indebtedness, including to the extent that such a downgrade is perceived as a deterioration of the capacity of the Group to pay its debt, resulting in additional interest expense for the Group.

As required by the rules of Basel II and Basel III, banks that are in jurisdictions that have adopted Basel II or Basel III and that provide credit to a bank (such as the Bank) are or might be required to apply a risk-weighting higher than that applied previously. If banks subject to the Basel requirements are required to apply higher risk weightings to credits extended to the Group, then this might result in a reduction in funds available for borrowing by the Group and/or an increase in the costs of such borrowing.

These risks might increase as the Group seeks to increase medium- and long-term lending to its customers, including mortgages and project financings, the funding for much of which is likely to be made through borrowings in foreign currency. As of 31 December 2016, 95.0% of the Group's foreign currency-denominated borrowings (including subordinated loans) were sourced from international banks, multilateral institutions, eurobond offerings and "future flow" transactions. As of 31 December 2016, 24.5% of such borrowings were provided by QNB, including subordinated debt instruments. Should the Group be unable to continue to borrow funds on acceptable terms, if at all, this might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Concentration Risk – The Group's credit portfolio has industry and customer concentration, which renders it susceptible to deterioration in the financial condition of such industries and customers*

Loans to and receivables from the Group's 20 largest customers as of 31 December 2014, 2015 and 2016 represented 7.1%, 8.6% and 11.4%, respectively, of its total performing loans and receivables. In terms of sector concentration, the wholesale and retail sale, manufacturing and construction sectors represented the largest concentrations as of 31 December 2016 (17.9%, 12.3% and 6.7% of the Group's total performing loans and receivables, respectively). A downturn in any of these sectors, individually or in the aggregate, might adversely affect the financial condition of the companies operating in such sectors and might result in, among other things, a decrease in funds that such corporate customers hold on deposit with the Group, defaults on their obligations owed to the Group or a need for the Group to increase provisions in respect of such obligations, any of which might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

In addition to sector concentrations, significant percentages of the Group's loan portfolio are represented by loans to retail customers (including mortgages, credit cards and consumer loans) and SMEs. While no one such loan is of significant size, retail and SME customers typically have less financial strength than corporate borrowers and negative developments in the Turkish economy could affect retail and SME customers more significantly than large corporate borrowers. A negative impact on the financial condition of the Group's retail or SME customer base might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

The general macro-economic conditions in Turkey might have a material adverse effect on the Group's retail and SME customers, both as borrowers and providers of deposits. For example, should the unemployment rate increase, the ability of the Group's retail customers to meet their payment obligations and/or deposit funds with the Bank might be reduced. Similarly, reduced demand caused by a slowdown in the Turkish economy could significantly impact SMEs. Any material adverse effect on the Group's retail and SME customers resulting from macro-economic conditions might impair the Group's business strategies and have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Insufficient Collateral – The value of collateral securing the Group's loans and receivables might be inadequate*

A significant portion of the Group's loans are collateralised and the Group might have difficulty realizing on collateral when debtors default. In addition, the time and costs associated with enforcing security in Turkey might make it uneconomical for the Group to pursue such proceedings, adversely affecting the Group's ability to recover its loan losses.

Deterioration in economic conditions in Turkey or a decline in the value of certain markets (e.g., the Turkish real estate market) might reduce the value of collateral securing the Group's loans and receivables, increasing the risk that the Group would not be able to recover the full amount of any such loans and receivables in a default. In accordance with the Group's credit policies, if any collateral shortfall is identified during credit reviews of certain loan products, then the applicable borrower is required to provide additional collateral sufficient to cover the shortfall; *however*, a borrower might not be willing or able to post additional collateral. If the Group seeks to realise on any such collateral, then 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 on personal guarantees, which might not be sufficient to cover the outstanding amount following a default and/or might be difficult to enforce.

If the Group is unable to realise adequate proceeds from collateral disposals or enforcing guarantees to cover loan losses, then this might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Global Financial Crisis and Eurozone Crisis –The Group has been, and will likely continue to be, subject to the 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. Certain of these conditions persist.

The global liquidity conditions and the economic slowdown in most economies also impacted the Turkish economy and the principal external markets for Turkish goods and services. Since the implementation of fiscal and monetary measures in 2009, Turkey's GDP has been growing, albeit at low levels in recent years. Although EU defined Turkish Government debt levels have decreased considerably from 77.9% of GDP in 2001 to 33.5% in 2014 and estimated to decrease to 32.8% in 2016 according to the 2016-2018 and 2017-2019 medium term economic programmes announced by the Turkish Ministry of Development, Turkey remains an emerging market and remains susceptible to a higher degree of volatility than more developed markets. In particular, factors such as domestic political conditions, especially following the attempted coup in Turkey in July 2016 (see "—Risks related to Turkey—Political developments in Turkey may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects" and "—Risks related to Turkey—Increased political risks following the coup attempt of July 2016") as well as economic factors, including the current account deficit, inflation and interest rate and currency volatility remain of concern, particularly in light of the recent depreciation of the Turkish Lira (see "—Risks related to Turkey—Economic instability in Turkey may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects"). Continuing high levels of unemployment, which reached 10.9% in December 2016 with a 0.6 percentage point yearly increase, might affect the Group's retail customers and business confidence, which could impair the Group's business strategies and have a material adverse effect on its business, financial condition, results of operations and/or prospects.

In the United States, the U.S. Federal Reserve's stated intent of continuing to gradually reduce its quantitative easing policy is expected to lead to a reduction in global liquidity and a decrease in fund flows to emerging markets as well as other macroeconomic conditions. In addition, in November 2016, Donald Trump was elected president of the United States and was inaugurated on 20 January 2017. The new U.S. administration is expected to implement new policies in a number of areas, including economy, finance, taxation, international trade and international diplomatic relations. It is difficult to predict the economic and political impact of the implementation of such new policies, although a number of such policies may negatively impact fund flows to emerging markets.

Furthermore, in July 2016, the United Kingdom voted to withdraw from the EU. The UK Government invoked article 50 of the Lisbon Treaty relating to withdrawal on 29 March 2017 to begin negotiations with the EU relating to its exit. The economic and political consequences on the UK, the EU and other countries like Turkey of this process and the related uncertainty, during both the negotiations period and following a potential exit of the UK from the EU, are difficult to predict.

In the Eurozone, Turkey's main trading market, economic conditions have remained volatile, with renewed concerns regarding the ability of certain EU Member States, notably Greece, to service sovereign debt obligations, as well as concerns regarding the stability of the Eurozone, in light of critical elections due in 2017 in a number of EU Member States, notably France and Germany. Concerns about the liquidity, the extent of budgetary deficits and, in some cases, even the solvency of countries such as Cyprus, Greece, Ireland, Italy, Portugal and Spain have also undermined investor confidence in recent years and resulted, and might continue to result, in a general deterioration of the financial markets. Although there has been a degree of economic recovery in some markets in the Eurozone, recent economic performance in Europe has been weak and has prompted further ECB stimulus. Since the implementation of negative interest rates by the ECB 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.

In addition, any withdrawal by a member state from the EU and/or European Monetary Union, any significant changes to the structure of the EU and/or the European Monetary Union or any uncertainty as to whether such a withdrawal or change might occur might have a material adverse effect on the Group's business, financial condition and/or results of operations, including its ability to access the capital and financial markets and to refinance its debt in order to meet its funding requirements as a result of volatility in European economies and/or the euro and/or the potential deterioration of European institutions. There is uncertainty in relation to the possible impact of the leave vote in the United Kingdom (and the United Kingdom's decision on 29 March 2017 to trigger Article 50 and commence the process of leaving the EU), including any impact on European and global economic and market conditions and its possible impact on Sterling, euro and other European exchange rates, as well as upcoming elections in a number of member states of the EU, including France and Germany. Any effect of such events might adversely affect economic stability in Turkey and the Group's business, financial condition and/or results of operations. Any deterioration in the condition of the global or Turkish economies, or continued uncertainty around the potential for such deterioration, might 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 or financial condition of the Group's customers (particularly retail customers and SMEs, which are more sensitive to negative macroeconomic developments than other customers), which, in turn, could further reduce the Group's asset quality and demand for the Group's products and services, result in higher levels of nonperforming loans and higher levels of provisioning. Also, any decision of the U.S. Federal Reserve, the ECB or other central banks to tighten their monetary policy might have a material adverse effect on perceptions of liquidity or increased volatility in the financial system and on the global economy more generally, and might adversely affect the Turkish economy and the Group's business and financial position.

*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 and similar income from its securities portfolio, with interest income derived from the Group's securities portfolio in 2014, 2015 and 2016 accounting for 12.7%, 9.6% and 9.3%, respectively, of its total interest income (and 10.3%, 7.9% and 7.8%, respectively, of its gross operating income (*i.e.*, total interest income and fees and commission income before deducting interest expense and fee and commission expense)). The Bank also has obtained large realised gains from the sale of securities in the available-for-sale portfolio. 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 a high inflation 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 particular, the robust trading gains earned during the global financial crisis as a result of the high level of volatility in financial markets might not continue. In addition, the recent trend towards lower interest rates 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 might have a material adverse effect on its business, financial condition, results of operations and/or prospects. In addition, as the Group's investment portfolio is heavily concentrated in Turkish government securities, see also "Risks related to Turkey – Government Default" below.

*Potential losses from Trading Activities – The Group engages in trading activities (including hedging) that might lead to significant losses*

The Group engages in various trading activities, as both agent and (to a limited extent) principal. In 2016, the Group incurred a net trading loss of TL 661.5 million, which was primarily attributable to TL 713.3 million in trading losses from derivatives due to net interest expense for swap transactions. The Group's proprietary trading involves a degree of risk and future results, in part, depend largely upon market conditions that are not within the Group's control. Trading risks include, among others, the risk of unfavourable market price movements relative to the Group's long or short positions, a decline in the market liquidity of such instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that the instruments with which the Group chooses to hedge certain positions not tracking the market value of those positions and exchange rates. The Group might incur significant losses from its trading activities, which might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Correlation of Financial Risks – The occurrence of a risk borne by the Group might exacerbate or trigger other risks that the Group faces*

The exposure of the Group's business to a market downturn in Turkey or the other markets in which it operates, or any other risks, might exacerbate or trigger other risks that the Group faces. For example, if the Group incurs substantial trading losses due to a market downturn in Turkey, then its need for liquidity might rise sharply while the availability of such liquidity in the market might be impaired. In addition, in conjunction with a market downturn, the Group's customers might 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 might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*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 might have a material adverse impact on the Group's business*

The Group is subject to extensive and detailed regulation and supervision by supervising authorities, including a number of banking, consumer protection, 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. These laws and regulations include Turkish laws and regulations (and in particular those of the BRSA), as well as laws and regulations of certain other countries in which the Group operates. Basel II regulations have been in effect in Turkey for standardized approaches since 1 July 2012 and certain of the Basel III regulations have been in effect in Turkey since 1 January 2014. See "Turkish Regulatory Environment" for a description of the Turkish banking regulatory environment and "The Turkish Banking Sector" below.

Turkish banks' capital adequacy requirements have been and will continue to 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. 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 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. Subsequently, the BRSA replaced the 2012 Capital Adequacy Regulation with the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (which entered into effect on 31 March 2016) (the "2015 Capital Adequacy Regulation"). The 2015 Capital Adequacy Regulation: (a) lowered the risk weights of residential mortgage loans from 50% to 35%, (b) lowered the risk weights of consumer loans (excluding residential mortgage loans) qualifying as retail loans (*perakende alacaklar*) from a range of 100% to 250% (depending upon their outstanding tenor) to 75% (irrespective of their tenor) and (c) increased the risk weights of foreign currency-required reserves in the Central Bank from 0% to Turkey's foreign currency risk weight, which was 50% prior to 31 March 2016; *provided* that such receivables are not re-classified as "non-performing loans;" *however*, on 24 February 2017, the BRSA published a decision that enables banks to use 0% risk weight for foreign currency-required reserves in the Central Bank.

In 2013, the BRSA published the Regulation on the Capital Maintenance 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 amounts. 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 (together, the "*BRSA Decisions on the Countercyclical Capital Buffer*"). Pursuant to these decisions, the countercyclical capital buffer for Turkish banks' exposures in Turkey was initially set at 0% of a bank's risk-weighted assets in Turkey (effective as of 1 January 2016); *however*, such ratio might fluctuate between 0% and 2.5% 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.

In 2013, the BRSA also published the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and unconsolidated basis against leverage risks (including measurement error in the risk-based capital

measurement approach), which entered into effect on 1 January 2014 (with the exception of certain provisions that entered into effect on 1 January 2015).

The Regulation on Measurement of Liquidity Coverage Ratios of Banks (the “*Regulation on Liquidity Coverage Ratios*”) was published in the Official Gazette dated 21 March 2014 and numbered 28948 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. According to this regulation, the liquidity coverage ratios of banks is not permitted to fall below 100% on an aggregate basis and 80% on a foreign currency-only basis; *however*, pursuant to the BRSA decision dated 26 December 2014 (No. 6143) (the “*BRSA Decision on Liquidity Ratios*”), for the period between 5 January 2015 and 31 December 2015, such ratios were applied as 60% and 40%, respectively, and pursuant to the BRSA Decision on Liquidity Ratios, such ratios have been (and shall be) applied as increased in increments of ten percentage points for each year from 1 January 2016 until 1 January 2019. If the Bank and/or the Group is unable to maintain its capital adequacy, leverage and liquidity ratios above the minimum levels required by the BRSA or other regulators (whether due to the inability to obtain additional capital on acceptable economic terms, if at all, losses or otherwise), then it might be required to seek additional capital and/or sell assets (including subsidiaries) at commercially unreasonable prices, which might have a material adverse effect on the Group’s business, financial condition, results of operations and/or prospects. See “Turkish Regulatory Environment” below for a further discussion on the implementation of Basel III in Turkey.

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) in accordance with the Basel Committee’s Regulatory Consistency Assessment Programme (“*RCAP*”), which is conducted by the Bank for International Settlements (“*BIS*”), with a view to monitor Turkey’s compliance with Basel regulations. The amendments related to internal systems and internal capital adequacy ratios entered into force on 20 January 2016 and the revisions to the 2013 Equity Regulation and the 2015 Capital Adequacy Regulation entered into force on 31 March 2016.

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.”

In June 2016, the BRSA published a regulation (which is amended from time to time) that will replace 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 dated 1 November 2006 (No. 26333) and amended from time to time thereafter (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 Programme, which is a joint programme of the International Monetary Fund and the World Bank. This regulation requires banks to adopt IFRS 9 principles (unless an exemption is granted by the BRSA) related to the assessment of credit risk by the beginning of 2018 and to set aside allowances for actual credit losses in line with such principles. In December 2016, the BRSA published amendments to such regulation, which amendments provide additional time for banks to implement the IFRS 9 principles. The potential impact of the implementation of the IFRS 9 principles, whether additional general provisioning costs will be required and the level of such requirement is unknown as of the date of this Base Prospectus since IFRS 9 models are not ready for a validation process, although there can be no assurance that the implementation of IFRS 9 will not incur additional costs including, for example, additional costs related to third party advisers or suppliers relating to the implementation of IFRS 9 and have a material adverse impact on the Group’s results of operations and/or financial condition. Additionally, with such amendments, the BRSA allowed Turkish banks to use lower general provisioning levels for Group I and Group II loans, including for retail and SME loans.

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 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 that impose limits with respect to fees and commissions charged to customers, increase the monthly minimum payments required to be paid by holders of credit cards, increase reserves, increase provision requirements for loans, limit mortgage loan-to-value ratios or otherwise introduce rules that will negatively affect the Group’s business and/or profitability (e.g., see “Turkish Regulatory Environment – Consumer Loan, Provisioning and Credit Card Regulations”). 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 “The 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 (and even then such changes might affect the Group's profitability as increased pricing for customers could reduce customer demand for many of the Group's products).

Such measures could also limit or reduce growth of the Turkish economy and consequently the demand for the Group's products and services. Furthermore, 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 to meet its funding requirements. 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 (including those relating to sanctions, anti-money laundering and anti-bribery) could expose the Group to potential liabilities and fines and/or damage its reputation.

The Bank is also subject to competition and antitrust laws. The Bank from time to time has been, and in the future might be, subject to investigations by the Turkish Competition Board (*Rekabet Kurulu*) (the "*Competition Board*") some of which have resulted in material fines. See also "Business of the Group – Legal Proceedings."

*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. The Group enters into banking transactions with its affiliates, including transactions between its controlling shareholder and the Bank and transactions with non-financial entities in which the Group holds a participation, 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 – Related Party Transactions."

*Money Laundering and/or Terrorist Financing – Third parties might use the Group as a conduit for money laundering or terrorist activities without the Group's knowledge*

The Group is required to comply with applicable anti-money laundering and anti-terrorist financing laws and regulations. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems. In addition, although the Group has adopted various policies and procedures, and has put in place systems (including internal controls, "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 it 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, then its business, results of operations, financial condition and/or prospects might be adversely affected. In addition, involvement in such activities may carry criminal or regulatory fines and sanctions and could severely harm the Group's reputation.

*Turkish Disclosure Standards – Turkish disclosure standards might require a lesser amount of disclosure than rules in certain other countries*

Historically, the reporting, accounting and financial practices applied by Turkish banks have differed in certain respects from those applicable to similar banks in the EU, the United States 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, the United States or in other similar markets and any information that is published might only be presented in Turkish.

The BRSA's rules require Turkish banks to publish their annual financial reports on their websites. 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. Many Turkish banks (including the Bank) also prepare 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 A.Ş. ("*Borsa İstanbul*"), 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 market 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 EU, the United States and certain other markets.

The Group maintains its accounting systems and prepares its accounts and publishes quarterly financial results in accordance with the BRSA Principles. With respect to IFRS, the Bank only publishes annual consolidated financial statements. There are differences between the BRSA Financial Statements and the IFRS Financial Statements. A summary of certain of such differences as they apply to the Group has been included in Appendix A ("Overview of Significant Differences between IFRS and BRSA Accounting Principles"), including differences that may materially alter the description of the Group's results of operations and financial position. Potential investors should rely upon their own examination of the Group, the terms of the Notes and the financial and other information contained in this Base Prospectus.

*Audit Qualification – The auditor's reports in relation to the Group's financial statements include a qualification*

The Group's audit reports based upon the BRSA Accounting and Reporting Regulation for 2014, 2015 and 2016 include a qualification about a general reserve allocated by the Group for the purpose of the conservatism principle applied by the Group considering the possible result of negative circumstances that might arise from any changes in economic or market conditions. While this reserve was reversed in 2016, the auditor's qualifications (which can be found in its letters attached to each of such BRSA Financial Statements) continue to be included in the 2016 BRSA Financial Statements due to the reserve's existence as of 31 December 2015.

These general reserves allocated by the Bank's management amounted to: (a) TL 82 million as of 31 December 2014 and (b) TL 100 million as of 31 December 2015 (of which TL 82 million was allocated in 2014 and the balance in 2015), in each case which allocations were charged to the income statement as an expense in the applicable period (i.e., TL 82 million for 2014 and TL 18 million for 2015). These general reserves were fully reversed in the last quarter of 2016.

Should such reserves be allocated in future periods (or, if so allocated, thereafter be reversed, re-allocated or increased by the Group in future periods), this might: (a) cause the Group's net profit to be higher or lower in future periods than it otherwise would be in the absence of such allocation, reversal, reallocation or increase and (b) result in similar qualifications being included in the corresponding audit or review reports for future fiscal periods. These provisions do not impact the Group's level of tax or its capitalisation ratios.

*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, customers or other third parties, unauthorised transactions by employees, lack or loss of skilled 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 might result in interruption to services to the Group's branches and/or might impact customer services. Given the Group's high volume of transactions, errors might be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which might further increase the risk that human error or employee tampering will result in losses that might be difficult to detect 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 might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects. 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 might be adversely affected by interruptions to, or the improper functioning of, its information technology systems*



The Group's business, financial performance and ability to meet its strategic objectives (including rapid credit decisions, product rollout and growth) depend to a significant extent upon the functionality of its IT systems and its ability to increase systems capacity. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology ("IT") systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's business and its ability to compete. For example, the Group's ability to process credit card and other electronic transactions for its customers is an essential element of its business.

Any failure, interruption or breach in security of the Group's IT systems could result in failures or interruptions in the Group's risk management, general ledger, deposit servicing, loan organization and/or other important operations. Although the Group has developed back-up systems and a fully-equipped disaster recovery centre, and might continue some of its operations through the Bank's branches in case of emergency, if the Group's IT systems failed, even for a short period of time, then it could be unable to serve some or all of its customers' needs on a timely basis and could thus lose business. Likewise, a temporary shutdown of the Group's IT systems could result in costs that are required for information retrieval and verification. In addition, the Group's failure to update and develop its existing information systems as effectively as its competitors might result in a loss of the competitive advantages that the Group believes its information systems provide. Such failures or interruptions might occur and/or the Group might not adequately address them if they do occur. A disruption (even short-term) to the functionality of the Group's IT systems, delays or other problems in increasing the capacity of the IT systems or increased costs associated with such systems might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Dependence upon Technology – The Group might not be able to keep pace with, and fund, technological innovations*

The Turkish financial services industry is undergoing rapid technological changes and the Group is subject to constantly evolving customer demand for technology-driven financial and banking products and services. For example, in October 2012, the Group launched Enpara.com, an online banking platform designed to provide banking services to customers in Turkey without the use of any physical branches. Enpara.com is highly dependent upon technology and subject to rapid change and transformations. Enpara.com is managed within the Group as a separate banking unit with its own brand and business model. In August 2014, Enpara.com began offering relatively small loans at competitive interest rates to its customers with up to TL 50,000 in Enpara.com deposits and launched an online-only consumer loan offering platform that allows customers to obtain loans without the need of visiting a branch or physically executing any documents. Difficulties in the Group's technology (including, but not limited to, maintaining, upgrading or protecting such technology), such as with respect to Enpara.com, might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

Many of the Group's current and potential competitors have greater resources than the Group to invest in technological improvement and product development, marketing and implementation and might be able to develop an online banking platform that would be more successful than (or otherwise negatively impact) Enpara.com. Any failure to successfully keep pace with, and fund, technological innovations, or failure to respond to changing customer demands in the markets in which the Group competes, might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Absence of Governmental Support – The Group's non-deposit obligations are not guaranteed by the Turkish or any other government and there might not be any governmental or other support in the event of illiquidity or insolvency*

The non-deposit obligations of the Group are not guaranteed or otherwise supported by the Turkish or any other government. While rating agencies and others have occasionally included in their analysis of certain banks a view that systemically important banks would likely be supported by the banks' home governments in times of illiquidity and/or insolvency (examples of which sovereign support have been seen in other countries during the recent global financial crisis), this might not be the case for Turkey in general or the Group in particular. Investors in the Notes should not place any reliance on the possibility of the Group being supported by any governmental or other entity at any time, including by providing liquidity or helping to maintain the Group's operations during periods of material market volatility. See "Turkish Regulatory Environment – The Saving Deposit Insurance Fund (SDIF)" for information on the limited government-provided insurance for the Bank's deposit obligations.

*Leverage Risk – The Group might become over-leveraged*

One of the principal causes of the recent global financial crisis was the excessive level of debt prevalent in various sectors of the global economy, including the financial sectors of many countries. While there were many reasons for this over-leverage, important factors included the low cost of funding, the over-reliance by creditors (particularly investors in structured transactions) on the analysis provided by rating agencies (which reliance was often encouraged by regulatory and other requirements that permitted capital to be applied based upon the debtor's rating) and the failure of risk management systems to identify adequately the correlation of risks and price risk accordingly. If the Group becomes over-leveraged as a result of these or any other reasons, then it might be unable to satisfy its obligations in times of financial stress, and such failure might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

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

The Group is dependent upon its senior management to implement its strategy and operate its day-to-day business. In addition, corporate, retail 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, particularly in the Group's İstanbul headquarters, 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 might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Turkish Banking System – 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 (*i.e.*, Halkbank, Vakıfbank and Ziraat Bank). 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 might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

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

All banks established in Turkey require licensing by the BRSA. Each of the Bank and, to the extent applicable, its subsidiaries has a current Turkish and/or other applicable licence 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 licence and governmental reporting obligations; nevertheless, if it is incorrect, or if any member of the Group were to suffer a future loss of a licence, breach the terms of a licence or fail to obtain any further required licences, then this might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

*Access to Capital – The Group 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 continued growth in Turkey and further penetration of its banking services will result in increased lending and, as a result, that 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 (see “- Banking Regulatory Matters” above).

The Bank calculates its capital adequacy ratios according to the 2015 Capital Adequacy Regulation, which allows the Bank to use ratings of eligible external credit assessment institutions (namely Fitch, S&P, Moody's, Japan Credit Rating Agency, Ltd., DBRS Ratings Ltd. and, as of 12 January 2017, International Islamic Rating Agency) while calculating the risk-weighted assets for capital adequacy purposes. Turkey's sovereign debt rating was downgraded by S&P on 20 July 2016 followed by a downgrade by Moody's on 23 September 2016 to below investment-grade status, which also led to a downgrade of Turkish financial institutions, including the Bank. Turkey's long-term foreign currency debt and its long-term local currency debt are currently rated "BBB-", with negative outlook, by Fitch. On 27 January 2017, S&P revised the outlook of Turkey from "stable" to "negative" and Fitch (whose ratings the Bank has been using to calculate its risk-weighted assets) downgraded Turkey's sovereign credit rating to sub-investment grade in line with the ratings of S&P and Moody's. Management estimates that these recent downgrades to sub-investment grade will have a negative impact on capital adequacy ratios in the banking sector and potential capital erosion could be even greater for the banking industry if the Turkish Lira were to face further depreciation pressures or Turkish Lira bonds were to suffer a significant sell-off, negatively affecting bond prices. Overall, management expects that Turkey's recent downgrades to below investment grade bond status may have medium-term negative implications on key macroeconomic balances and capital adequacy ratios. In particular, as of January 2017, the Bank's management estimates that Turkey's recent downgrades to below investment grade may alone have had a negative impact of around 130 basis points on the capital adequacy ratio of the Bank, though this impact has been more than offset by recent amendments bringing the risk-weighting of foreign exchange required reserves held with the Central Bank to 0% according to guidance published by the BRSA on 24 February 2017.

Additionally, it is possible that the Bank's and/or the Group's capital levels might decline due to, among other things, credit losses, increased credit reserves, currency fluctuations or dividend payments. 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 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 might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

## **Risks related to Turkey**

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

As almost all of the Group's assets and operations are in Turkey, 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 more open market system. The Turkish economy has experienced severe macro-economic imbalances, including significant current account deficits, currency volatility and persistent unemployment. Turkey might experience a further significant economic crisis in the future, which might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

Since the implementation of fiscal and monetary measures in 2009, Turkey's GDP has been growing, albeit at low levels in recent years (source: *Turkstat*). On 12 December 2016, Turkstat changed the method of calculation to determine economic growth in Turkey and revised the figures announced for the previous periods that were calculated in line with the former method. In line with the calculations made with the new method, GDP contracted by 1.3% in the third quarter of 2016. The GDP growth for the first quarter and second quarter of 2016 were each revised to 5.3% from 4.7% and 4.5% from 3.1%, respectively, and the GDP growth in full year 2015 was revised to 6.1% from 4.0%. GDP grew 2.9% in 2016. In October 2016, the government announced a three year medium-term economic programme from 2017 to 2019. Under this programme, the government set GDP growth targets of 4.4% for 2017 and 5.0% for each of 2018 and 2019, as well as a gradual decrease in the current account deficit-to-GDP ratio, according to the Ministry of Development. There can be no assurance that these targets will be reached, that the Turkish government will continue to implement its current and proposed economic and fiscal policies successfully or that the economic growth achieved in recent years will continue considering external and internal circumstances, including the Central Bank's efforts to curtail inflation and simplify monetary policy, the current account deficit and macroeconomic and political factors, such as changes in oil prices and uncertainty related with

conflicts in Iraq and Syria (see “- Terrorism and Conflicts”) and political developments in Turkey, including the failed coup attempt on 15 July 2016 and its aftermath and the impact on both domestic conditions in Turkey and the impact on Turkey’s international relations, including with the EU, resulting from the referendum held on 16 April 2017 to expand the powers of the president, see “- Political Developments” below. Any of these developments might cause Turkey’s economy to experience macro-economic imbalances, which might impair the Group’s business strategies and/or have a material adverse effect on the Group’s business, financial condition, results of operations and/or prospects. For more details on recent developments in Turkey’s economy, see “Risks related to the Group’s Business - Global Financial Crisis and Eurozone Crisis” above and the discussion of certain of the Central Bank’s policies in “- High Current Account Deficit” below.

Turkey’s economy is vulnerable to external shocks, such as the recent global economic crisis. Although Turkey’s growth dynamics are to some extent dependent upon domestic demand, Turkey is also dependent upon foreign trade, in particular with Europe. Thus, 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. Turkey has diversified its export markets in recent years, but the EU remains Turkey’s largest export market. There has been recent political tension between Turkey and certain members of the EU (for example, on 25 April 2017 the Parliamentary Assembly of the Council of Europe reopened its monitoring procedure in respect of Turkey with regard to human rights and the rule of law). Such circumstances might impact Turkey’s relationship with the EU, including a potential suspension of its EU accession process, disruption to the agreement concluded to control the irregular flow of refugees from Turkey to the EU and/or a disruption of trade. See “-Terrorism and Conflicts.” A decline in demand for imports from the EU 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 Russia and 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.

The Group’s business is significantly dependent upon its customers’ ability to make payments on their loans and meet their other obligations to the Group. If the Turkish economy suffers because of, among other factors, a reduction in the level of economic activity, depreciation of the Turkish Lira, inflation or an increase in domestic interest rates, then a greater portion of the Group’s customers might not be able to repay loans when due or meet their other debt service requirements to the Group, which would increase the Group’s NPL portfolio and could materially reduce its net profit and capital levels. In addition, a slowdown or downturn in the Turkish economy might result with a decline in the demand for the Group’s products. The occurrence of any or all these factors might have a material adverse effect on the Group’s business, financial condition, results of operations and/or prospects.

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

Negative changes in the government and political environment, including the failure of the government to devise or implement appropriate economic programmes, might adversely affect the stability of the Turkish economy and, in turn, the Group’s business, financial condition, results of operations and/or prospects.

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. Such political instability and related events might have resulted in increased perceptions of political risk for investors and companies operating in Turkey.

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, results of operations and/or prospects, 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 the Turkish Parliament. The parties with seats in the Turkish Parliament were unable to 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 (known as *Adalet ve Kalkınma Partisi* ("AKP")) received approximately 49% of the vote and a significant majority of the members of the Turkish Parliament, thus enabling it to form a single-party government. On 5 May 2016, the Central Executive Board of the AKP decided to hold an extraordinary congress on 22 May 2016, in which the AKP elected Mr Binali Yıldırım as the new chairman of the AKP and the new prime minister of Turkey. Social and political conditions remain challenging in Turkey, including with increased tension resulting from Turkey's conflict with the People's Congress of Kurdistan (formerly known as the PKK) (an organization that is listed as a terrorist organization by states and organizations including Turkey, the EU and the United States) (the "PKK"). Tensions related to the Kurdish conflict escalated after Turkish authorities arrested several members of the Turkish Parliament from the Kurdish opposition party (known as *Halkların Demokratik Partisi* (HDP)), including its two co-leaders, on 4 November 2016 (one of which was stripped of her seat in the Turkish Parliament and remains imprisoned and the other of which was sentenced to a five month prison term). There can be no assurance that such conditions will not deteriorate.

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.

On 20 July 2016, the government declared a three month state of emergency in the country, entitling the government to exercise additional powers. 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; however, this period may be extended. As of the date of this Base Prospectus, the state of emergency has been extended three times (most recently on 19 April 2017) for additional three month periods pursuant to Article 121 of the Turkish Constitution and might be further extended. Following the coup attempt, there have been arrests of thousands of individuals, including senior members of the military, police and judiciary, as well as restrictions of media outlets, suspensions, dismissals, travel bans and legal proceedings of and against police officers, public employees and members of the business community and journalism sector (including the staff of *Cumhuriyet*, an opposition newspaper). As of the date of this Base 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. Further investigations and other restrictions may include customers and/or the continuation of the state of emergency may impact the ability of the Group's customers to meet their obligations to the Group. As of the date of this Base Prospectus, investigations with respect to the attempted coup are on-going. Although, through the date of this Base Prospectus, the Bank's operations have not been materially affected by the attempted coup, the political and social circumstances following the attempted coup and its aftermath (including ratings downgrades of Turkey and the Bank) or any other political developments might have a negative impact on the Turkish economy (including the value of the Turkish Lira, international investors' willingness to invest in Turkey and domestic demand), the institutional and regulatory framework, Turkey's international relations, the Bank's and/or the Group's business, liquidity and/or conditions (financial or otherwise) and/or the value and/or market price of an investment in the Notes.

In the referendum held on 16 April 2017, a majority of the votes cast (51% according to the results released by the state news agency AA) approved proposed amendments to certain articles of the Turkish Constitution, including to extend the powers of the president, most of which amendments are expected to be implemented by November 2019. Under these amendments, (*inter alia*) (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, (d) the Turkish 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 and (e) elections among the judiciary members for the Board of Judges and Prosecutors will be abolished with the president and Grand Assembly having the ability to appoint members of the Board of Judges and Prosecutors. However, despite the results of the referendum, Turkish politics are expected to remain volatile, and the impact both on domestic conditions in Turkey (including the impact on Turkish government institutions) and the impact on Turkey's international relations, including the EU, remain uncertain.

There can be no assurance that the political situation in Turkey will not deteriorate. Furthermore, certain regulatory actions, investigations, allegations of past or current wrongdoing and similar actions might increase perceptions of political conflict or instability. Actual or perceived political instability in Turkey and/or other political circumstances (and related actions, rumours and/or uncertainties) could have a material adverse effect on the Group's business, financial condition and/or results of operations and/or on the market price of the Notes.

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

The Group operates predominantly in Turkey and derives almost all of its revenue from its operations in Turkey. Moreover, to a large extent, its international operations provide services to Turkish individuals and Turkish companies operating internationally. As a result, the Group's business, results of operations, financial condition and prospects are significantly affected by the overall level of economic activity and political stability in Turkey. Despite Turkey undergoing significant political and economic reform since 2001 that increased stability and led to economic growth, Turkey is still considered by international investors to be an emerging market.

Emerging markets such as Turkey are subject to greater risk than are more developed markets of being perceived negatively by investors based upon external events, and financial turmoil in any emerging market (or global markets generally) might disrupt the business environment in Turkey. Also, financial turmoil in one or more emerging markets tends to adversely affect prices for securities in other emerging market countries as investors move their money to countries that are perceived to be more stable and economically developed. An increase in the perceived risks associated with investing in emerging economies might result in reduced capital flows to Turkey and adversely affect the Turkish economy. As a result, the market price of the Notes might be subject to fluctuations that might not necessarily be related to economic conditions in Turkey or the financial performance of the Group. Instead, the market price of the Notes might be influenced by economic and market conditions in both emerging market countries and more developed economies, including those in the EU and the United States. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes 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. 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. Accordingly, 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). Similar developments can be expected to affect the Turkish economy in the future, the occurrence of which might, in turn, have an adverse impact on prices of investments in Turkish capital markets issuances such as the Notes.

*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 on-going political and security concerns, especially in recent years. Political uncertainty within Turkey and in certain neighbouring countries, such as Armenia, Georgia, Iran, Iraq 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, which 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, Iraq, Libya, Tunisia, Egypt, Syria, 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. For example, heightened tensions between Turkey and Iran might impact the Turkish economy, lead to higher energy prices in Turkey and further negatively affect Turkey's current account deficit. 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, North Africa and Eastern Europe and might experience material negative effects, which in turn might have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The on-going conflict in Syria has been the subject of significant international attention and is inherently volatile 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 send and assign military forces in foreign countries should such action be considered appropriate by the government, which authorisation has been periodically extended. More recently, elevated levels of conflict have arisen in Iraq and Syria as militants of the Islamic State of Iraq and Syria ("ISIS") seized control of key Iraqi cities, which has caused a significant displacement of people. Turkey has been one of the countries that have taken a significant number of Syrian refugees, which

has had, and might continue to have, a negative economic, political and social impact on Turkey. On 19 March 2016, Turkey signed an agreement with the EU in an effort to control the irregular flow of refugees from Turkey to the EU; however, such agreement might not be implemented in accordance with its terms, if at all.

In August and September 2014, a U.S.-led coalition began an anti-ISIS aerial campaign in northern Iraq and Syria. Recent developments in Iraq also raise concerns as Iraq is one of Turkey's largest export markets, ranking third in 2016 according to Turkstat. On 20 July 2015, a suicide bomber in Suruç, a Turkish town bordering Syria, killed at least 32 Turkish civilians and wounded nearly 100 civilians. The attack is suspected to have been carried out by ISIS. Following such incident, Turkey initiated air strikes against ISIS in Syria and against the PKK in northern Iraq, see below for further information regarding the conflict with the PKK. Since July 2015, Turkey has been subject to a number of bombings, including in tourist focused centres in Istanbul and in the city centre of Ankara and in Kilis, a Turkish town bordering Syria, which have resulted in a number of fatalities and casualties. On 28 June 2016, a terrorist attack occurred at the Atatürk Airport in İstanbul, resulting in 45 fatalities and over 230 injured persons. On 31 December 2016, a shooting occurred at the Reina nightclub in Istanbul, resulting in 39 fatalities and 69 injured persons. Such incidents have increased in frequency and are likely to continue to occur periodically. On 24 August 2016, Turkey began military operations in Syria in an effort to clear ISIS from the Turkish-Syrian border. These operations might lead to potential retaliation attacks by terrorist groups and additional security risks in Turkey. There is also on-going tension in the region, which has been elevated following Iraq's request on 5 October 2016 for a U.N. Security Council meeting to discuss the presence of Turkish troops in Northern Iraq.

In late 2015, Russian war planes started air strikes in Syria in support of the Syrian government. On 24 November 2015, Turkey shot down a Russian military aircraft near the Syrian border claiming a violation of Turkey's airspace, which resulted in a deterioration in the relationship between Turkey and Russia. In January 2016, Russia implemented economic sanctions against Turkey primarily aiming at Turkey's agriculture, tourism and construction sectors. At the end of June 2016, the relationship between Turkey and Russia started to improve. On 19 December 2016, a Turkish policeman murdered the Russian ambassador to Turkey. While both Turkish and Russian leaders condemned the attack as a provocation aimed to undermine relations between the two countries, any deterioration of Turkey-Russia relations may have a material adverse effect on Turkey's economy (including any negative impact on Turkey's tourism revenues and access to Russian energy supplies), which, in turn, may have a negative effect on the Group's business, financial condition and/or results of operations and on the market price of the Notes.

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 Russia's annexing of the Crimea, combined with Ukraine's very weak economic conditions, have created great uncertainty in Ukraine and the global markets. In addition, the United States and the EU have implemented increasingly impactful sanctions against certain Russian entities, persons and sectors, including Russian financial, oil and defence companies, as a result of the conflict. While not directly impacting Turkey's territory, these disputes could materially negatively affect Turkey's economy, including through their impact on the global economy and the impact it they 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 PKK. Turkey has from time to time been the subject of terrorist bomb attacks, including bombings 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. As described above, following the suicide bomb attack at the Syria border, Turkey started air strikes against the PKK in northern Iraq on 24 July 2015. The PKK has since been suspected of further bombings in Turkey, and the clashes between Turkish security forces and the PKK have intensified in the southeastern part of Turkey. The intensifying conflict with the PKK might negatively impact political and social stability in Turkey.

The above and similar circumstances have had and might continue to have a material adverse effect on the Turkish economy and/or the Group's business, financial condition, results of operations and/or prospects, including as a result of the reduced revenues from tourism following heightened terrorist activity and its coverage in the international media.

*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. For example, 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 Group's properties and business operations in Turkey are located in earthquake risk zones. The occurrence of a severe earthquake could adversely affect one or more of the Group's facilities, which might cause an interruption in, and/or have a material adverse effect on, the Group's business, financial condition, results of operations and/or prospects.

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

*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 73.2% in the early 2000s; however, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year CPI to decrease (though it increased to 10.4% in 2011) and consumer price inflation was 8.2%, 8.8% and 8.5% in 2014, 2015 and 2016, respectively. Domestic producer price inflation was 6.4%, 5.7% and 9.9% in 2014, 2015 and 2016, respectively. As of March 2017, annual consumer price inflation reached 11.29% largely due to base effects on food, higher energy prices and the depreciation of the Turkish Lira, while annual producer price inflation increased to 16.1% due to the sharp increase in commodity prices in terms of Turkish Lira. The consumer price inflation exceeded the Central Bank's inflation target of 5.0% in 2016 and the Central Bank announced on 31 January 2017 that its inflation expectation for 2017 was 8.0%. Inflation-related measures that may be taken by the Turkish government in response to increases in inflation might have an adverse effect on the Turkish economy. If the level of inflation in Turkey were to continue to fluctuate or increase significantly, then this might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

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

According to the Central Bank, as of 31 December 2016, Turkey's current account deficit was US\$32.6 billion. Various events, including geopolitical risks (see “–Terrorism and Conflicts”), political circumstances following the attempted coup in Turkey (see “–Political Developments”) and an increase in the price of oil, may result in an increase in the current account deficit, including due to the possible adverse impact on Turkey's foreign trade and tourism revenues. See “–Emerging Market Risks.” Although there have been some improvements due to lower oil prices, the current account deficit remains a principal concern for Turkish policy makers as it increases Turkey's vulnerability to changes in global macroeconomic conditions and the Turkish Government may take policy actions to reduce the current account deficit, including policies that may have a negative impact on domestic growth and consumption. Any reduction in economic growth or policies that curtail the Bank's activity could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Although Turkey's economic growth dynamics depend to some extent upon domestic demand, Turkey is also dependent upon foreign trade, in particular with Europe. See “–Turkish Economy.” 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. Turkey has diversified its export markets in recent years, but the EU remains Turkey's largest export market. There has been recent political tension between Turkey and certain members of the EU (for example, on 25 April 2017 the Parliamentary Assembly of the Council of Europe reopened its monitoring procedure in respect of Turkey with regard to human rights and the rule of law). Such circumstances might impact Turkey's relationship with the EU, including a potential suspension of its EU accession process, disruption to the agreement concluded to control the irregular flow of refugees from Turkey to the EU and/or a disruption of trade. A decline in demand for imports from the EU 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 Russia and 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.

In addition, Turkey is an energy import-dependent country, recording US\$27.2 billion of net energy imports in 2016, which declined from US\$37.8 billion in 2015. In 2016, Turkey's current account deficit reached US\$32.6 billion and, as such, energy imports represented 13.7% of Turkey's total imports during 2016. While falling oil prices in December 2015 and January 2016 have resulted in a positive impact on Turkey's current account deficit, increasing oil prices following the agreement between OPEC and non OPEC countries in November 2016 together with the Turkish Lira depreciation against the U.S. Dollar might have a negative impact on Turkey's current account deficit in 2017. With regard to this, 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 (China, France, Russia, the United Kingdom, the United States and Germany) 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, and any geopolitical development concerning energy security might have a material impact on Turkey's current account balance.

If the current account deficit widens more than anticipated, financial stability in Turkey may deteriorate. Financing the high current account deficit may 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 may 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 may 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. Recent events in Turkey and globally have further contributed to significant fluctuations in the value of the Turkish Lira against international currencies such as the U.S. Dollar. In recent years, there have been a number of periods of sharp depreciation and some recovery.

For example, in 2015, in nominal terms the Turkish Lira depreciated against the U.S. Dollar by 25.4%. According to the CPI-based real effective exchange rate, the Turkish Lira depreciated by 6.9% in real terms compared to 2014. In particular, the value of the Turkish Lira depreciated against major currencies in 2015 largely due to the increased risk perception in global markets due to 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 described above. Against these developments, the Central Bank prepared a roadmap to react to a possible rate hike by the U.S. Federal Reserve. The roadmap, which has as its base case a normalization 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%. While the impact of such increase (and any future rate increases) is uncertain, this initial step towards normalization 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 3.19%. In this context, instead of responding to the U.S. Federal Reserve's actions by changing interest rates and implementing the roadmap, the Central Bank further tightened the liquidity of the Turkish Lira. Having declined to 7.99% in March 2015, the Central Bank's average funding rate increased initially to 8.28% in April 2015 and then climbed to 8.81% as of the end of 2015. The Central Bank's average funding rate further increased to 9.14% in February 2016, but then subsequently decreased to below 9% in March 2016 due to the U.S. Federal Reserve's dovish stance in its March 2016 meeting.

In nominal terms, the Turkish Lira depreciated against the U.S. dollar by 20.6% between 31 December 2015 and 30 December 2016 and then depreciated further by 3.3% between 30 December 2016 and 31 March 2017, which depreciation was in part a result of geopolitical risks (see "Risks related to Turkey - Terrorism and Conflicts"), the uncertainty resulting from domestic political developments (see "Risks related to Turkey - 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, in October and November 2016, the Central Bank revised certain reserve option coefficients within the

context of the Reserve Options Mechanism (which provides Turkish banks the option to hold a portion of the Turkish Lira reserve requirements in foreign exchange or standard gold) in order to increase liquidity in the Turkish banking system. Additionally, 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. 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. See also "Risks related to Turkey - Interest Rate Risk."

The Central Bank's monetary policy is subject to a number of uncertainties, including global macroeconomic conditions and political conditions in Turkey. As global conditions remained volatile in 2016, including as a result of, among other factors, slower growth in China and low commodity and oil prices, the Central Bank's monetary policy remains subject to uncertainty.

The fluctuations of foreign currency exchange rates and increased volatility of the Turkish Lira might adversely affect the Group's customers and the Turkish economy in general; thus these might have a negative effect on the value of the Group's assets and/or the Group's business, financial condition and/or results of operations.

These and other domestic and international circumstances might result in continued or increasing volatility in the value of the Turkish Lira. 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) might adversely affect the financial condition of Turkey as a whole, including its inflation rate, and might have a negative effect on the Group's business, financial condition and/or results of operations and/or prospects.

*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 debt by, the Turkish government*

The Group has significant exposure to Turkish governmental and state-controlled entities. As of 31 December 2016, TL 11,832.9 million, or 91.1%, of the Group's total securities portfolio (equal to 11.3% of its total assets and 114.8% of its shareholders' equity) was invested in securities issued by the Turkish government. Also, the Group has exposure to the Turkish government through the Group's participation in financing state-sponsored infrastructure projects, which might be susceptible to increased credit risk in the event of an economic downturn in Turkey or deterioration of the Turkish government's creditworthiness. Turkey's sovereign debt rating was downgraded by S&P on 20 July 2016 followed by a downgrade by Moody's on 23 September 2016 to below investment-grade status, which also led to a downgrade of Turkish financial institutions, including the Bank. Turkey's long-term foreign currency debt and its long-term local currency debt are currently rated "BBB-", with negative outlook, by Fitch. On 27 January 2017, S&P revised the outlook of Turkey from "stable" to "negative" and Fitch (whose ratings the Bank has been using to calculate its risk-weighted assets) downgraded Turkey's sovereign credit rating to sub-investment grade in line with the ratings of S&P and Moody's.

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 possible 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, results of operations and/or prospects.

*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 might have been (or might 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 that might or might not in fact occur. In fact, tourism has declined significantly in 2015 and 2016 as a result of the conflicts in Syria and Iraq, sanctions imposed by Russia in 2016 and Turkish political and security concerns. 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 properties might decline in coming years as a result of any decline in tourism or as developers seek to reduce their supply of

available properties, 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, results of operations and/or prospects.

### **Risks related to the Bank's relationship with its controlling shareholder**

*Control by a Large Shareholder – The interests of the Bank's controlling shareholder might not be aligned with the interests of the investors in the Notes*

As of 15 June 2016, following QNB's purchase of the shares in the Bank held directly or indirectly by NBG, QNB owned 99.81% of the Bank's outstanding shares and had the voting power to influence the Bank's strategy and business significantly, including through its power to elect all 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. In accordance with the Communiqué, shareholders of the Bank (other than QNB) had a right to sell their shares in the Bank to QNB within a three month period starting on 16 June 2016. At the end of such period, as of 16 September 2016, 99.88% of the shares of the Bank were owned by QNB. The interests of QNB might differ from those of the investors in the Notes and the controlling shareholder of the Bank 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 "Management," and "Share Capital and Ownership."

In addition, if the controlling shareholder of the Bank were 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 the previous controlling shareholder of the Bank. As the Conditions do not include an Event of Default 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.

*Share Sale – QNB might implement different priorities for the Bank's business and/or otherwise alter the Bank's business, either of which could have a material impact upon the Bank*

As of 15 June 2016, following the completion of the transfer of shares from the NBG Group to QNB, QNB has the voting power to influence the Bank's strategy and business significantly, including through its power to elect all 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. In the Extraordinary General Assembly Meeting of the Bank held on 16 June 2016, the Bank's shareholders decided that the Bank's Board of Directors should consist of 11 members and appointed six new members to the Board of Directors. The interests of QNB might differ from those of the former controlling shareholder and QNB 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. QNB might also implement different priorities for the Bank's business and/or otherwise alter the Bank's business, and there might be some disruption to the Group during a transition period until QNB has fully implemented any such new priorities. Any failure of the newly structured Board of Directors to successfully implement the Bank's strategies (including any ambiguity that might arise during implementation of the Bank's overall strategy, including during the transition period), or any material change in the Bank's strategies and priorities, might have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

### **Risks related to the structure of a particular issue of Notes**

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

*Optional Redemption - If the Issuer has the right to redeem any Notes at its option, then this might limit the market price of such Notes and an investor might not be able to reinvest the redemption proceeds in a manner that achieves a similar effective return*

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

To the extent Notes have an optional redemption feature, the Issuer can be expected to redeem Notes when its cost of borrowing is lower than the interest rate on such Notes. At those times, an investor might not be able to reinvest the redemption proceeds at an effective interest rate equivalent to the interest rate on the Notes being redeemed and might only be able to do so at a significantly lower rate (or through taking on a greater credit risk). Reinvestment risk should be an important element of an investor's consideration in investing in Notes with a redemption feature.

*Change of Interest Basis - If the Issuer has the right to convert the interest rate on a Series of Notes from a fixed rate to a floating rate, or vice versa, then this might affect the secondary market and the market price of such Notes*

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

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

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

For Notes denominated in a Specified Currency other than U.S. Dollars that are held through DTC, if a Noteholder wishes to receive payment in that Specified Currency, then it might need to open and maintain a bank account in the Specified Currency. Any Noteholder who does not maintain such a bank account will be unable to receive payments on such Notes in the Specified Currency. Absent an affirmative election to receive such payments in the Specified Currency, the Exchange Agent will convert any such payment made by the Issuer in the Specified Currency into U.S. Dollars and the holders of such Notes will receive payment in U.S. Dollars through DTC's normal procedures. See "Terms and Conditions of the Notes – Condition 7.11."

In the case of Turkish Lira-denominated Notes held other than through DTC, unless an election to receive payments in U.S. Dollars as provided in Condition 7.10 is made, holders of such Notes might need to open and maintain a Turkish Lira-denominated bank account, and no assurance can be given that Noteholders will be able to do so either in or outside of Turkey. For so long as such Notes are in global form, any Noteholder who does not maintain such a bank account will be unable to transfer Turkish Lira funds (whether from payments on, or the proceeds of any sale of, such Notes) from its account at Euroclear or Clearstream, Luxembourg to which any such payment is made.

Under Condition 7.10, if the Fiscal Agent receives cleared funds from the Issuer in respect of Turkish Lira-denominated Notes held other than through DTC after the relevant time on the Relevant Payment Date, then the Fiscal Agent will use reasonable efforts to pay any U.S. Dollar amounts Noteholders have elected to receive in respect of such funds as soon as reasonably practicable thereafter. If it is not possible for the Fiscal Agent to purchase U.S. Dollars with any Turkish Lira funds received, then the relevant payments in respect of the Notes will be made in Turkish Lira.

As any currency election in respect of any payment to be made under such Turkish Lira-denominated Notes for the purposes of Condition 7.10 is irrevocable: (a) its exercise may (at least temporarily) affect the liquidity of the applicable Notes, (b) a Noteholder would not be permitted to change its election notwithstanding changes in exchange rates or other market conditions and (c) if the Fiscal Agent cannot, for any reason, effect the conversion of the amount paid by the Issuer in Turkish Lira, then Noteholders will receive the relevant amount in Turkish Lira.

*Potential Price Volatility - Notes that are issued at a substantial discount or premium might experience price volatility in response to changes in market interest rates*

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

*Rate Manipulation - Regulators have identified potential manipulation of the interest rate and exchange rate markets, which might (and regulatory actions with respect to which might) adversely affect investors in the Notes*

Concerns have been raised by a number of regulators that some of the member banks surveyed by the British Bankers' Association (the "BBA") in connection with the calculation of LIBOR across a range of maturities and currencies might have been manipulating LIBOR. There have also been allegations that banks might have manipulated EURIBOR and other inter-bank lending rates. If manipulation of LIBOR or another inter-bank lending rate occurred, then it might have resulted in that rate being artificially lower (or higher) than it would otherwise have been.

A review of LIBOR was conducted at the request of the UK government, following which a number of recommendations for changes with respect to LIBOR were made, including the introduction of statutory regulation of LIBOR, replacing the BBA as administrator of LIBOR with an independent administrator, changes to the method of compilation of lending rates and new regulatory oversight and enforcement mechanisms for rate-setting and reduction in the number of currencies and tenors for which LIBOR is published. It is not possible to predict the effect of any changes in the methods pursuant to which the LIBOR rates are determined and any other reforms to LIBOR and/or any other inter-bank lending rate that might be enacted in the United Kingdom and/or elsewhere. Any such changes or reforms to LIBOR and/or any other inter-bank lending rate might result in a sudden or prolonged increase or decrease in reported rates, which could have an adverse impact on the value of the Floating Rate Notes and any payments linked to such lending rate thereunder.

In addition, any new administrator of LIBOR or any other inter-bank lending rate might make methodological changes that could change the level of such rate, which might in turn adversely affect the value of the floating rate of interest payable on the Floating Rate Notes. Any new administrator of LIBOR or any other inter-bank lending rate might also alter, discontinue or suspend calculation or dissemination of such rate. The administrator of an inter-bank lending rate would act in respect of such rate without regard to the interests of any investor in the Floating Rate Notes, and any of these actions could have an adverse effect on the value of the Floating Rate Notes.

Similarly, the United Kingdom's Financial Conduct Authority Limited (FCA) and regulators from other countries are in the process of investigating the potential manipulation of published currency exchange rates. If such manipulation has occurred and/or is continuing, then certain published exchange rates might have been, or might be in the future, artificially lower (or higher) than they would otherwise have been. Any such manipulation could have an adverse impact on any payments on, and the value of, Notes and/or the trading market for such Notes. In addition, it is not possible to predict the extent of any changes or reforms that might affect the determination or publication of exchange rates or the supervision of currency trading as a result of these investigations, and any of these actions could have an adverse effect on the value of the Notes.

In addition, questions surrounding the integrity in the process for determining interest or exchange rates might have other unforeseen consequences, including potential litigation against banks and/or obligors on loans, which might result in a material and adverse effect on the Issuer or the investors in the Notes. Investors should consider these recent developments when making their investment decision with respect to the Notes.

### **Risks related to Notes denominated in Renminbi**

Notes may be issued under the Programme denominated in Renminbi (“*Renminbi Notes*”). An investment in Renminbi Notes involves particular risks, including:

*Renminbi Convertibility - Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC that might adversely affect the liquidity of investments in Renminbi Notes*

Renminbi is not freely convertible as of the date of this Base Prospectus. The government of the PRC (the “PRC Government”) continues to regulate conversion between Renminbi and foreign currencies despite significant reduction in the control by the PRC Government in recent years over trade transactions involving the import and export of goods and services, and other frequent routine foreign exchange transactions. These transactions are known as current account items. Participating banks in Hong Kong and a number of other jurisdictions (the “*Applicable Jurisdictions*”) have been permitted to engage in the settlement of current account trade transactions in Renminbi. However, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually.

Although the Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund on 1 October 2016, there is no assurance that: (a) the PRC Government will continue to liberalise control over cross-border remittance of Renminbi in the future, (b) any pilot schemes for Renminbi cross-border utilisation will not be discontinued or (c) new regulations in the PRC will not be promulgated that have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this might affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Renminbi Notes.

*Renminbi Availability - There is only limited availability of Renminbi outside the PRC, which might affect the liquidity of Renminbi Notes and the Issuer’s ability to source Renminbi outside the PRC to service Renminbi Notes*

As a result of the restrictions imposed by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the People’s Bank of China (the “*PBoC*”) has established a Renminbi clearing and settlement mechanism for participating banks in the Applicable Jurisdictions, through settlement agreements on the clearing of Renminbi business (the “*Settlement Agreements*”) with financial institutions in the Applicable Jurisdictions (each, a “*RMB Clearing Bank*”) and these RMB Clearing Banks have been permitted to engage in the settlement of Renminbi trade transactions, the current size of Renminbi denominated financial assets outside of the PRC is limited.

There are restrictions imposed by the PBoC on Renminbi business participating banks in relation to cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBoC. The relevant RMB Clearing Bank only has access to onshore liquidity support from the PBoC for the purpose of squaring open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations in relation to cross-border trade settlements. The relevant RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the settlement agreements will not be terminated or amended that will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the

liquidity of investments in the Renminbi Notes. To the extent that the Issuer is required to source Renminbi outside the PRC to service the Renminbi Notes, there is no assurance that the Issuer will be able to source Renminbi on satisfactory terms, if at all.

Although the Issuer's primary obligation is to make all payments with respect to Renminbi Notes in Renminbi, where a Renminbi Currency Event is specified in the applicable Final Terms, in the event access to Renminbi becomes restricted to the extent that, by reason of RMB Inconvertibility, RMB Non-Transferability or RMB Illiquidity (each as defined in Condition 7.9), the Issuer is unable to make any payment in respect of the Renminbi Note in Renminbi, the terms of such Renminbi Notes will permit the Issuer to make payment in U.S. Dollars at the prevailing spot rate of exchange, all as provided in Condition 7.9. The value of these Renminbi payments in U.S. Dollar terms might vary with the prevailing exchange rates in the market place.

*Renminbi Exchange Rate Risk - An investment in Renminbi Notes is subject to exchange rate risks*

The value of the Renminbi against the U.S. Dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions and by many other factors. In August 2015, the PBoC implemented changes to the way it calculates the midpoint against the U.S. Dollar to take into account market-maker quotes before announcing the daily midpoint. This change, among others that may be implemented may increase the volatility in the value of the Renminbi against other currencies. All payments of interest and principal with respect to Renminbi Notes will be made in Renminbi unless a RMB Currency Event is specified in the applicable Final Terms and a RMB Currency Event occurs, in which case payment will be made in U.S. Dollars. As a result, the value of these Renminbi payments in U.S. Dollar or other foreign currency terms might vary with the prevailing exchange rates in the marketplace. If the value of the Renminbi depreciates against the U.S. Dollar or other foreign currencies, then the value of an investor's investment in terms of the U.S. Dollar or other applicable foreign currency will decline.

*Renminbi Interest Rate Risk - An investment in fixed rate Renminbi Notes is subject to interest rate risks*

The PRC Government has gradually liberalised the regulation of interest rates in recent years. Further liberalization might increase interest rate volatility. If a Renminbi Note carries a fixed interest rate, then the trading price of such Renminbi Notes will vary with fluctuations in interest rates and an investor seeking to sell its investment in fixed-rate Renminbi Notes might receive an offer that is less than the amount invested.

*Renminbi Payment Mechanics - Payments in respect of Renminbi Notes will be made to investors in the manner specified in the Conditions*

All Renminbi payments to investors in respect of the Renminbi Notes will be made solely: (a) for so long as the Renminbi Notes are represented by Global Notes held with the common depositary (a "Common Depositary") or common safekeeper (a "Common Safekeeper"), as the case may be, for Euroclear and Clearstream, Luxembourg or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or any such other RMB settlement centre(s) in accordance with prevailing Euroclear and/or Clearstream, Luxembourg rules and procedures or the rules and procedures of such alternative clearing system, or (b) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or such other RMB settlement centre(s) in accordance with prevailing rules and regulations. Other than as described in Condition 7.9, the Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

*There may be PRC tax consequences with respect to investment in the Renminbi Notes.*

In considering whether to invest in the Renminbi Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdictions. The value of the Noteholder's investment in the Renminbi Notes may be materially and adversely affected if the Noteholder is required to pay PRC tax with respect to acquiring, holding or disposing of and receiving payments under those Renminbi Notes.

## **Risks related to Notes generally**

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

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

While Notes issued with the terms and conditions set out in this Base Prospectus (the “Conditions”) will rank *pari passu* with all of the Bank’s other unsecured and unsubordinated indebtedness, they will be effectively subordinated to certain preferential obligations under Turkish law. These preferred obligations include, without limitation, liabilities that are preferred by reason of reserve and/or liquidity requirements required by law to be maintained by the Bank with the Central Bank, claims of individual depositors with the Bank to the extent of any amount that such depositors are not fully able to recover from the SDIF, claims that the SDIF might have against the Bank and claims that the Central Bank might have against the Bank with respect to certain loans made by it to the Bank. In addition, creditors of the Bank holding collateral provided by the Bank will have preferential rights with respect to such collateral (e.g., creditors in a covered bond programme). Any such preferential claims 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.

*Redemption for Taxation Reasons – Unless provided otherwise in the applicable Final Terms, the Bank will have the right to redeem the Notes upon the occurrence of certain changes requiring it to pay increased withholding taxes with respect to interest or other payments on the Notes*

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

This redemption feature is also likely to limit the market price of the Notes at any time when the Bank has the right to redeem them as provided in the preceding paragraph, 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.

*Consent for Modifications - The Conditions contain provisions that permit their modification without the consent of all investors in the applicable Series*

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders of the applicable Series, 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 the holders of such defined percentages of the Notes that are contrary to the preferences of any particular Noteholder.



*Transfer Restrictions - Transfers of investments in Notes will be subject to certain restrictions and interests in Global Notes can only be held through a Clearing System*

Other than the approvals of the CMB and the Central Bank of Ireland described herein, the Notes: (a) have not been and are not expected to be registered under the Securities Act or any state's or other jurisdiction's securities laws and (b) have not been approved or disapproved by the SEC or any other jurisdiction's securities commission or other regulatory authority. 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 investments 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 "Transfer and Selling Restrictions."

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

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

As permitted by Condition 17, the Bank may from time to time without the consent of the Noteholders of a Series create and issue further Notes of such Series; *provided* that such further notes will be required to be fungible for U.S. federal income tax purposes as a result of their issuance being a "qualified reopening" under U.S. Treasury Regulation §1.1275-2(k). To the extent that the Bank issues such further Notes of a Series, the share of the total issuance (*e.g.*, for voting) of the existing Noteholders of such Series 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 (specifically, under the Banking Law). Certain 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 Turkey's International Private and Procedure Law of Turkey (Law No. 5718), a judgment of a court established in a country other than Turkey may not be enforced in Turkish courts in certain circumstances. There is no treaty between the United Kingdom and Turkey providing for reciprocal enforcement of judgments; *however*, Turkish courts have rendered at least one judgment confirming *de facto* reciprocity between Turkey and the United Kingdom with respect to the enforcement of judgments of their respective courts. Nevertheless, 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 might be adversely affected by a change in English law or administrative practice*

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

*Specified Denominations - Investors who hold investments in Global Notes in denominations that are not a Specified Denomination might be adversely affected, including if definitive Notes are subsequently required to be issued*

In relation to any issue of Notes represented by a Bearer Global Note and having denominations consisting of a minimum specified denomination plus one or more higher integral multiples of another smaller amount (a “*Specified Denomination*”), it is possible that interests in such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a holder who, as a result of trading such amounts, holds an amount that is less than the minimum Specified Denomination in an account with the relevant Clearing System: (a) would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination and (b) may not receive a definitive Note in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of the applicable Series of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to such Specified Denomination.

If definitive Notes are issued, then investors should be aware that definitive Notes that have a denomination that is not an integral multiple of the minimum Specified Denomination might be illiquid and difficult to trade.

*Reliance upon Clearing Systems - Investors in the Global Notes will be subject to the rules of the applicable clearing system and their ability to exercise rights relating to the Notes directly might be limited*

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

Except in the case of a Registered Global Note denominated in a Specified Currency other than U.S. Dollars and registered in the name of DTC or its nominee and in respect of which a participant in DTC has elected to receive any part of such payment in that Specified Currency, for so long as the Notes are represented by Global Notes, the Issuer will discharge its payment obligation thereunder by making payments through the relevant Clearing Systems. A holder of a beneficial interest in a Global Note must rely upon the procedures of the relevant Clearing System and its participants to receive payments in respect of their interests in the related Global Note. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) and its participants to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the relevant Notes but will have to rely upon their rights under the Deed of Covenant (described below).

*Sanction Targets – Persons investing in the Notes might have indirect contact with Sanction Targets as a result of the Bank’s investments in and business with countries on sanctions lists*

The Office of Foreign Assets Control of the U.S. Department of Treasury (“*OFAC*”) administers regulations that restrict the ability of U.S. persons to invest in, or otherwise engage in business with, certain countries, including Iran and Sudan, and specially designated nationals (“*SDNs*”), and other United States, United Kingdom, EU and United Nations rules impose similar restrictions (the SDNs and other targets of these restrictions being together the “*Sanction Targets*”). As the Bank is not a Sanction Target, these rules do not prohibit U.S. or EU citizens from investing in, or otherwise engaging in business with, the Bank; *however*, while the Bank’s current policy is not to engage in any business with Sanction Targets, to the extent that the Bank invests in, or otherwise engages in business with, Sanction Targets directly or indirectly, investors in the Bank might incur the risk of indirect contact with Sanction Targets. See “Business of the Group - Compliance with Sanction Laws.” In addition, there can be no assurance that current counterparties will not become Sanction Targets in the future. See “Risk Management – Anti-Money Laundering, Combating the Financing of Terrorism and Anti-Bribery Policies.”

## **Risks related to the market generally**

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

Notes might 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 investments in the Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. If an active trading market for investments in the Notes is not developed or maintained, then the market or trading price and liquidity of investments in the Notes might be adversely affected.

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

The market price of an investment in the Notes might 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 Notes or debt securities, as well as other factors, including the trading market for debt issued by Turkey. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, might adversely affect the market price of an investment in the Notes without regard to the Bank's financial condition or results of operations.

The market price of an investment in the Notes also will 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 might adversely affect the market price of an investment in the Notes.

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

Except as described otherwise herein, the Issuer will pay principal and interest on the Notes in the Specified Currency, which presents certain risks related to currency conversions if an investor's financial activities are denominated principally in a currency (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that 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 Specified Currency 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 price of investments in the Notes.

Government and monetary authorities might impose (as some have done in the past) exchange controls that might adversely affect an applicable exchange rate and/or the ability to convert and/or transfer currency. If such occurs, particularly if it directly affects the Bank's payments in respect of the Notes, then an 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 the Specified

Currency. An investor might also not be able to convert (at a reasonable exchange rate or at all) amounts received in the Specified Currency into the Investor's Currency, which might materially adversely affect the market price of interests in the Notes. There might also be tax consequences for investors of any such currency changes.

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

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, then this will adversely affect the market price of such Fixed Rate Notes. Investment in any Notes involves the risk of adverse changes in the market price of such Notes if the interest rate or (for Floating Rate Notes) margin of new similar Notes of the Issuer would be higher.

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

The expected initial credit rating(s) of a Tranche of Notes will be set out in Part B of the Final Terms for such Tranche. Any relevant rating agency may lower, suspend or withdraw its rating if, in the sole judgment of the relevant rating agency, the credit quality of the Notes has declined or is in question. If any credit rating assigned to a Tranche of the Notes is lowered, suspended or withdrawn, then the market price of the Notes might decline. In addition, one or more independent credit rating agencies may assign credit ratings to the Issuer and/or the Notes. Also, if any credit rating assigned to the controlling shareholder of the Issuer is lowered or put on negative watch, then such change might have a negative impact on the Issuer's and/or the Notes' credit rating. The ratings might not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that might affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time. Similar ratings on different types of securities do not necessarily mean the same thing. Ratings on any Notes also do not address the marketability of investments in such Notes or any market price. Any change in the credit ratings of any Notes or the Bank might adversely affect the price that a subsequent purchaser will be willing to pay for investments in such Notes. The significance of each rating should be analysed independently from any other rating.

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 subject to transitional provisions that apply in certain circumstances). 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, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there 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 is set out on the cover of this Base Prospectus.

## FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes may be issued only outside the United States to persons who are not U.S. Persons in reliance upon Regulation S and Registered Notes may be issued in “offshore transactions” to persons who are not U.S. Persons in reliance upon the exemption from registration provided by Regulation S, to “qualified institutional buyers” (“*QIBs*”) as defined in and in reliance upon Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

### **Bearer Notes**

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

- (a) if the Bearer Global Notes of a Tranche are issued in new global note (“*NGN*”) form, as stated in the applicable Final Terms, be delivered on or prior to the original Issue Date of such Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg, and
- (b) if the Bearer Global Notes of a Tranche are not issued in *NGN* form, be delivered on or prior to the original Issue Date of such Tranche to a Common Depositary for Euroclear and Clearstream, Luxembourg.

The following legend will appear on all Bearer Notes (other than Temporary Bearer Global Notes) and on all interest coupons relating to such Notes where TEFRA D is specified in the applicable Final Terms:

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

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

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

*NGN Form.* Where the Bearer Global Notes issued in respect of any Tranche are in *NGN* form, the Issuer will inform Euroclear and Clearstream, Luxembourg in writing prior to the Issue Date of such Tranche whether or not such Bearer Global Notes are intended to be held in a manner that would allow Eurosystem eligibility. Any indication to any person that a Bearer Global Note is to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for a Tranche of *NGNs* will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

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

For any Temporary Bearer Global Note, on and after the date (the “*Exchange Date*”) that is 40 days after such Temporary Bearer Global Note has been issued, beneficial interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either (as to be specified in the applicable Final Terms) for: (a) beneficial interests in a Permanent Bearer Global Note of the same Series or (b) definitive Bearer Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above; *provided* that purchasers in the United States and certain U.S. Persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the applicable Exchange Date unless, upon due certification, exchange of such Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

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

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

#### **Registered Notes**

Each Tranche of Registered Notes offered and sold in reliance upon Regulation S in offshore transactions to persons other than U.S. Persons will initially (unless a Bearer Global Note) be represented by a global note in registered form (each a “*Regulation S Registered Global Note*”) or a definitive note in registered form (each such definitive note or Regulation S Registered Global Note, and each Bearer Global Note, being a “*Regulation S Note*”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Regulation S Notes, a Regulation S Note (or beneficial interests therein) may not be offered or sold to, or for the account or benefit of, a U.S. Person and such Regulation S Note will be subject to the restrictions on transfer set forth therein and will bear the applicable restrictive legend described under “Transfer and Selling Restrictions.”

The Registered Notes (or beneficial interests therein) of each Tranche offered and sold in the United States or to (or for the account of) U.S. Persons may only be offered and sold in private placements by the Bank: (a) directly to one or more “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“*Institutional Accredited Investors*”) who execute and deliver to the Issuer an investment letter substantially in the form set out in the Agency Agreement (an “*IAI Investment Letter*”) in which they agree to purchase (and represent that they are purchasing) such Notes (or beneficial interests therein) for their own account and not with a view to the distribution thereof or (b) to one or more Dealer(s) who then re-sell(s) such interests to QIBs under Rule 144A. The Registered Notes of each Tranche sold to Institutional Accredited Investors as described in clause (a) will be represented by one or more global note(s) in registered form (each an “*IAI Global Note*”) or in definitive form (“*IAI Registered Notes*”) and the Registered Notes of each Tranche sold to QIBs as described in clause (b) will be represented by one or more global note(s) in registered form (each a “*Rule 144A Global Note*” and, together with the Regulation S Registered Global Notes and the IAI Global Notes, each a “*Registered Global Note*”; each Registered Global Note and Bearer Global Note being a “*Global Note*”). Unless otherwise set forth in the applicable Final Terms, IAI Registered Notes will be issued only in minimum denominations of US\$500,000 and integral multiples of US\$1,000 in excess thereof. IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “Transfer and Selling Restrictions”.

Registered Global Notes of a Series will either be:

- (a) deposited with a custodian for, and registered in the name of a nominee of, DTC, or
- (b) deposited with a: (i) Common Depositary or (ii) if the Registered Notes are to be held under the “new safekeeping structure” for registered global securities that are intended to constitute eligible collateral for Eurosystem monetary policy operations (the “*NSS*”), a Common Safekeeper, in each case, for Euroclear and

Clearstream, Luxembourg, and will be registered in the name of a common nominee of Euroclear and Clearstream, Luxembourg or in the name of a nominee of the Common Safekeeper, as specified in the applicable Final Terms.

Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Issuer will inform Euroclear and Clearstream, Luxembourg in writing whether or not any applicable Registered Global Note is intended to be held in a manner that would allow Eurosystem eligibility. Any indication to any person that any Registered Global Note is to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any time during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for Registered Notes that are to be held under the NSS will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Payments of principal, interest and any other amount in respect of a Registered Note will, in the absence of provision to the contrary, be made in the manner provided in Condition 7 to the person shown on the Register as the registered holder of such Registered Global Note as of the relevant Record Date. None of the Issuer or any Agent will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes (including any payments pursuant to Conditions 7.10 and 7.11) or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

*Transfer of Beneficial Interests.* Beneficial interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in the same or another Registered Global Note of the same Series. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest except in accordance with the applicable procedures of the applicable Clearing System. Registered Notes (or beneficial interests therein) are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions. See “Transfer and Selling Restrictions.”

### **Exchange from Global Notes to Definitive Notes**

The applicable Final Terms of a Tranche of Global Notes (other than a Temporary Bearer Global Note) will specify that beneficial interests in such Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes or Registered Notes (as the case may be) with, where applicable for Bearer Notes, interest coupons and talons attached upon the occurrence of an Exchange Event. “*Exchange Event*” means that: (i) an Event of Default exists with respect to the relevant Series, (ii)(A) in the case of Registered Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for such Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act and no alternative clearing system is available, or (B) in the case of Registered Notes registered in the name of a nominee for a Common Depositary or Common Safekeeper for Euroclear or Clearstream, Luxembourg and in the case of Bearer Global Notes, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available, or (iii) the Issuer has or will become subject to adverse tax consequences that would not be suffered were the Notes represented by the applicable Global Note in definitive form. Temporary Bearer Global Notes may be exchanged for definitive notes as described in “Bearer Notes – Temporary Bearer Global Notes” above.

In respect of Temporary Bearer Global Notes and Permanent Bearer Global Notes that, in each case, are exchangeable for definitive Bearer Notes otherwise than upon an Exchange Event as aforesaid, the applicable Final Terms will specify that any such definitive Bearer Notes will be issued in denominations equal to, or greater than, €100,000 (or its equivalent in any other currency) and integral multiples thereof.

The Issuer will promptly give notice to the Noteholders of the applicable Series in accordance with Condition 15 if an Exchange Event occurs with respect to a Global Note. In the event of the occurrence of such an Exchange Event with respect to a Global Note, the applicable Clearing System (or the applicable nominee, Common Depositary or Common Safekeeper, as the case may be, on their behalf), acting upon the instructions of any holder of a beneficial interest in such Global Note, may give notice to the Fiscal Agent (with respect to Bearer Global Notes) or the Registrar (with respect to

Registered Global Notes) requesting such an exchange and, in the event of the occurrence of an Exchange Event as described in clause (iii) of the definition thereof, the Issuer may give notice to the Fiscal Agent or the Registrar (as the case may be) requesting such an exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent or the Registrar, as the case may be.

Repayment of principal on a Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Conditions of the applicable Series and payment in full of the amount due has not been made in accordance with the provisions of such Note, then such Global Note will become void at 8:00 p.m. (London time) on the applicable due date. At the same time holders of beneficial interests in such Global Note credited to their accounts with a Clearing System will become entitled to proceed directly against the Issuer on the basis of statements of account provided by the applicable Clearing System on and subject to the terms of a deed of covenant (the “*Deed of Covenant*”) dated 27 April 2017 and executed by the Issuer. In addition, as set out in clause (i) of the definition of Exchange Event above, holders of beneficial interests in such Global Note credited to their accounts with a Clearing System may request that any Paying Agent or, in respect of Registered Notes, the Registrar, deliver, on behalf of the Issuer, to the applicable Clearing System definitive Notes in exchange for their beneficial interest in such Global Note in accordance with the standard operating procedures of such Clearing System.

## **General**

Pursuant to the Agency Agreement, the Fiscal Agent will arrange that, where a further Tranche of Notes is issued that is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche will (to the extent applicable) be assigned a common code, ISIN, CUSIP and/or CINS number that are different from the common code, ISIN, CUSIP and CINS (as applicable) assigned to Notes of any other Tranche of the same Series until at least the expiry of any distribution compliance period (as defined in Regulation S) applicable to the Notes of such further Tranche.

Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system(s) specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Fiscal Agent.



## APPLICABLE FINAL TERMS

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes[, from 1 January 2018,]<sup>1</sup> are not intended to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“*MiFID II*”); (ii) a customer within the meaning of Directive 2002/92/EC (“*IMD*”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “*Prospectus Directive*”). Consequently no key information document required by Regulation (EU) No 1286/2014 (the “*PRIIPs Regulation*”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]<sup>2</sup>

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

[Date]

### FINANSBANK A.Ş.

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] (the “Notes”)  
under the US\$2,000,000,000  
Global Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “*Conditions*”) set forth in the base prospectus dated 27 April 2017 [and the supplement[s] to it dated [date] [and [date]] [which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “*Base Prospectus*”). [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus].<sup>3</sup> Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Issuer’s website (<http://www.finansbank.com.tr/en/investor-relations/financial-information/offering-circulars.aspx>).

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “*Conditions*”) set forth in the base prospectus dated [original date] [and the supplement[s] to it dated [date] [and [date]] that [is][are] incorporated by reference in the base prospectus dated 27 April 2017. [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the base prospectus dated 27 April 2017 [and the supplement[s] to it dated [date] [and [date]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive] (the “*Base Prospectus*”), including the Conditions incorporated by reference in the Base Prospectus.]<sup>1</sup> Full information on the Issuer and the offer of the Notes is only available on the basis

<sup>1</sup> This date reference should not be included in Final Terms for offers concluded on or after 1 January 2018.

<sup>2</sup> Legend to be included on front of the Final Terms (i) for offers concluded on or after 1 January 2018 if the Notes potentially constitute “packaged” products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable” (ii) for offers concluded before 1 January 2018 at the option of the parties.

<sup>3</sup> Delete where the Notes are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances in which a prospectus is required to be published under the Prospectus Directive.

of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Issuer's website (<http://www.finansbank.com.tr/en/investor-relations/financial-information/offering-circulars.aspx>).

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

1. Issuer: Finansbank A.Ş.
2. (a) Series Number: [ ]
- (b) Tranche Number: [ ]
- (c) Date on which the Notes will be consolidated and form a single Series: [The Notes will be consolidated and form a single Series with *[identify earlier Tranches]* on [the Issue Date/exchange of the Temporary Bearer Global Note for interests in the Permanent Bearer Global Note, as referred to in paragraph 22 below, which is expected to occur on or about *[date]*][Not Applicable]
3. Specified Currency: [ ]
4. Aggregate Nominal Amount immediately after issuance of this Tranche:
  - (a) Series: [ ]
  - (b) Tranche: [ ]
5. Issue Price: [ ] *per cent.* of the Aggregate Nominal Amount of the Tranche [plus accrued interest per Calculation Amount for interest accruing from *[insert date]* (if applicable)]
6. (a) Specified Denomination(s): [ ] [and integral multiples of [ ] in excess thereof]
 

*(N.B. Notes must have a minimum denomination of €100,000 (or equivalent))*

*(Note – where multiple denominations above [€100,000] or equivalent are being used, the following sample wording should be followed:*

*“[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”)*

- (b) Calculation Amount: [ ]
 

*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*

7. (a) Issue Date: [     ]
- (b) Interest Commencement Date: [Specify/Issue Date/Not Applicable]
- (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8. Maturity Date: [●] [Interest Payment Date [falling in][nearest to] [●]]
- [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year.]<sup>4</sup>*
9. Interest Basis: [[     ] per cent. Fixed Rate]
- [[     ] month [[currency] LIBOR/EURIBOR/TRLIBOR/ROBOR/PRIBOR/HIBOR/SIBOR/NIBOR/WIBOR/CNH HIBOR]] +/- [     ] per cent. Floating Rate]
- [Zero Coupon]
- (see further particulars in paragraph [14]/[15]/[16] below)*
10. Redemption[/Payment] Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [     ] per cent. of their nominal amount
11. Change of Interest Basis: [For the period from (and including) the Interest Commencement Date, up to (but excluding) [     ], paragraph [14/15] below applies, and, for the period from (and including) [     ] up to (and including) the Maturity Date, paragraph [14/15] below applies]/[Not Applicable] [     ]
12. Put/Call Options: [Investor Put]
- [Issuer Call]
- [Not Applicable]
- [(see paragraph [18]/[19]/[20] below)]*
13. (a) Status of the Notes: Senior
- (b) Date Board approval for issuance of Notes obtained: [     ] [Not Applicable – No Board (or similar) authorisation is required for this Tranche of Notes]
- (N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes)*

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<sup>4</sup> For Renminbi-denominated Fixed Rate Notes and Modified Fixed Rate Notes where Interest Periods and Interest Amounts are subject to adjustment, it will be necessary to use the second option here.

## PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. Fixed Rate Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (a) Rate(s) of Interest: [ ] *per cent. per annum* payable in arrear on [the/each] Interest Payment Date
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date/[specify other]<sup>5</sup>  
*(Amend appropriately in the case of irregular coupons. In the case of Modified Fixed Rate Notes, insert regular interest payment dates and also complete paragraph (g) below as applicable. Paragraph (g) is not relevant to Fixed Rate Notes where Interest Periods and Interest Amounts are not subject to adjustment and either: (a) a customary Following Business Day Convention is to apply in accordance with Condition 7.6 to any date for payment that is not a Payment Business Day or (b) such payment dates are not otherwise to be subject to adjustment by reference to any other Business Day Convention.)*
- (c) Fixed Coupon Amount(s): [[ ] per Calculation Amount] [Not Applicable]  
*(Applicable only to Notes issued in definitive form. Not applicable to Renminbi-denominated Fixed Rate Notes and Modified Fixed Rate Notes where Interest Periods and Interest Amounts are subject to adjustment)*
- (d) Broken Amount(s): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]  
*(Applicable only to Notes issued in definitive form. Not applicable to Renminbi-denominated Fixed Rate Notes and Modified Fixed Rate Notes where Interest Periods and Interest Amounts are subject to adjustment)*
- (e) [Day Count Fraction: [30/360] [Actual/Actual (ICMA)]  
 [Actual/365 (Fixed)]]<sup>6</sup>  
*(Delete this sub-paragraph in the case of Modified Fixed*

<sup>5</sup> For certain Renminbi-denominated Fixed Rate Notes, Interest Periods and Interest Amounts are subject to adjustment and the following proviso should be added: “provided that if any Interest Payment Date falls on a day that is not a Business Day, then such Interest Payment Date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day.”

<sup>6</sup> Applicable to Renminbi-denominated Fixed Rate Notes.

Rate Notes)

- (f) [Determination Date(s): [[ ] in each year][Not Applicable]]  
*(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*  
*(Delete this sub-paragraph in the case of Modified Fixed Rate Notes)*
- (g) Modified Fixed Rate Notes: [Applicable/Not Applicable]  
*(Modified Fixed Rate Notes are Fixed Rate Notes: (i) the terms of which provide for Interest Periods and Interest Amounts to be subject to adjustment or (ii) for which Interest Periods and Interest Amounts are not subject to adjustment but a specified Payment Business Day Convention is to apply to any date for payment that is not a Payment Business Day. If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Periods and Interest Amounts subject to adjustment: [Applicable/Not Applicable]
- (ii) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]  
*(Only applicable where Interest Periods and Interest Amounts are subject to adjustment)*
- (iii) Specified Business Centre(s): [[ /Not Applicable]]  
*(Only applicable where Interest Periods and Interest Amounts are subject to adjustment. This paragraph relates to Interest Period end dates and not the date of payment to which sub-paragraph (vi) below relates)*
- (iv) Day Count Fraction: [Actual/Actual (ICMA)]  
[Actual/Actual (ISDA)] [Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360] [360/360] [Bond Basis]  
[30E/360] [Eurobond Basis]  
[30E/360 (ISDA)]
- (v) Payment Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]  
*(Only applicable where Interest Periods and Interest Amounts are not subject to adjustment and a specified Payment Business Day Convention is to apply to any date for payment that is not a Payment Business Day)*

(vi) Specified Financial Centres: [ /Not Applicable]

*(Only applicable if a Payment Business Day Convention is specified in sub-paragraph 14(g)(v), Note that this paragraph relates to the date of payment and not Interest Period end dates to which sub-paragraph (iii) above relates)*

15. Floating Rate Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

(a) Specified Period(s)/Specified Interest Payment Dates: [ ], not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]

*(Specified Period(s)/Specified Interest Payment Dates may not be subject to adjustment in accordance with a Business Day Convention in the case of Modified Floating Rate Notes. In these circumstances only, paragraph (m) below will be applicable)*

(b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]<sup>7</sup>

*(Complete unless paragraph (m) below is applicable. See note to paragraph (a) above for guidance)*

(c) Specified Business Centre(s): [ ][Not Applicable]<sup>8</sup>

*(Note that this paragraph relates to Interest Period end dates and not the date of payment to which paragraph 23 relates. Complete unless paragraph (m) below is applicable. See note to paragraph (a) above for guidance)*

(d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]

(e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [ ][Not Applicable]

(f) Screen Rate Determination: [Applicable/Not Applicable]

• Reference Rate: [ ] month [[currency]  
 [LIBOR/EURIBOR/TRLIBOR/ROBOR/PRIBOR/HIBOR/SIBOR/NIBOR/WIBOR/CNH HIBOR]

• Specified Time: [11:00 a.m.] [11:15 a.m.] [11:30 a.m.] [12:00 p.m.] [other]

*(11:00 a.m. in the case of LIBOR, EURIBOR, ROBOR, PRIBOR, SIBOR, WIBOR and HIBOR, 11:15 a.m. in the case*

<sup>7</sup> Not applicable in the case of Modified Floating Rate Notes only.

<sup>8</sup> Not applicable in the case of Modified Floating Rate Notes only.

of CNH HIBOR, 11.30 a.m. in the case of TRLIBOR and 12:00 p.m. in the case of NIBOR)

- Relevant Financial Centre: [London] [Brussels] [Bucharest] [Istanbul] [Prague]  
[Singapore] [Oslo] [Warsaw] [Hong Kong] [other]
  - Interest Determination Date(s): [ ]  
  
*(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR, the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR, the second Istanbul business day prior to the start of each Interest Period if TRLIBOR, the second Bucharest business day prior to the start of each Interest Period if ROBOR, the second Prague business day prior to the start of each Interest Period if PRIBOR, the first day of each Interest Period if HIBOR, the second Singapore business day prior to the start of each Interest Period if SIBOR, the second Oslo business day prior to the start of each Interest Period if NIBOR, the second Warsaw business day prior to the start of each Interest Period if WIBOR and the second Hong Kong business day prior to the start of each Interest Period if CNH HIBOR)*
  - Relevant Screen Page: [ ]  
*(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page that shows a composite rate or amend the fallback provisions appropriately)*
- (g) ISDA Determination: [Applicable/Not Applicable]
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]
- (In the case of a LIBOR or EURIBOR-based option, the first day of the Interest Period)*
- (h) Linear Interpolation: [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
- (i) Margin(s): [+/-] [ ] per cent. per annum
- (j) Minimum Rate of Interest: [[ ] per cent. per annum][Not Applicable]
- (k) Maximum Rate of Interest: [[ ] per cent. per annum][Not Applicable]
- (l) Day Count Fraction: [Actual/Actual (ICMA)]  
[Actual/Actual (ISDA)][Actual/Actual]

- [Actual/365 (Fixed)]  
 [Actual/365 (Sterling)]  
 [Actual/360]  
 [30/360][360/360][Bond Basis]  
 [30E/360][Eurobond Basis]  
 [30E/360 (ISDA)]
- (m) Modified Floating Rate Notes: [Applicable/Not Applicable]
- (i) Payment Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (ii) Specified Financial Centre(s): [ /Not Applicable]
16. Zero Coupon Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (a) Accrual Yield: [ ] per cent. per annum
- (b) Reference Price: [ ]
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
 [Actual/360]  
 [Actual/365]

## PROVISIONS RELATING TO REDEMPTION

17. Notice periods for Condition 8.2: Minimum period: [ ] days  
 Maximum period: [ ] days
18. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount: [ ] per Calculation Amount
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ ]
- (ii) Maximum Redemption Amount: [ ]
- (d) Notice periods: Minimum period: [ ] days  
 Maximum period: [ ] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which, in the case of Euroclear and Clearstream, Luxembourg, require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as*



*any other notice requirements that may apply, for example, as between the Issuer and the Agent)*

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

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

22. Form of Notes:
- (a) Form: [Bearer Notes:]
- [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes upon an Exchange Event]
- [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Bearer Global Note exchangeable for Definitive Notes upon an Exchange Event]
- [Definitive Bearer Notes]
- [Bearer Notes shall not be physically delivered: (i) in Belgium, except to a clearing system, a depositary or other institution for the purpose of their immobilization in accordance with Article 4 of the Belgian Law of 14 December 2005, or (ii) in the United States of America.]
- (N.B. The option for an issue of Notes to be represented on issue by a Temporary Bearer Global Note exchangeable for Definitive Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6*

*includes language substantially to the following effect: “[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000].”)*

[Registered Notes:

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

[Rule 144A Global Note(s) registered in the name of a nominee for [DTC][a common depositary for Euroclear and Clearstream, Luxembourg][a common safekeeper for Euroclear and Clearstream, Luxembourg] exchangeable for Definitive Registered Notes upon an Exchange Event]

[Definitive Regulation S Registered Note]

[Rule 144A Definitive Registered Note]

[Definitive IAI Registered Notes]

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

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

(b) [New Global Note:

[Yes][No]]

23. Specified Financial Centre(s):

[ /Not Applicable]

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

24. Talons for future Coupons to be attached to Definitive Notes:

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

## PROVISIONS APPLICABLE TO TURKISH LIRA NOTES

25. USD Payment Election:

[Applicable/Not Applicable]

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

**PROVISIONS APPLICABLE TO RMB NOTES**

26. RMB Currency Event: [Applicable/Not Applicable]
- (If not applicable, then delete the remaining sub-paragraphs of this paragraph.)*
- (a) Party responsible for calculating the Spot Rate: [[ ] (the “Calculation Agent”)]
- (b) RMB Settlement Centre(s): [[ ]/Not Applicable]

**THIRD PARTY INFORMATION**

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

Signed on behalf of **FINANSBANK A.Ş.**

By: ..... By: .....

*Duly authorised* *Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (a) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the Official List and admitted to trading on the Main Securities Market of the Irish Stock Exchange with effect from [ ].] [Not Applicable.]

*(When documenting an issue of Notes that is to be consolidated and to form a single series with a previous issue, it should be indicated here that the original Notes are already listed and admitted to trading)*

- (b) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

*[insert details] by [insert the legal name of the relevant credit rating agency entity(ies) and any associated defined terms].*

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

[Each of [defined terms] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”).]

[[Insert legal name of credit rating agency] is established in the European Union and is not registered under Regulation (EC) No. 1060/2009 (the “CRA Regulation”).]

[[Insert legal name of credit rating agency] is not established in the European Union but the rating it has given to the Notes is endorsed by [insert legal name of credit rating agency], which is established in the European Union and registered under Regulation (EC) No. 1060/2009 (the “CRA Regulation”).]

[[Insert legal name of credit rating agency] is not established in the European Union but is certified under Regulation (EC) No. 1060/2009 (the “CRA Regulation”).]

[[Insert legal name of credit rating agency] is not established

in the European Union and is not certified under Regulation (EU) No. 1060/2009, (the “CRA Regulation”) and the rating it has given to the Notes is not endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation.]

*(The above additional disclosure in respect of the relevant credit rating agencies is only required in Final Terms for Notes that are to be admitted to trading on a regulated market in the European Union.)*

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

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

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

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

Indication of yield: [ ] *per cent. per annum*

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

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

Details of historic [[*currency*] LIBOR/EURIBOR/TRLIBOR/ROBOR/PRIBOR/HIBOR/SIBOR/NIBOR/ WIBOR/CNH HIBOR] rates can be obtained from [Reuters] at [ ].

### 6. OPERATIONAL INFORMATION

- (a) ISIN: [ ] [Not Applicable]
- (b) Common Code: [ ] [Not Applicable]
- (c) CUSIP: [ ] [Not Applicable]
- (d) CINS: [ ] [Not Applicable]
- (e) Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
- (f) Delivery: Delivery [against/free of] payment
- (g) Names and addresses of additional Paying Agent(s) (if any): [ ] [Not Applicable]
- (h) Deemed delivery of clearing system [Any notice delivered to Noteholders of Notes held through a

- notices for the purposes of Condition 15: clearing system will be deemed to have been given on the [first] [second] [business] day after the day on which it was given to the relevant clearing system.][Not Applicable]
- (i) Intended to be held in a manner that would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper][include this text for Registered Notes that are to be held under the NSS] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]
- [No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Notes that are to be held under the NSS]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## 7. DISTRIBUTION

- (a) Method of distribution: [Syndicated/Non-syndicated]
- (b) If syndicated, names of Managers: [Not Applicable/give name(s)]
- (c) Stabilisation Manager(s) (if any): [Not Applicable/give name(s)]
- (d) If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
- (e) U.S. Selling Restrictions: [Reg. S Compliance Category 2][Rule 144A][Section 4(a)(2)][Rules identical to those provided in [TEFRA C][TEFRA D applicable][TEFRA not applicable]
- (f) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
- (If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified.)*

**8. REASONS FOR THE OFFER**

[   ]

*(See “Use of Proceeds” in Base Prospectus. If the reason for the offer is different from general corporate purposes, then such specific reason will need to be included here.)*

## TERMS AND CONDITIONS OF THE NOTES

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

“Notes” in these Terms and Conditions (the “Conditions”) means: (a) in relation to any Notes represented by a global Note (a “Global Note”), such Global Note (or any nominal amount thereof of a Specified Denomination), and (b) in relation to any definitive Notes in bearer form (“Bearer Notes”) or registered form (“Registered Notes”), such definitive Notes in bearer or, as the case may be, registered form.

The Notes and the Coupons (as defined below) have the benefit of an amended and restated agency agreement dated 27 April 2017 (as further amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) and made among the Issuer, The Bank of New York Mellon, London Branch as fiscal and principal paying agent and exchange agent (the “Fiscal Agent” and the “Exchange Agent,” which expression shall, in each case, include any successor fiscal agent and exchange agent) and the other paying agents named therein (together with the Fiscal Agent, the “Paying Agents,” which expression shall include any additional or successor paying agents), The Bank of New York Mellon, New York Branch as transfer agent (together with the Registrar (as defined below), the “Transfer Agents,” which expression shall include any additional or successor transfer agent) and The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the “Registrar,” which expression shall include any successor registrar).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note. References to the “applicable Final Terms” are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Interest-bearing definitive Bearer Notes have interest coupons (“Coupons”) and, in the case of Notes that, when issued in definitive bearer form, have more than 27 interest payments remaining, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Notes and Global Notes do not have Coupons or Talons attached on issue.

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

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

The Noteholders and the Couponholders are entitled to the benefit of a deed of covenant (such deed of covenant as modified and/or supplemented and/or restated from time to time, the “Deed of Covenant”) dated 27 April 2017 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, a deed poll (such deed poll as modified and/or supplemented and/or restated from time to time, the “Deed Poll”) dated 27 April 2017 and made by the Issuer and the Deed of Covenant are available for



inspection during normal business hours at the specified office of each of the Fiscal Agent, the Registrar and the other Paying Agents, the Exchange Agent and the other Transfer Agents (such agents and the Registrar being together referred to as the “Agents”) by any Noteholder that produces evidence satisfactory to the relevant Agent as to its holding of such Notes and identity. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant and the applicable Final Terms. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

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

## **1. FORM, DENOMINATION AND TITLE**

### **1.1 Form and denomination**

The Notes are in bearer form or registered form as specified in the applicable Final Terms and serially numbered in the Specified Currency and the Specified Denomination(s), in each case as specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*. The Notes are issued pursuant to the Turkish Commercial Code (Law No. 6102), the Capital Markets Law (Law No. 6362) of Turkey and its related legislation, including the Communiqué No. VII-128.8 on Debt Instruments of the Turkish Capital Markets Board (in Turkish: *Sermaye Piyasası Kurulu*) (the “CMB”).

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

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

### **1.2 Title**

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

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

For so long as any of the Notes of a Series are represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg, as the case may be, as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg, as the case may be, as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall (upon their

receipt of such certificate or other document) be treated by the Issuer and the Agents as if such person were the holder of such nominal amount of such Notes (and the bearer or registered holder of such Global Note shall be deemed not to be the holder) for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of any such Bearer Global Note or the registered holder of any such Registered Global Note shall be treated by the Issuer and each Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of such Global Note; *it being understood* that, with respect to any beneficial interests held by or on behalf of Euroclear and/or Clearstream, Luxembourg in a Registered Global Note held by DTC or a nominee thereof, the rules of the preceding paragraph shall apply, and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

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

## **2. TRANSFERS OF REGISTERED NOTES**

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

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by direct and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such beneficial interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes of the same Series in definitive form or for a beneficial interest in another Registered Global Note of the same Series, in each case, only in the Specified Denomination(s) set out in the applicable Final Terms (and provided that the aggregate nominal amount of any balance of such beneficial interest of the transferor not so transferred is an amount of at least the Specified Denomination) and only in accordance with the then-applicable rules and operating procedures of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement and the applicable Final Terms; *it being understood* that both the transferee and (if less than a transfer of its entire interest) the transferor must immediately thereafter retain beneficial interests in such Registered Global Note in an amount at least equal to the minimum Specified Denomination. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor’s nominee.

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

Subject as provided in Condition 2.4, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the Specified Denomination(s) set out in the applicable Final Terms); *it being understood* that both the transferee and (if less than a transfer of its entire interest) the transferor must immediately thereafter retain beneficial interests in an amount at least equal to the minimum Specified Denomination. In order to effect any such transfer: (a) the holder or holders must: (i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer (substantially in the form set out in the Agency Agreement, completed as appropriate) thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such additional reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 10 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which commercial banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of its receipt of such request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate (or procure the authentication of), and deliver (or procure the delivery of) at its specified office to the specified transferee (or, if so requested by the specified transferee and at the risk of such

transferee, send by uninsured mail to such address as the transferee may request), a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) being transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (if so requested by the transferor and at the risk of such transferor) sent by uninsured mail to the transferor; *it being understood* that both the new Registered Note for the transferee and the transferor must be in a Specified Denomination. No transfer of a Registered Note will be valid unless and until entered in the Register.

### **2.3 Costs of registration**

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer of the Notes in the Register (as defined in Condition 7.4 below) as provided in this Condition 2, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer and/or any Agent may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration and/or transfer.

### **2.4 Noteholder establishment of clearing of a definitive Registered Note**

For so long as any Notes of a Series are represented by a Registered Global Note, holders of Registered Notes in definitive form of the same Series may (to the extent that they have established settlement through DTC, Euroclear and/or Clearstream, Luxembourg) exchange such definitive Notes for interests in the relevant Registered Global Note of the same Series at any time.

## **3. STATUS OF THE NOTES**

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

## **4. NEGATIVE PLEDGE**

### **4.1 Negative Pledge**

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

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

Nothing in this Condition 4.1 shall prevent the Issuer from creating or permitting to subsist any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof that is created pursuant to: (i) a bond, note or other indebtedness whereby the payment obligations are secured by a segregated pool of assets (whether held by the Issuer or any third party guarantor) (any such bond, note or other indebtedness, a "*Covered*

*Bond*”), or (ii) any securitisation of receivables or other payment rights, asset-backed financing or similar financing structure (created in accordance with normal market practice) and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest are to be discharged principally from such assets or revenues (or in the case of Direct Recourse Securities, by direct unsecured recourse to the Issuer); *provided* that the aggregate value of assets or revenues subject to any Security Interest created in respect of an issuance of: (A) Covered Bonds that are Relevant Indebtedness and (B) any other secured Relevant Indebtedness (other than Direct Recourse Securities) of the Issuer, when added to the nominal amount of any outstanding Direct Recourse Securities that are Relevant Indebtedness, does not, at the time of the incurrence thereof, exceed 15% of the consolidated total assets of the Issuer (as shown in the most recent audited consolidated financial statements of the Issuer prepared in accordance with the Banking Regulatory and Supervisory Agency (in Turkish: *Bankacılık Düzenleme ve Denetleme Kurumu*) (the “BRSA”)) accounting standards).

## **4.2 Interpretation**

For the purposes of these Conditions:

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

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

## **5. COVENANTS**

### **5.1 Maintenance of Authorisations**

So long as any of the Notes remain 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, that may at any time be required to be obtained or made in the Republic of Turkey (including, without limitation, with the CMB and the BRSA for: (a) the execution, delivery or performance of the Agency Agreement, the Deed of Covenant and the Notes or for the validity or enforceability thereof or (b) save to the extent any failure to do so does not and would not have a material adverse effect on: (i) the business, financial condition or results of operations of the Issuer or (ii) the Issuer’s ability to perform its obligations under the Notes, the conduct by it of the Permitted Business.

### **5.2 Transactions with Affiliates**

So long as any of the Notes remain 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 US\$50,000,000 (or its equivalent in any other currency) unless such 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.

### 5.3 Financial Reporting

So long as any of the Notes remains outstanding, the Issuer shall deliver to the Fiscal Agent for distribution to a 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 IFRS consistently applied, together with the corresponding financial statements for the preceding financial year, and all such annual financial statements of the Issuer shall be accompanied by the report of the auditors thereon,
- (b) in the event that the Issuer prepares and publishes consolidated financial statements for the first six months of any financial year of the Issuer in accordance with IFRS, not later than 120 days after the end of that period, English language copies of such financial statements for such six-month period, together with (if prepared) the corresponding financial statements for the corresponding period of the preceding financial year,
- (c) not later than 120 days after the end of each financial year of the Issuer, English language copies of its audited consolidated financial statements for such financial year, prepared in accordance with BRSA accounting standards, together with the corresponding financial statements for the preceding financial year, and all such interim financial statements of the Issuer shall be accompanied by the report of the auditors thereon, and
- (d) not later than 120 days after the end of each of the first three quarters of each financial year of the Issuer, English language copies of its unaudited consolidated financial statements for such three month period, prepared in accordance with BRSA accounting standards, together with the corresponding financial statements for the corresponding period of the previous financial year, and all such interim financial statements of the Issuer shall be accompanied by a review report of the auditors thereon.

"*IFRS*" means the requirements of International Financial Reporting Standards issued by the International Accounting Standards Board (the "*IASB*") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time).

### 5.4 Interpretation

For the purposes of these Conditions:

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

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

- (a) whose total assets (consolidated in the case of a Subsidiary that 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 financial statements of the Issuer and its Subsidiaries relate, are equal to) not less than 15% 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 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, 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 financial statements of the Issuer and

its Subsidiaries relate, the reference to the then latest audited consolidated BRSA financial statements of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated 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 first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer,

- (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 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 financial statements of the Issuer and its Subsidiaries relate, are equal to) not less than 15% 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 15% 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 audited consolidated BRSA 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 that is the same as or related, ancillary or complementary to any of the businesses of the Issuer on the Issue Date.

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

*"Subsidiary"* means, in relation to any Person, any company: (a) in which such Person holds a majority of the voting rights, (b) of which such Person is a member and has the right to appoint or remove a majority of the board of directors or (c) of which such Person is a member and controls a majority of the voting rights, and includes any company that 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 entities that are (in accordance with applicable laws and BRSA accounting standards) consolidated into the Issuer.

## **6. INTEREST**

The applicable Final Terms indicate whether the Notes are Fixed Rate Notes, Floating Rate Notes or Zero Coupon Notes.

### **6.1 Interest on Fixed Rate Notes**

This Condition 6.1 applies to Fixed Rate Notes only. The applicable Final Terms contain provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 6.1 for full information

on the manner in which interest is calculated on Fixed Rate Notes. In particular, the applicable Final Terms specify the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Maturity Date, the Fixed Coupon Amount, any applicable Broken Amount, the Calculation Amount, the Day Count Fraction, any applicable Determination Date and whether the provisions relating to Modified Fixed Rate Notes will be applicable.

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

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

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

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

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

If Modified Fixed Rate Notes is specified as applicable in the applicable Final Terms and Interest Periods and Interest Amounts are specified as being subject to adjustment, then a Business Day Convention shall also be specified in the applicable Final Terms and (where applicable) Interest Payment Dates shall be postponed or brought forward, as the case may be, in accordance with Condition 6.6(b) and the relevant Interest Period and Interest Amount payable on the Interest Payment Date for such Interest Period will be adjusted accordingly.

## **6.2 Interest on Floating Rate Notes**

This Condition 6.2 applies to Floating Rate Notes only. The applicable Final Terms contain provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 6.2 for full information on the manner in which interest is calculated on Floating Rate Notes. In particular, the applicable Final Terms identify any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Specified Business Centres, whether ISDA Determination or Screen Rate Determination applies to the calculation of interest, the party who will calculate the amount of interest due if it is not the Fiscal Agent, the Margin, any maximum or minimum interest rates, the Day Count Fraction and whether the provisions relating to Modified Floating Rate Notes will be applicable. Where ISDA Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date. Where Screen Rate Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Reference Rate, Specified Time, Relevant Financial Centre, Interest Determination Date(s) and Relevant Screen Page.

(a) **Interest Payment Dates**

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

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

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

(b) **Rate of Interest**

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

(i) ISDA Determination for Floating Rate Notes

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

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

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

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

(ii) Screen Rate Determination for Floating Rate Notes

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

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page), or



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

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

If the Relevant Screen Page is not available or if, in the case of Condition 6.2(b)(ii)(A), no offered quotation appears or if, in the case of Condition 6.2(b)(ii)(B), fewer than three offered quotations appear, in each case as at the Specified Time, then the Fiscal Agent shall request each of the Reference Banks to provide the Fiscal Agent with its offered quotation (expressed as a percentage rate *per annum*) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks promptly so provide the Fiscal Agent with offered quotations, then the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Fiscal Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Fiscal Agent with an offered quotation as provided in the preceding paragraph, then the Rate of Interest for the relevant Interest Period shall be the rate *per annum* that the Fiscal Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Fiscal Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London interbank market (if the Reference Rate is LIBOR), the Euro-zone interbank market (if the Reference Rate is EURIBOR), the Turkish Lira interbank market (if the Reference Rate is TRLIBOR), the Romanian interbank market (if the Reference Rate is ROBOR), the Prague interbank market (if the Reference Rate is PRIBOR), the Hong Kong interbank market (if the Reference Rate is HIBOR or CNH HIBOR), the Singapore interbank market (if the Reference Rate is SIBOR), the Norwegian interbank market (if the Reference Rate is NIBOR), the Warsaw interbank market (if the Reference Rate is WIBOR) or the interbank market of the Relevant Financial Centre (if any other Reference Rate is used) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks promptly provide the Fiscal Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Fiscal Agent it is quoting to leading banks in the London interbank market (if the Reference Rate is LIBOR), the Euro-zone interbank market (if the Reference Rate is EURIBOR), the Turkish Lira interbank market (if the Reference Rate is TRLIBOR), the Romanian interbank market (if the Reference Rate is ROBOR), the Prague interbank market (if the Reference Rate is PRIBOR), the Hong Kong interbank market (if the Reference Rate is HIBOR or CNH HIBOR), the Singapore interbank market (if the Reference Rate is SIBOR), the Norwegian interbank market (if the Reference Rate is NIBOR), the Warsaw interbank market (if the Reference Rate is WIBOR) or the interbank market of the Relevant

Financial Centre (if any other Reference Rate is used) plus or minus (as appropriate) the Margin (if any); *provided* that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, then the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

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

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

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

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

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

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

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

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

**(e) Linear Interpolation**

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

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

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

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

### **6.4 Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6 and Condition 7.9 whether by the Fiscal Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default or fraud) be binding on the Issuer, the Fiscal Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders and Couponholders and (in the absence of wilful default or fraud) no liability to the Issuer shall attach to the Fiscal Agent or, if applicable, the Calculation Agent in connection with the exercise or non exercise by it of its powers, duties and discretions pursuant to such provisions.

### **6.5 Accrual of interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from (and including) the date for its redemption unless, upon due presentation thereof, payment of principal in respect of such Note is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

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

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

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

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

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
  - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “*Accrual Period*”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of: (1) the number of days in such Determination Period and (2) the number of

Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year, or

- (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of: (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year, and
  - (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of: (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year.

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

- (ii) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period or the Relevant Period, as the case may be, to (but excluding) the relevant payment date, divided by 360, calculated on a formula basis as follows:

- (A) in the case of Fixed Rate Notes, on the basis of a year of 360 days with 12 30-day months, and

- (B) in the case of Floating Rate Notes, on a formula basis as follows:

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

where:

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

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

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

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

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

“D2” is the calendar day, expressed as a number, immediately following the last day included in such period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30,

- (iii) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period or the Relevant Period, as the case may be, divided by 365 (or, if any portion of such period falls in a leap year, the sum of: (A) the actual number of days in that portion of the period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the period falling in a non-leap year divided by 365),

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

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

where:

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

**(b) Business Day Convention**

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

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

**6.7 Interpretation**

In these Conditions:

“*Business Day*” means a day that is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Specified Business Centre (other than the Trans-European Automatic Real-Time Gross Settlement Express Transfer (TARGET 2) System (the “*TARGET 2 System*”)) specified in the applicable Final Terms,
- (b) if the TARGET 2 System is specified as a Specified Business Centre in the applicable Final Terms or Pricing Supplement, then a day on which the TARGET 2 System is open, and
- (c) either: (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency or (ii) in relation to any sum payable in euro, a day on which the TARGET 2 System is open,

“*Interest Amount*” means the amount of interest,

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

*“Reference Banks”* means:

- (a) in the case of a determination of LIBOR, the principal London office of four major banks in the London interbank market,
- (b) in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market,
- (c) in the case of a determination of TRLIBOR, the principal Istanbul office of four major banks in the Turkish Lira interbank market,
- (d) in the case of a determination of ROBOR, the principal Bucharest office of four major banks in the Romanian interbank market,
- (e) in the case of a determination of PRIBOR, the principal Prague office of four major banks in the Prague interbank market,
- (f) in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong interbank market,
- (g) in the case of a determination of SIBOR, the principal Singapore office of four major banks in the Singapore interbank market,
- (h) in the case of a determination of NIBOR, the principal Oslo office of four major banks in the Norwegian interbank market,
- (i) in the case of a determination of WIBOR, the principal Warsaw office of four major banks in the Warsaw interbank market, and
- (j) in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Renminbi in the Hong Kong interbank market,

in each case as selected by the Fiscal Agent in consultation with the Issuer or as specified in the applicable Final Terms,

*“Reference Rate”* means, unless otherwise specified in the applicable Final Terms: (a) the London interbank offered rate (*“LIBOR”*), (b) the Euro-zone interbank offered rate (*“EURIBOR”*), (c) the Turkish Lira interbank offered rate (*“TRLIBOR”*), (d) the Hong Kong interbank offered rate (*“HIBOR”*), (e) the Romanian interbank offered rate (*“ROBOR”*), (f) the Prague interbank offered rate (*“PRIBOR”*), (g) the Singapore interbank offered rate (*“SIBOR”*), (h) the Norwegian interbank offered rate (*“NIBOR”*), (i) the Warsaw interbank offered rate (*“WIBOR”*) or (j) the CNH Hong Kong interbank offered rate (*“CNH HIBOR”*), in each case as specified in the applicable Final Terms,

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

*“Specified Time”* means, unless otherwise specified in the applicable Final Terms: (a) 11:00 a.m. (London time, in the case of a determination of LIBOR, Brussels time, in the case of a determination of EURIBOR, Bucharest time, in the case of a determination of ROBOR, Prague time, in the case of a determination of PRIBOR, Hong Kong time, in the case of a determination of HIBOR, Singapore time, in the case of a determination of SIBOR and Warsaw time, in the case of a determination of WIBOR), (b) 11:15 a.m. (Hong Kong time, in the case of a determination of CNH HIBOR), (c) 11:30 a.m. (Istanbul time, in the case of a determination of TRLIBOR), and (d) 12:00 p.m. (Oslo time, in the case of a determination of NIBOR), and

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

## **7. PAYMENTS**

### **7.1 Method of payment**

Subject as provided below, payments in a Specified Currency will be made by credit or transfer to an account in the relevant Specified Currency (or any account to which such Specified Currency may be credited or transferred) maintained by the payee, or, at the option of the payee, by a cheque in such Specified Currency drawn on a bank that processes payments in the Specified Currency. Subject to Condition 7.5, no payment of principal, interest or other amounts due in respect of a Bearer Note will be made by mail to an address in the United States or by transfer to an account maintained in the United States.

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 ("*FATCA Withholding Tax*") 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, any regulations or agreements thereunder, any official interpretations thereof, or law implementing an intergovernmental approach thereto ("*FATCA*").

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

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

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

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

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

A "*Long Maturity Note*" is a Fixed Rate Note (other than a Fixed Rate Note that on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon *provided* that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid thereon after that date is less than the nominal amount of such Note.

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



### 7.3 Payments in respect of Bearer Global Notes

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

### 7.4 Payments in respect of Registered Notes

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

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

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by any Agent in respect of any payments of principal or interest in respect of the Registered Notes, save as provided in Conditions 7.8 and 7.11.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. Dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. Dollars in accordance with the provisions of the Agency Agreement and Condition 7.11.

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

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

Except as provided in the Deed of Covenant, the registered holder of a Global Note shall be the only person entitled to receive payments in respect of the Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, as the beneficial owner of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for such person's share of each payment so made by or on behalf of the Issuer to, or to the order of, the holder of such Global Note. Except as provided in the Deed of Covenant, no person other than the registered holder of the relevant Global Note shall have any claim against the Issuer in respect of any payments due on that Global Note.

Notwithstanding the foregoing provisions of this Condition 7.5, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. Dollars, then U.S. Dollar payments in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

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

## **7.6 Payment Business Day**

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

For these purposes:

*"Payment Business Day"* means any day that (subject to Condition 10) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Notes in definitive form only, in the relevant place of presentation,
  - (ii) any Specified Financial Centre (other than the TARGET 2 System) specified in the applicable Final Terms, and

- (iii) if the TARGET 2 System is specified as a Specified Financial Centre in the applicable Final Terms, a day on which the TARGET 2 System is open,
- (b) either: (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency, or (ii) in relation to any sum payable in euro, a day on which the TARGET 2 System is open, and
- (c) in the case of any payment in respect of a Global Note, a day on which the Relevant Clearing System (or, if there is more than one Relevant Clearing System, each of them) settle(s) payments in the applicable Specified Currency (or, with respect to DTC, U.S. Dollars).

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

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

“*Relevant Clearing System*” means Clearstream, Luxembourg, Euroclear, DTC and/or any other clearing system(s) in which the relevant Notes are held from time to time.

## 7.7 Interpretation of principal and interest

Any reference in these Conditions to principal in respect of a Note shall be deemed to include, as applicable:

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

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

## 7.8 RMB account

All payments in respect of the Notes in RMB will be made solely by credit to a RMB account maintained by the payee at a bank in Hong Kong or such other financial centre(s) as may be specified in the applicable Final Terms as RMB Settlement Centre(s) in accordance with applicable laws, rules, regulations and guidelines issued from time to time (including all applicable laws and regulations with respect to the settlement of RMB in Hong Kong or any relevant RMB Settlement Centre).

“*RMB Settlement Centre(s)*” means the financial centre(s) specified as such in the applicable Final Terms in accordance with applicable laws and regulations. If no RMB Settlement Centre is specified in the relevant Final Terms, then the RMB Settlement Centre shall be deemed to be in Hong Kong.

## 7.9 RMB Currency Event

If RMB Currency Event is specified as being applicable in the applicable Final Terms and a RMB Currency Event occurs and is continuing on a date for payment of any amount due in respect of any Note or Coupon, the Issuer’s obligation to make payment in RMB under the terms of the Notes may be satisfied by payment of such amount in U.S. Dollars converted using the Spot Rate for the Rate Calculation Date.

Upon the occurrence of a RMB Currency Event that is continuing, the Issuer shall give irrevocable notice to the Noteholders in accordance with Condition 15 not less than five nor more than 30 days before the relevant due date for payment or, if this is not practicable due to the time at which the relevant RMB Currency Event occurs, as soon as practicable following such occurrence, stating the occurrence of the RMB Currency Event, giving details thereof and the action proposed to be taken in relation thereto.

For the purpose of this Condition and unless stated otherwise in the applicable Final Terms (and subject in the case of any determination of the Calculation Agent, to the provisions of Condition 6.4:

“*Governmental Authority*” means any *de facto* or *de jure* government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong,

“*PRC*” means the People’s Republic of China, which, for the purposes of these Conditions, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan,

“*Rate Calculation Business Day*” means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong, London and New York City,

“*Rate Calculation Date*” means the day that is two Rate Calculation Business Days before the due date of the relevant payment under the Notes,

“*RMB*” means Renminbi, the currency of the PRC,

“*RMB Currency Event*” means any one of RMB Illiquidity, RMB Non-Transferability and RMB Inconvertibility,

“*RMB Illiquidity*” means the general RMB exchange market in Hong Kong becomes illiquid as a result of which the Issuer cannot obtain sufficient RMB in order to make a payment, if any amount, in whole or in part, under the Notes, as determined by the Issuer acting in good faith and in a commercially reasonable manner following consultation with two independent foreign exchange dealers of international repute active in the RMB exchange market in Hong Kong,

“*RMB Inconvertibility*” means the occurrence of any event that makes it impossible for the Issuer to convert in the general RMB exchange market in Hong Kong any amount, in whole or in part, due in respect of the Notes into RMB on any payment date, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer, due to an event beyond the control of the Issuer, to comply with such law, rule or regulation),

“*RMB Non-Transferability*” means the occurrence of any event that makes it impossible for the Issuer to deliver RMB between accounts inside Hong Kong or from an account inside Hong Kong to an account outside Hong Kong (including where the RMB clearing and settlement system for participating banks in Hong Kong is disrupted or suspended), other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the

Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer due to an event beyond its control, to comply with such law, rule or regulation), and

“*Spot Rate*” means the spot CNY/U.S. Dollar exchange rate for the purchase of U.S. Dollars with RMB in the over-the-counter RMB exchange market in Hong Kong for settlement in two Rate Calculation Business Days, as determined by the Calculation Agent at or around 11:00 a.m. (Hong Kong time) on the Rate Calculation Date, on a deliverable basis by reference to Reuters Screen Page TRADCNY3, or if no such rate is available, on a non-deliverable basis by reference to Reuters Screen Page TRADNDF. If neither rate is available, the Calculation Agent shall, acting reasonably and in good faith, determine the rate taking into consideration all available information that the Calculation Agent deems relevant, including, among other things, pricing information obtained from the RMB non-deliverable exchange market in Hong Kong or elsewhere and the CNY/U.S. Dollar exchange rate in the PRC domestic foreign exchange market. Reference to a page on the Reuters Screen means the display page so designated on the Reuter Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate.

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

- (a) If “USD Payment Election” is specified as being applicable in the applicable Final Terms, the Specified Currency is Turkish Lira and interests in the Notes are not represented by a Registered Global Note registered in the name of DTC or its nominee, then a Noteholder (as of, in the case of Registered Notes only, the applicable Record Date) may, not more than 10 and not less than five Business Days before the due date (the “*Relevant Payment Date*”) for the next payment of interest and/or principal on a Note (such period, the “*USD Election Period*”), give an irrevocable election to any Agent to receive such payment in U.S. Dollars instead of Turkish Lira (each, a “*USD Payment Election*”). Each Agent to which such an election is given shall notify the Fiscal Agent on the Business Day following each USD Election Period of the USD Payment Elections made by the Noteholders during such USD Election Period and upon its receipt of such notification the Fiscal Agent shall notify the Exchange Agent of the total amount of Turkish Lira (the “*Lira Amount*”) to be paid by the Issuer in respect of the Notes the subject of such USD Payment Elections and that is to be converted into U.S. Dollars and paid to the holders of such Notes on the Relevant Payment Date in accordance with the provisions of this Condition 7.10 and Clause 7 of the Agency Agreement.

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

- (b) Upon receipt of the Lira Amount from the Issuer and by no later than 11:00 a.m. (London time) on the Relevant Payment Date, the Fiscal Agent shall transfer the Lira Amount to the Exchange Agent, which shall purchase U.S. Dollars with the Lira Amount for settlement on the Relevant Payment Date at a purchase price calculated on the basis of its own internal foreign exchange conversion rate which the Exchange Agent uses to convert such currency into U.S. dollars at the request of its other customers, the “*Applicable Exchange Rate*”). In no event shall any Agent be liable to any Noteholder, the Issuer or any third party for the conversion rate so used.

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

- (c) Following conversion of the Lira Amount into U.S. Dollars in accordance with this Condition 7.10 and the Agency Agreement, the Exchange Agent shall notify the Fiscal Agent of: (i) the total amount of U.S. Dollars purchased with the relevant Lira Amount and (ii) the Applicable Exchange Rate at which such U.S. Dollars were purchased by the Exchange Agent. On each Relevant Payment Date, the Fiscal Agent shall give notice to the Noteholders of such U.S. Dollar amount and Applicable Exchange Rate in accordance with Condition 15 as so notified to it by the Exchange Agent.

*Under the terms of the Agency Agreement, the Fiscal Agent will need to have received cleared funds from the Issuer on the Relevant Payment Date by no later than 11:00 a.m. (London time) in the case of a payment of interest or principal becoming due in order to make any payments to Noteholders on such Relevant Payment Date, including any such payments in U.S. Dollars. If the Fiscal Agent receives cleared funds from the Issuer after such time, then the Fiscal Agent will use reasonable efforts to pay the funds (including any so converted U.S. Dollar amounts) as soon as reasonably practicable thereafter.*

- (d) If, for illegality or any other reason, it is not possible for the Exchange Agent to purchase U.S. Dollars with the Lira Amount, then the Exchange Agent will promptly notify the Fiscal Agent, which shall, as soon as practicable upon receipt of such notification from the Exchange Agent, promptly notify the Noteholders of such event in accordance with Condition 15 and, in respect of Notes in Global form, all payments on the Notes on the Relevant Payment Date will be made in Turkish Lira in accordance with this Condition 7, irrespective of any USD Payment Election made. In the case of Definitive Notes, payments in respect of such Notes will be made in the manner specified in the Agency Agreement.
- (e) To give a USD Payment Election:
  - (i) in the case of Notes in definitive form, a Noteholder must deliver at the specified office of any Agent, on any Business Day falling within the USD Election Period, a duly signed and completed USD Payment Election in the form (for the time being current) obtainable from any specified office of any Agent and in which the holder must specify a USD bank account to which payment is to be made under this Condition 7.10 accompanied by the relevant Notes or evidence satisfactory to the Agent concerned that such Notes will, following the delivery of the USD Payment Election, be held to the Agent's order or under its control until the applicable U.S. Dollar payment is made, and
  - (ii) in the case of Notes in global form, a Noteholder must, on any Business Day falling within the USD Election Period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or DTC, as applicable (which may include notice being given on such holder's instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for any of them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg or DTC, as applicable, from time to time.
- (f) Notwithstanding any other provision in the Conditions to the contrary: (i) all costs of the purchase of U.S. Dollars with the Lira Amount shall be borne *pro rata* by the relevant Noteholders relative to the Notes of such Noteholders the subject of USD Payment Elections, which *pro rata* amount will be deducted from the U.S. Dollar payment made to such Noteholders, (ii) none of the Issuer, any Agent or any other Person shall have any obligation whatsoever to pay any related foreign exchange rate spreads, commissions or expenses or to indemnify any Noteholder against any difference between the U.S. Dollar amount received by such Noteholder and the portion of the Lira Amount that would have been payable to the Noteholder if it had not made the relevant USD Payment Election, (iii) the Exchange Agent may rely conclusively on the basis on which the Applicable Exchange Rate has been determined and (iv) neither the Issuer nor any Agent shall have any liability or other obligation to any Noteholder with respect to the conversion into U.S. Dollars of any amount paid by it to the Fiscal Agent in Turkish Lira or the payment of any U.S. Dollar amount to the applicable Noteholders.
- (g) The Exchange Agent may convert currency itself or through any BNYM Affiliates and, in those cases, the Exchange Agent or, as the case may be, the relevant BNYM Affiliate through which currency is converted acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, sales margin, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion and the rate that the Exchange Agent or any BNYM Affiliate receives when buying or selling foreign currency for its own account. The Exchange Agent makes no representation that the exchange rate used or obtained in any currency conversion under these Conditions will be the most favourable rate that could be obtained at the time or as to the method by which that rate will be determined.
- (h) Notwithstanding any provisions of these Conditions or the applicable Final Terms, in respect of any Notes that are the subject of a USD Payment Election in respect of any payment, the definition of Payment Business Day shall, for

the purposes of such payment on the Relevant Payment Date, be deemed to include a day (other than Saturday or Sunday) on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

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

In the case of any Notes registered in the name of DTC or its nominee and denominated in a Specified Currency other than U.S. Dollars, payments in respect of such Notes will be made in U.S. Dollars unless the participant in DTC with an interest in such Notes elects (through the applicable DTC participant and in accordance with normal DTC practice) to receive such payment in such Specified Currency in the manner specified in the Agency Agreement.

### **8. REDEMPTION AND PURCHASE**

#### **8.1 Redemption at maturity**

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

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

If:

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

then the Issuer may at its option, having given not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Noteholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes at any time at their Early Redemption Amount together (if applicable) 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, the Issuer shall deliver to the Fiscal Agent: (i) 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 setting forth a statement of facts showing that the conditions precedent as aforesaid to the right of the Issuer to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

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

This Condition 8.3 applies to Notes that are subject to redemption prior to the Maturity Date at the option of the Issuer (other than for taxation reasons pursuant to Condition 8.2), such option being referred to as an “*Issuer Call*.” *The applicable Final Terms contains provisions applicable to any Issuer Call and must be read in conjunction with*

*this Condition 8.3 for full information on any Issuer Call. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount, any minimum or maximum amount of Notes that can be redeemed and the applicable notice periods.*

If Issuer Call is specified as being applicable in the applicable Final Terms, then the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Noteholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together (if applicable) with interest accrued and unpaid to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms; *provided* that Registered Notes (or, for Registered Global Notes, beneficial interests therein) shall be redeemed under this Condition 8.3 only in a Specified Denomination.

In the case of a partial redemption of Notes under this Condition 8.3, the Notes to be redeemed (“Redeemed Notes”) will: (a) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot not more than 30 days prior to the date fixed for redemption, and (b) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) and/or DTC. In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption.

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

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

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

To exercise the right to require redemption of this Note (or a beneficial interest herein):

- (a) if this Note is in definitive form and held outside of Euroclear or Clearstream, Luxembourg, then the Noteholder hereof must deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “Put Notice”) and in which the holder of the Note must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 8.4 and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2; if this Note is in definitive bearer form, then the Put Notice must be accompanied by this Note or evidence satisfactory to



the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to such Paying Agent's order or under its control, and

- (b) if this Note is represented by a Global Note or held through Euroclear or Clearstream, Luxembourg, as applicable, whilst in definitive form, then the holder of this Note must, within the notice period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or DTC, as applicable (which may include notice being given on such holder's instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg or DTC, as applicable, from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or DTC, as applicable, given by a holder of any Note (or, if a Global Note, an interest therein) pursuant to this Condition 8.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 8.4 and instead to declare such Note forthwith due and payable pursuant to Condition 11.

## 8.5 Early Redemption Amounts

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

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

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

where:

"RP" means the Reference Price,

"AY" means the Accrual Yield expressed as a decimal, and

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

## **8.6 Purchases by the Issuer or its Subsidiaries**

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

## **8.7 Cancellation**

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

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

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

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

## **9. TAXATION**

### **9.1 Payment without Withholding**

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

- (a) presented for payment by or on behalf of a holder who is liable for Taxes in respect of the Note or, as the case may be, Coupon by reason of such holder having some connection with any Relevant Jurisdiction other than the mere holding of the Note or Coupon,
- (b) presented for payment in the Republic of Turkey, or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder of the relevant Note or, as the case may be, Coupon 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 or Coupons for, or on account of, any withholding or deduction required pursuant to FATCA.

In these Conditions:

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

## **9.2 Additional Amounts**

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

## **10. PRESCRIPTION**

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

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

## **11. EVENTS OF DEFAULT**

### **11.1 Events of Default**

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

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

made by the Issuer or any of its Material Subsidiaries in making any payment due under any Qualifying Guarantee given by it in relation to any Indebtedness for Borrowed Money of any other person, subject to any applicable grace period,

- (d) if:
- (i) any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of its Material Subsidiaries,
  - (ii) the Issuer ceases or threatens to cease to carry on the whole or a substantial part, or any Material Subsidiary ceases or threatens to cease to carry on the whole or substantially the whole, in each case, of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any of its Material Subsidiaries suspends or threatens to suspend payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated, declared or found by a competent authority to be (or becomes) bankrupt or insolvent,
  - (iii) the Issuer or any of its Material Subsidiaries commences negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of all or a substantial part of its indebtedness, or
  - (iv) the Issuer or any of its Material Subsidiaries: (A) takes any corporate action or other steps are taken or legal proceedings are started: (x) for its winding-up, dissolution, administration, bankruptcy or re-organisation (other than for the purposes of and followed by a reconstruction while solvent upon terms previously approved by an Extraordinary Resolution of Noteholders) or (y) for the appointment of a liquidator, receiver, administrator, administrative receiver, trustee or similar officer of it or any substantial part or all of its revenues and assets or (B) shall or propose to make a general assignment for the benefit of its creditors or shall enter into any general arrangement or composition with its creditors,
- in each case in sub-paragraphs (i) to (iv) above, save for the solvent voluntary winding-up, dissolution or re-organisation of any Material Subsidiary in connection with any combination with, or transfer of the whole or substantially the whole of its business and/or assets to, the Issuer or one or more other Subsidiary(ies) of the Issuer, or
- (e) if the banking licence of the Issuer is temporarily or permanently revoked or the Issuer is transferred to the Savings Deposit Insurance Fund under the provisions of the Banking Law (Law No. 5411) of Turkey.

## 11.2 Interpretation

For the purposes of this Condition 11:

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

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

the aggregate principal amount of which exceeds US\$50,000,000 (or its equivalent in any currency or currencies), and

“*Qualifying Guarantee*” means any guarantee and/or indemnity of the Issuer or relevant Material Subsidiary that: (a) is in respect of Indebtedness for Borrowed Money that has been defaulted in the manner described in subparagraph (iv) of Condition 11.1(c) and (b) exceeds US\$50,000,000 (or its equivalent in any currency or currencies).

## **12. REPLACEMENT OF NOTES, COUPONS AND TALONS**

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

## **13. AGENTS**

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

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

- (a) there will at all times be a Fiscal Agent and a Registrar,
- (b) there will at all times be, in the case of Bearer Notes, a Paying Agent (which may be the Fiscal Agent) and, in the case of Registered Notes, a Transfer Agent (which may be the Registrar),
- (c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. Dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City, and
- (d) there will at all times be a Paying Agent in a jurisdiction other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall as soon as practicable appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.5.

Notice of any variation, termination, appointment or change in Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 15.

Any variation, termination, appointment or change of an Agent shall only take effect (other than in the case of insolvency or a Paying Agent ceasing to be a FATCA-Compliant Entity or as otherwise prescribed by the Agency Agreement, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

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

For the purposes of this Condition, “*FATCA-Compliant Entity*” means a person payments to whom are not subject to any FATCA Withholding Tax.

## **14. EXCHANGE OF TALONS**

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

## **15. NOTICES**

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

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

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

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

## **16. MEETINGS OF NOTEHOLDERS AND MODIFICATION**

### **16.1 Meetings of Noteholders**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes (including any of these Conditions), the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than 5% in nominal amount of the Notes for the time being outstanding. A meeting that has been validly convened in accordance with the provisions of the Agency Agreement may be cancelled by the person who

convened such meeting giving at least five days' notice which, in the case of a meeting convened by the Issuer, will be given to applicable Noteholders in accordance with Condition 15. The quorum at any such meeting for passing an Extraordinary Resolution is one or more person(s) holding or representing not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more person(s) being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of these Conditions, the Notes or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes or the Coupons or amending the Deed of Covenant in certain respects), the quorum shall be one or more person(s) holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more person(s) holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed by the Noteholders will be binding on all the Noteholders, whether or not they are present at any meeting, and whether or not they vote on the resolution, and on all Couponholders.

## **16.2 Modification**

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

## **17. FURTHER ISSUES**

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

## **18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

## **19. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **19.1 Governing law**

The Agency Agreement, the Deed of Covenant, the Deed Poll, the Notes and the Coupons are, and any non-contractual obligations arising out of or in connection with any of them will be, governed by, and construed in accordance with, English law.

### **19.2 Submission to jurisdiction of courts of England**

The Issuer irrevocably agrees, for the benefit of the Noteholders and the Couponholders, 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) is to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes and/or the Coupons

(including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons) and accordingly submits to the exclusive jurisdiction of the 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 and the Couponholders may take any suit, action or proceedings (together referred to as “*Proceedings*”) arising out of or in connection with the Notes and the Coupons (including any Proceeding relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions to the extent allowed by law.

### **19.3 Consent to enforcement**

The Issuer agrees, without prejudice to the enforcement of a judgment obtained in the 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 Procedure Law of Turkey (Law No. 5718), that in the event that any action is brought in relation to the Issuer in a court in Turkey in connection with the Notes and/or the Coupons, in addition to other permissible legal evidence pursuant to the Civil Procedure Code of Turkey (Law No. 6100), any judgment obtained in the 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 (Law No. 6100) and Articles 58 and 59 of the International Private and Procedure Law of Turkey (Law No. 5718).

### **19.4 Appointment of process agent**

Service of process may be made upon the Issuer at Qatar National Bank (Q.P.S.C.), London Branch (with a current address of 51 Grosvenor Street, London, W1K 3HH, United Kingdom) in respect of any Proceedings in England and the Issuer undertakes that in the event of such process agent ceasing to maintain a branch in London it will appoint another person as its agent for that purpose.

### **19.5 Other documents**

The Issuer has, in the Agency Agreement, the Deed of Covenant and the Deed Poll, submitted to the jurisdiction of the 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, in terms substantially similar to those set out above.



## **USE OF PROCEEDS**

The Bank will incur various expenses in connection with the issuance of each Tranche of the Notes, including (as applicable) underwriting fees, legal counsel fees, rating agency expenses and listing expenses. The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes; *however*, for any particular Tranche, the Bank may agree (and so specify in the applicable Final Terms) with the relevant Dealer(s) or investor(s) that the proceeds of the issuance of such Tranche shall be used for one or more specific purpose(s), such as environmental development or sustainability.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The following tables present selected consolidated financial and other data of the Bank and entities that consolidate into the Bank as of and for the years ended 31 December 2014, 2015 and 2016. Investors should read this selected consolidated financial information along with the BRSA Financial Statements incorporated by reference into this Base Prospectus. The BRSA Financial Statements are presented in Turkish Lira and have been prepared in accordance with the BRSA Accounting and Reporting Regulation described in more detail in the accounting principles included in the notes to the BRSA Financial Statements and in “Presentation of Financial and Other Information.”

	2014	2015	2016
<b>Income Statement Data:</b>		<i>(TL thousands)</i>	
Interest income.....	6,700,863	7,835,586	9,034,828
Interest expense .....	(3,496,338)	(3,752,831)	(4,356,208)
<b>Net interest income .....</b>	<b>3,204,525</b>	<b>4,082,755</b>	<b>4,678,620</b>
Fees and commissions received.....	1,616,280	1,653,836	1,767,919
Fees and commissions paid.....	(219,297)	(266,598)	(323,042)
<b>Net fees and commissions income .....</b>	<b>1,396,983</b>	<b>1,387,238</b>	<b>1,444,877</b>
Other operating and net trading income.....	133,825	(454,573)	(250,396)
Dividend income.....	263	58	170
<b>Net Operating income.....</b>	<b>4,735,596</b>	<b>5,015,478</b>	<b>5,873,271</b>
Other operating expenses.....	(2,443,011)	(2,874,440)	(2,938,079)
Provision for loan losses and other receivables .....	(1,100,491)	(1,207,444)	(1,390,423)
Gain/loss on equity method .....	(601)	(49,538)	(11,755)
<b>Profit before taxes .....</b>	<b>1,191,493</b>	<b>884,056</b>	<b>1,533,014</b>
Tax charge .....	(275,554)	(203,642)	(294,714)
<b>Net profit/(loss).....</b>	<b>915,939</b>	<b>680,414</b>	<b>1,238,300</b>

	As of 31 December		
	2014	2015	2016
<b>Balance Sheet Data:</b>		(TL thousands)	
Cash and balances with the Central Bank.....	8,663,920	9,997,045	13,103,884
Financial assets at fair value through profit or loss (net).....	1,399,019	2,368,688	2,847,693
Banks.....	300,434	318,139	312,066
Money market placements.....	244,425	87,711	1,667,618
Loans and receivables.....	50,083,280	57,062,195	62,614,093
Investment securities (net) <sup>(1)</sup> .....	9,160,736	9,169,564	12,932,620
Investment in equity participations (net) <sup>(2)</sup> .....	189,867	127,847	116,091
Tangible assets (net).....	1,472,095	1,581,509	1,838,308
Intangible assets (net).....	235,294	270,040	288,218
Current tax asset.....	269	6,846	4,737
Deferred tax assets.....	62,179	100,943	66,967
Other assets <sup>(3)</sup> .....	5,023,607	6,958,539	8,533,539
<b>Total Assets</b> .....	<b>76,835,125</b>	<b>88,049,066</b>	<b>104,325,834</b>
Bank deposits.....	1,423,002	1,556,770	1,972,985
Deposits from customers <sup>(4)</sup> .....	40,472,732	46,754,507	51,892,264
Money market borrowings.....	4,215,752	4,809,261	6,619,833
Funds borrowed.....	5,853,084	6,066,057	6,066,057
Other liabilities and provisions <sup>(5)</sup> .....	7,984,279	10,910,299	12,607,960
Securities issued (net).....	5,825,498	5,826,987	6,331,577
Subordinated loans.....	2,121,712	2,662,119	3,235,793
Current tax liabilities.....	175,964	57,581	198,098
Deferred tax liabilities.....	1,488	-	-
<b>Total liabilities</b> .....	<b>68,037,511</b>	<b>78,643,581</b>	<b>94,022,055</b>
Paid-in capital.....	2,835,000	3,000,000	3,150,000
Share premium.....	714	714	714
Available-for-sale investments reserve, net of tax.....	(51,856)	(244,259)	(420,153)
Net gains (losses) on cash flow hedges.....	(40,479)	81,175	45,551
Other capital reserves.....	(49,396)	(45,674)	(43,654)
Profit reserves.....	4,853,036	5,621,561	6,329,182
Profit or loss.....	1,072,420	802,739	1,236,405
<b>Total equity attributable to equity holders of the parent shareholder</b> .....	<b>8,619,439</b>	<b>9,216,256</b>	<b>10,298,045</b>
Minority shares.....	178,175	189,229	5,734
<b>Total shareholders' equity</b> .....	<b>8,797,614</b>	<b>9,405,485</b>	<b>10,303,779</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>76,835,125</b>	<b>88,049,066</b>	<b>104,325,834</b>
<b>Off-balance sheet commitments and contingencies</b> .....	<b>40,638,626</b>	<b>46,233,364</b>	<b>55,251,188</b>

(1) Represents the total of investment securities available-for-sale (net) and investment securities held to maturity (net).

(2) Represents the total of investment in associates (net), investment in subsidiaries (net) and entities under common control (joint ventures) (net).

(3) Represents the total of factoring receivables, lease receivables (net), derivative financial assets hedging purposes, assets held for sale and discontinued operations and other assets.

(4) Referred to as "other deposits" in the BRSA Financial Statements.

(5) Represents the total of derivative financial liabilities for hedging purposes, derivative financial liabilities for trading, provisions, sundry creditors and other liabilities.

The following table includes certain of the Group's key ratios as of and for the years ended 31 December 2014, 2015 and 2016. The basis for calculation of ratios that are non-GAAP financial measures is set out in the notes below. Non-GAAP

financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with the BRSA Accounting and Reporting Regulation. See “Presentation of Financial and Other Information.”

	As of (or for the year ended) 31 December		
	2014	2015	2016
<b>Key Ratios:</b>			
<b>Profitability Ratios:</b>			
Net interest margin <sup>(1)</sup> .....	5.6%	6.2%	6.4%
Other operating expenses as a % of total average assets <sup>(2)</sup> .....	3.4%	3.4%	3.1%
Cost-to-income ratio <sup>(3)</sup> .....	51.6%	57.3%	50.0%
Return on average total assets <sup>(4)</sup> .....	1.2%	0.8%	1.3%
Return on average shareholders' equity excluding minority interest <sup>(5)</sup> .....	11.1%	7.4%	12.7%
<b>Balance Sheet Ratios:</b>			
Deposits to total assets (total deposits including bank deposits) .....	54.5%	54.9%	51.6%
Total loans (net of provisions) to total assets <sup>(6)</sup> .....	65.3%	64.9%	60.0%
<b>Credit Quality:</b>			
Non-performing loans to total gross cash loans .....	5.2%	6.3%	5.8%
Specific provisions for loan losses to non-performing loans .....	79.1%	80.3%	83.9%
Specific provisions for loan losses to total loans .....	4.1%	5.1%	4.9%
<b>Capital Adequacy:</b>			
Tier I regulatory capital/risk-weighted assets and market risk <sup>(7)</sup> .....	12.8%	12.0%	12.4%
Total regulatory capital/risk-weighted assets and market risk <sup>(7)</sup> .....	16.9%	15.5%	14.3%
Average shareholders' equity excluding minority interest/average total assets <sup>(8)</sup> .....	11.2%	10.6%	10.2%
<b>Other Information:</b>			
Average employees during the period .....	13,958	13,341	13,073
Branches at period end (Bank-only) .....	658	643	630
<b>Inflation rate/GDP</b>			
Producer price index inflation <sup>(9)</sup> .....	6.4%	5.7%	9.9%
Gross Domestic Product (% change) <sup>(10)</sup> .....	5.2%	6.1%	2.9%
<b>TL/US\$ Exchange Rate:</b>			
Period end .....	2.3189	2.9076	3.5318

- (1) Represents net interest income *divided by* average interest earning assets. Average interest earning assets are computed by taking the average of the quarter-end balances of the Bank's available-for-sale investment securities (net), investment securities held to maturity (net), financial assets at fair value through profit or loss (net), money market placements, loans and receivables, leasing receivables (net) and factoring receivables.
- (2) Represents other operating expenses *divided by* average total assets. Average total assets are computed by calculating the average of the quarter-end balances during the relevant reporting period.
- (3) Represents other operating expenses *divided by* net operating income.
- (4) Represents net profit *minus* minority shares of net profit as a percentage of average total assets. Average total assets are computed by calculating the average of the quarter-end balances during the relevant reporting period.
- (5) Represents the Group's net profit *minus* minority shares of net profit *divided by* average shareholders' equity excluding minority shares. Average shareholders' equity excluding minority shares is computed by calculating the average of the quarter-end balances during the relevant reporting period.
- (6) Represents total loans *divided by* total assets.
- (7) Capital adequacy ratios calculated in accordance with BRSA guidelines.
- (8) Represents the average total equity attributable to equity holders of the Bank as a percentage of average total assets. Average total assets is computed by taking the average of the quarter-end balances during the relevant reporting period.
- (9) Base year –2003.
- (10) Represents the growth of GDP.

## CAPITALIZATION OF THE GROUP

The following table sets forth the capitalization of the Group as of the indicated dates. The following financial information has been extracted from the Group's BRSA Financial Statements without material adjustment. This table should be read in conjunction with the BRSA Financial Statements (including the notes thereto) incorporated by reference into this Base Prospectus.

	As of 31 December		
	2014	2015	2016
		<i>(TL thousands)</i>	
Paid-in capital .....	2,835,000	3,000,000	3,150,000
Share premium .....	714	714	714
Available-for-sale investments reserve, net of tax .....	(51,856)	(244,259)	(327,478)
Net gains (losses) on cash flow hedges .....	(40,479)	81,175	45,551
Minority shares .....	178,175	189,229	5,734
Reserves and retained earnings .....	5,876,060	6,378,626	7,521,933
<b>Total equity</b> .....	<b>8,797,614</b>	<b>9,405,485</b>	<b>10,303,779</b>
Funds borrowed (medium/long-term) <sup>(1) (2)</sup> .....	3,787,421	5,020,097	10,434,031
Debt securities issued (medium/long-term) <sup>(1)</sup> .....	3,489,444	5,056,911	4,528,692
<b>Total capitalization</b> .....	<b>16,074,479</b>	<b>19,482,493</b>	<b>25,266,502</b>

(1) Funds borrowed and debt securities issued do not include short-term (less than one year) borrowed funds and debt securities issued.

(2) Includes US\$910.0 million of the Bank's Tier II subordinated debt instruments.

As of the date hereof, there has been no significant change in total capitalization since 31 December 2016.

## BUSINESS OF THE GROUP

### General

The Bank is a Turkish private commercial bank that provides banking products and services to retail, corporate, commercial and SME banking and other customers through a network of branches (630 branches as of 31 December 2016) operating in major cities throughout Turkey. As of 31 December 2016, according to the most recent statistics published before the date of this Base Prospectus on the Public Disclosure Platform, the Bank was the fifth largest private bank in Turkey in terms of Bank-only total assets with TL 101,503.1 million total assets. Since 15 June 2016, following the completion of the transfer of shares from the NBG Group to QNB, the Bank has been a subsidiary of QNB.. QNB, together with its subsidiaries and associate companies, is a leading banking group operating in 27 countries around the world, primarily in the Middle East and North Africa region. See “Share Capital and Ownership - Ownership.”

Since its initial entry to the Turkish banking market in 1987, the Bank has grown its branch network significantly. The Bank’s branch network increased from 309 branches as of 31 December 2006 to 630 branches as of 31 December 2016, consisting of 605 full-service branches, 17 retail-only branches, 4 corporate-only branches and 4 commercial-only branch located in 53 commercial centres in Turkey, mainly in İstanbul, İzmir, Ankara and Antalya. The Bank also has a branch at the Atatürk Airport Free Trade Zone in İstanbul and one branch in Bahrain. Following significant investment in its branch network, the Group now aims to maintain the number of its branches at approximately the current levels. The Group, through the Bank and its subsidiaries and other affiliates, also undertakes leasing, factoring, insurance and investment banking activities. As of 31 December 2016, the Group had total assets of TL 104,325.8 million, loans and receivables of TL 62,637.1 million, total deposits of TL 53,865.2 million and total equity of TL 10,303.8 million.

In addition to its branch network, the Group has made significant investments in alternative delivery channels such as ATMs, a POS network, internet banking, mobile banking and a call centre. In October 2012, the Group launched Enpara.com, an online banking platform designed to provide banking and payment services to retail customers in Turkey without the use of any physical branches. Since its establishment, Enpara.com has grown its registered customer base from 18,000 customers to over 633,000 customers as of 31 December 2016, with 76.7% of such customers not having been pre-existing customers of the Group.

The Group has three main business segments: retail banking, SME banking and corporate and commercial banking, additional information about each of which is provided below:

- *Retail Banking.* The Group’s retail banking activities consist primarily of mortgages, consumer lending, credit and debit card services, deposits, investments and insurance products. The Group’s offerings to retail customers are divided into three main further sub-groups: (a) private banking, which serves individuals with liquid assets under management exceeding TL 750,000 through customised service offerings, (b) the affluent segment, which serves individuals with assets under management between TL 100,000 and TL 750,000, offering features such as dedicated relationship managers and a diverse set of banking and non-banking services and benefits, and (c) the mass market segment with a wide variety of products and services. Retail banking has been one of the principal drivers of the Group’s growth during recent years. As of 31 December 2016, the Group had approximately 4.0 million retail banking customers (excluding credit card customers) and the Group had performing retail loans and receivables (including mortgage, retail credit card and consumer loans (which comprise personal need loans, overdrafts and auto loans)) of TL 22,001.4 million, representing 35.5% of the Group’s performing loans and receivables (representing total gross loans, including financial assets at fair value through profit and loss, *minus* specific provisions).
- *SME Banking.* The Bank’s SME banking activities consist primarily of revolving credit lines, instalment loans, overdrafts, business housing loans and demand deposits. As one of the first banks in Turkey to focus on this segment, the Bank started its SME banking operations at the beginning of 2003 to support Turkish small businesses. The SME banking segment consists of: (a) Agricultural Banking, (b) SME Banking Small Enterprises, which serves enterprises with annual revenues of up to TL 4 million, and (c) SME Banking Medium Enterprises, which serves enterprises with annual revenues between TL 4 million and TL 40 million. In recent years, SME banking has represented an increasingly important part of the Group’s overall

loan portfolio. As of 31 December 2016, the Group's SME banking operations had more than 385,000 active customers and performing loans and receivables of TL 18,947.6 million, representing 30.5% of the Group's performing loans and receivables.

- *Corporate and Commercial Banking.* The Group's corporate and commercial banking activities primarily consist of traditional and non-cash lending, project and structured finance, trade finance, cash management, corporate syndication, secondary market transactions, deposit taking and certificated debt instruments. The corporate and commercial banking segment consists of: (a) corporate banking, which serves large businesses (including multinational corporations), and (b) commercial banking, which serves enterprises with annual revenues between TL 20 million and TL 300 million. As of 31 December 2016, the Group's corporate and commercial banking operations had approximately 11,000 customers and performing loans and receivables of TL 21,065.7 million, representing 34.0% of the Group's performing loans and receivables.

The Group also undertakes leasing, factoring, insurance and investment banking activities through its subsidiaries and other affiliates.

## History

The Bank was founded in İstanbul on 23 September 1987 and its primary focus originally was to provide wholesale banking services to large Turkish corporations, in particular the financing of trade activities and working capital and the issuance of guarantees to and on behalf of large Turkish corporations. The Bank also provided investment banking services, concentrating initially on the sale and trading of Treasury bills and debt and equity instruments and corporate finance advisory activities. Since 1987, the Bank has significantly expanded the range of services that it offers to its corporate customers located in Turkey and abroad. As a provider of wholesale banking services, the Bank initially operated through four offices (two in İstanbul and one each in Ankara and İzmir) until 1995.

In 1995, the Bank made a strategic decision to expand its branch network, and to enter the retail banking sector, concentrating on upper-middle income individuals. At the same time, corporate banking activities were expanded geographically with the establishment of new branches in additional commercial centres. In January 1997, the Bank's investment banking activities were transferred, in accordance with CMB regulations, to Finans Invest, a subsidiary established exclusively for that purpose.

In June 1999, the Turkish and Bahraini banking authorities granted a banking licence to allow the Bank to establish a branch office in Manama, Bahrain. This branch office, which commenced operations in July 1999, allows the Bank to capitalise on the tax advantages afforded by Bahrain and provides the Bank with greater access to countries in the Persian Gulf region.

NBG acquired 46.0% of the Bank's ordinary shares and 100.0% of its founder dividend shares in August 2006, which founder dividend shares are to be redeemed in accordance with the Bank's Board of Directors resolution, dated 16 September 2014. In January 2007, NBG acquired a further 43.4% of the Bank's outstanding ordinary shares through a tender offer required by its initial acquisition.

In April 2007, following an agreement signed in January of the same year, NBG disposed of 5.0% of the Bank's ordinary shares to the International Finance Corporation (the "IFC"). During 2007, NBG acquired a further 0.5% of the outstanding share capital of the Bank.

On 9 November 2012, the Bank disposed of 51.0% of Finans Emeklilik ve Hayat Anonim Şirketi ("*Finans Pension*") to Cigna for TL 202.9 million and also established a so-called earn-out structure of preference dividends paid to the Bank. As of the date of this Base Prospectus, the Bank held 49.0% of the shares of Finans Pension. Following the sale transaction, Finans Pension has been accounted for in the Group's financial statements using the equity method. In 2012, the Bank and Finans Pension signed an exclusive agency agreement for the duration of 15 years that covers the Bank's distribution of Finans Pension's life insurance and pension products. In 2013, Finans Pension's title was changed to Cigna Finans Emeklilik ve Hayat Anonim Şirketi ("*Cigna Finans Pension*").

On 16 November 2012, the Bank executed a share purchase agreement with Banque PSA Finance SA for the disposal of 100.0% of the shares of Finans Consumer Finance for TL 4.3 million. Finans Consumer Finance was established in 2008 and its primary focus was to provide loans to consumers for the purchase of certain goods and services from merchants with whom the Company has a partnership agreement.

The Bank's ordinary shares were listed for the first time on the Borsa İstanbul on 3 February 1990. The Bank undertook a secondary public offering on 3 June 1998 when Global Depositary Receipts, representing its ordinary shares, were listed on the London Stock Exchange.

On 29 March 2007, NBG and the IFC entered into a put and call option agreement (the "*Put and Call Option Agreement*") relating to the IFC's shares in the Bank. On 26 September 2014, the IFC exercised its put option under this agreement and sold to NBG 1,417,499,438.73 shares that it held in the Bank, representing 5.0% of the ordinary shares of the Bank, in exchange for US\$343,060,696.50 (US\$2.420182239 for TL 1 nominal share) pursuant to the provisions set forth in the Put and Call Option Agreement.

On 9 November 2015, the BRSA approved the Bank's acquisition of the shares that Banque PSA Finans SA held in Hemenal Finansman A.Ş. ("*Hemenal Finansman*"), a company providing consumer finance loans. Such share transfer was finalised on 14 December 2015.

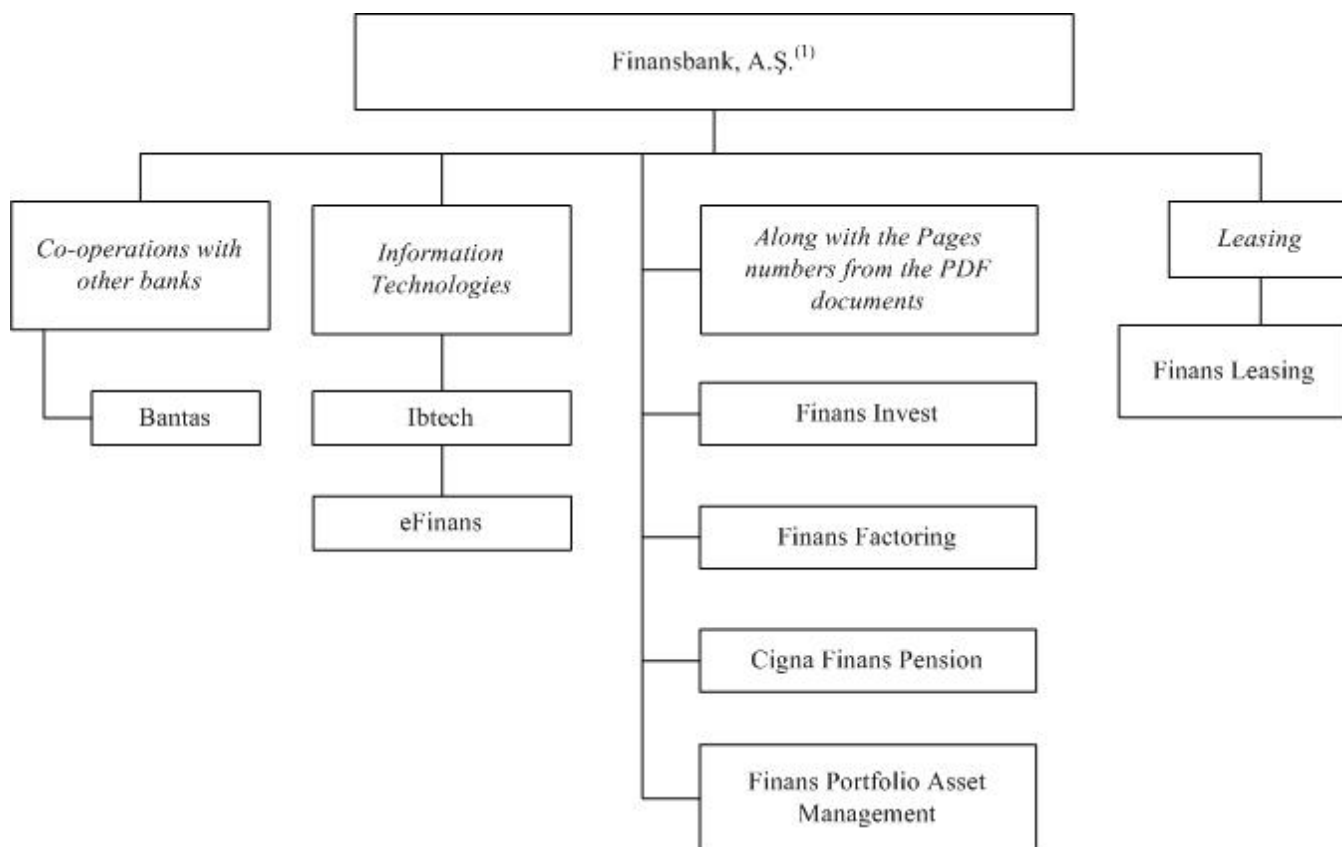
On 21 December 2015, NBG entered into the Share Purchase Agreement with QNB regarding the sale of its direct and indirect 99.81% stake in the Bank. On 15 June 2016, NBG and its subsidiaries holding shares in the Bank and other NBG Group companies transferred all of their shares to QNB, which shares, as of such date, corresponded to: (a) 99.81% of the share capital of the Bank, (b) 0.2% of the share capital of Finans Invest, (c) 0.02% of the share capital of Finans Portfolio Asset Management and (d) 29.87% of the share capital of Finans Leasing). In accordance with the Communiqué, the shareholders of the Bank (other than QNB) had a right to sell their shares in the Bank to QNB within a three month period starting on 16 June 2016. At the end of such period, as of 16 September 2016, 99.88% of the shares of the Bank were owned by QNB and the remaining shares were traded on the Borsa İstanbul. See "Share Capital and Ownership."

The marketing name of the Bank was changed to QNB Finansbank on 20 October 2016.

## **Corporate Structure**

The following chart shows the subsidiaries and joint ventures of the Group as of the date of this Base Prospectus.





(1) The Bank operates a foreign branch office in Manama, Bahrain.

## Retail Banking

### Overview

The Group's retail banking activities consist primarily of mortgages, consumer lending, credit and debit card services, deposits and investment management, and insurance products. Income from the Group's retail banking activities includes net interest income from loans and receivables to/from retail customers and deposits collected from individuals, as well as fee and commission income received from loan underwriting, asset management services, life insurance and property and casualty insurance products, credit and debit card-related services, settlements and cash-related transactions with or for individuals. Even though the Group has been reducing its exposure to retail customers since 2012, retail banking has been one of the principal drivers of the Group's growth in recent years. As of 31 December 2016, the Group had approximately 4.8 million active registered retail banking customers (excluding credit card customers) compared to approximately 4.9 million as of 31 December 2015 and had loans and receivables of TL 22,001.4 million (which represented 35.1% of the Group's total loans and receivables) compared to TL 21,629.7 million as of 31 December 2015.

Since entering the Turkish retail banking market in 1995, the Bank has developed a network of branches that are designed to sell a full range of the Group's financial products dedicated exclusively to retail and corporate customers. The Bank offers a full range of retail and corporate banking and related financial services through 605 of its full-service branches, as well as 17 retail-only financial services, as of 31 December 2016. The Bank's policy is to make all of its retail products available at all of its branches (excluding four corporate branches, a branch in Atatürk International Airport Free Trade Zone and one branch in Bahrain) and have a retail customer representative or relationship manager in each branch.

The Bank's management believes that its approach of combining branches with alternative delivery channels has resulted in a network that is both productive and efficient. As of 31 December 2016, the Group's retail branches had an average retail loan volume of TL 34.9 million and, according to the Banks Association of Turkey, the Group had (as of

31 December 2016) the most productive branch network in Turkey in terms of branch retail loan volumes, even though it was the youngest network among its Private Sector Peers with an average branch age of 9.9 years as of such date. The expansion of the retail branch network has allowed the Group to organically grow its customer base. See also “– Branches.”

The Bank’s goal for its retail banking operations is to become the bank of choice for individuals, providing fast, efficient and relationship-oriented services, addressing customer needs and differentiating its offerings so as to steer away from spread compression in the market. The key pillars of the Bank’s retail banking strategy are a dynamic sales network consisting of high productivity branches and what the Bank believes are market-leading alternative sales and distribution channels, a marketing engine continuously deploying innovative products and campaigns, unparalleled customer and product analytics boosting both customer and product profitability, and state of the art risk management supporting healthy business growth.

The Group’s retail banking operations are divided into two main groups: Consumer Banking and Credit Cards. Consumer Banking operations are further divided into three sub-groups, namely private banking, affluent (high-income) banking and mass market banking, each of which is described as follows:

- Private banking: This segment, which had approximately 9,172 active customers and represented 0.2% of the Group’s retail loans and receivables (and 20.2% of the Group’s retail deposit base) as of 31 December 2016, assists customers build and preserve their financial wealth through tailored investment strategies and offers its customers time deposits, mutual funds, emerging market bonds, domestic and international equities, government bonds, corporate bonds, currency exchange, forward contracts, futures, options and structured products. The private banking sub-segment also creates and implements mid- to long-term asset allocation in line with each customer’s particular risk tolerance. This segment serves customers with assets under management exceeding TL 750,000 (or the Turkish Lira-equivalent of such amount in one or more currencies) at the Bank. The private banking sub-segment supports all of the Group’s business lines (retail, corporate and commercial) and cooperates with Finans Portfolio Asset Management and Finans Invest to execute and advise clients’ transactions.
- Affluent (high-income) banking: This segment, branded as “Xclusive Banking,” had approximately 50,603 active customers and represented 0.9% of the Group’s retail loans and receivables (and 48.8% of the Group’s retail deposit base) as of 31 December 2016. “Xclusive Banking” was launched at the beginning of 2009 and serves customers with assets under management between TL 100,000 and TL 750,000. The service offering to affluent banking customers is centred on dedicated relationship managers in branches supported by dedicated agents at the call centre, offering a diverse and exhaustive set of banking and non-banking benefits. Given the focus of the segment towards higher income customers, the customers are provided with daily investment advisory and investment products targeted to the segment. The Bank is the only bank in Turkey to have established a Retail Sector Banking Unit focused on developing banking relationships with medical doctors.
- Mass Market Banking: This segment, which had approximately 4.7 million active customers and represented 63.4% of the Group’s retail loans and receivables (and 30.9% of the Group’s retail deposit base) as of 31 December 2016, is served through a more standardised product set and packaged offerings. Customer acquisition in the mass market segment is mostly executed through consumer loan, credit card, mortgage sales and salary account relations. Although cross-sales at the point of acquisition are a key part of customer profitability improvement, strong central customer analytics-driven portfolio management activities further boost customer profitability and retention. Such activities are executed by central outbound and inbound call centre teams and other alternative delivery channels such as Internet and mobile banking in addition to the branch sales efforts. Moreover, packaged offers designed for mass market customers help to improve additional product penetration to overall customer portfolio. Sub-segment programmes such as the retiree package and the salary-account package serve the same purpose while creating a good platform for customer communication. Companies that made salary payments through the Bank in 2016 increased by 16.7%. As of 31 December 2016, the mass market segment had 738 customer representatives operating out of 531 retail branches.

The Group offers loans, deposits and other services to its retail customers as described in the following sections.

## Loans

The following table sets forth the Group's retail loans per category as of the indicated dates.

	As of 31 December		
	2014	2015	2016
	(TL thousands)		
Mortgages.....	5,907,710	4,961,091	5,131,039
Retail credit card loans.....	7,564,238	7,716,848	7,793,705
Personal need loans.....	6,185,684	6,531,774	7,839,095
Auto loans.....	50,392	32,061	24,890
Overdrafts and other loans.....	1,713,809	2,387,930	1,212,652
<b>Total retail loans.....</b>	<b>21,421,833</b>	<b>21,629,704</b>	<b>22,001,381</b>

**Mortgages:** The Group offers a variety of mortgage products covering mortgage loans of up to 180 months, with outstanding mortgages having an average outstanding principal amount of TL 5,131.1 million and an average mortgage loan size of TL 46,113 as of 31 December 2016. The Group has pioneered a number of mortgage products in the Turkish market, including low instalment mortgages, no commission mortgages and investment mortgages, and the Bank was also the first bank in Turkey to initiate partnerships with real estate developers for mortgage sales during the construction phase. Each of the Group's mortgage loans is secured with collateral that is required to have a value in excess of the relevant loan at all times. As of 31 December 2016, the Group had outstanding mortgage loans of TL 5,131.1 million, which comprised 23.3% of the Group's retail loan portfolio as of such date.

The Group's loan-to-value ratio for its total mortgage book was approximately 51.4% as of 31 December 2016. Each of the Bank's mortgage loans is secured with collateral, which is always required to have a value in excess of the loan. The Bank had a 3.4% market share of the retail mortgage loan market in Turkey as of 31 December 2016, compared to 5.1% and 3.8% as of 31 December 2014 and 2015, respectively, ranking fifth among private banks in the Turkish banking sector according to statistics published by the BRSA. Having gained significant market share in mortgages between 2005 and 2010, the Group began to decelerate its growth in mortgages, even before its overall shift away from the retail segment, due to limited opportunities to grow profitability further in the mortgage market.

**Credit Card Loans:** The Bank issues credit cards under the CardFinans brand. The Bank earns interest income on outstanding credit balances, transaction commissions from merchants, cash withdrawal fees, annual membership fees from cardholders and other service-based fees such as insurance fees and payment fees. As of 31 December 2016, the number of retail credit cards issued by the Group exceeded 4.3 million and represented 8.1% of the total Turkish retail credit card market, according to statistics published by the Turkish Interbank Card Center (*Bankalararası Kart Merkezi*) ("BKM"). The Group's performing retail credit card loan portfolio was TL 7,794 million and represented 35.4% of the Group's retail loan portfolio as of 31 December 2016. For additional information on the Bank's credit card business, see "– Credit Cards" below.

The Bank had a 9.5% market share of the credit card market (by the total loan amount) in Turkey as of 31 December 2016, compared to 10.3% and 9.7% as of 31 December 2014 and 2015, respectively, according to statistics published by the BRSA, ranking fifth among private banks in the Turkish banking sector. Following adverse regulatory changes that impacted the profitability of the Group's credit card business, the Group's management decided to decrease its overall presence in the Turkish credit card market.

**Personal Need Loans:** Personal need loans are used for a wide spectrum of needs ranging from instant cash needs, home refurbishments, financing vacations and education fees. The Bank offers personal need loans through its retail branches and telesales channel. Customers can also apply for personal need loans using the Bank's SMS-based pre-assessment service that has been specifically developed for this product.

The Bank's market share in personal need loans, overdraft and other loans (by the total loan amount) in Turkey was 5.4% as of 31 December 2016, compared to 5.2% and 5.7% as of 31 December 2014 and 2015, respectively, ranking fifth among private banks in the Turkish banking sector (*i.e.*, excluding state-owned banks) according to statistics published by the BRSA. The Bank's management views personal need loans as an important part of the Bank's retail banking strategy and

intends to develop new products and distribution channels to increase market share in personal need loans. The Group has also put in place new risk measures designed to improve the cost of risk associated with the Group's personal need loans business.

**Auto Loans:** The Bank offers term loans to its retail banking customers to finance the acquisition of automobiles, with the Group providing car loans of up to 70.0% of the automobile's value for new vehicle purchases. As of 31 December 2016, the Group had outstanding auto loans of TL 24.9 million, representing 0.1% of the Group's retail loan portfolio. The Bank's market share in Turkey for auto loans (by the total loan amount) as of 31 December 2016 was 0.4% according to statistics published by the BRSA.

**Overdrafts and other Loans:** The Bank provides overdraft loans as an additional feature provided to debit card holders permitting them to access cash instantly and easily. The Bank believes that strong marketing support and central analytics contributed to its 13.8% market share in overdraft products as of 31 December 2016, according to statistics published by the BRSA. In October 2013, the Bank launched a product named "Ready Credit," an overdraft product with an instalment feature that contributed to an increase in the Bank's market share. Total outstanding overdraft and other loans as of 31 December 2016 were TL 1,212.7 million, representing 5.5% of the Group's retail loan portfolio.

Since the beginning of 2012, the Group has undertaken new measures to improve the overall risk profile of its retail banking business. These measures include: (a) gradually increasing consumer loan and credit card score cut-offs to reduce probability of default rates, (b) actively managing lending limits to reduce exposure at default of credit card customers, (c) more aggressively using risk-based pricing and targeted advertising for high-quality customers and (d) proactively targeting certain low-risk potential customer groups. Following these new measures, the percentage of NPLs recorded within six months after origination with respect to retail loans originated in each of 2014, 2015 and 2016 was 0.5%, 0.5% and 0.4%, respectively.

The Group has also undertaken certain key activities to help maintain its overall retail banking market share, particularly in relation to general purpose consumer loans. These activities include: (a) providing general purpose consumer loans with pre-approved limits for customers with a strong existing credit history with the Group, (b) extending instalment loans through the Group's customer call centre, its ATM network and the internet, (c) extending consumer loans through retail distribution partnerships with other Turkish companies and (d) utilizing risk-based pricing criteria more aggressively to increase loans to higher quality customers.

#### *Retail Deposits and Investment Products*

The Bank offers demand deposits, time deposits and investment products to its retail customers, and provides brokerage services and deals in treasury bills and equities on behalf of its retail customers. The Bank also offers its retail customers the opportunity to invest in mutual funds managed by Finans Portfolio Asset Management. Additionally, the Group, through its joint venture Finans Pension, offers life insurance and retirement income services to groups and individuals as well as bancassurance products.

**Retail Deposits:** The following table sets forth the Group's retail deposits per category as of the indicated dates.

	As of 31 December		
	2014	2015	2016
		(TL thousands)	
Demand deposits .....	2,317,275	1,836,314	2,518,720
Time deposits .....	22,731,624	27,126,046	31,061,012
<b>Total retail (individual) deposits .....</b>	<b>25,048,899</b>	<b>28,962,360</b>	<b>33,579,732</b>

Since 2012, the Group has been particularly focused on increasing its demand deposit base from its private and affluent retail banking customers. As of 31 December 2016, demand deposits represented 14.2% of the assets under management for private or affluent retail banking customers, compared to 13.2% and 12.4% as of 31 December 2015 and 2014, respectively.

The Group has also further centralised the management of its retail customer deposit pricing decisions with the aim of lowering the average interest rate paid on retail deposits. Although pricing decisions for retail deposits historically have been centralised, previously relationship managers or branch managers had some discretion to set rates for certain of the Bank's retail deposits. Such discretion has been reduced through the development and use of a pricing algorithm, which has resulted in more centralised management of pricing for retail deposits.

*Investment products:* Mutual funds have been a growing focus area for the Bank's retail banking business in a low interest rate environment due to higher returns compared to deposits, and, more importantly, the fact that customers search for alternative investment products in a low-interest environment. The Group also offers its retail customers pension plans. In addition, the Group offers its retail customers a wide range of insurance products such as life insurance, payment protection, health insurance, auto insurance, home insurance and travel insurance. The Group expects bancassurance to continue to be one of the key contributors to increasing profitability in upcoming years.

Since 2013, the Group has also concentrated its efforts on creating new gold-based investment products for retail customers and sales of Turkish Lira bond issuances to retail customers. With products such as its "gold accumulation account," "gold-indexed deposit account" and "gold collection day," each providing specific methods to save and invest in gold or gold-indexed products, the Group had approximately 218,670 gold accumulation accounts that form part of the Group's deposit base, with approximately 223,532 gold accumulation account customers and approximately 398,261 gold account customers as of 31 December 2016.

#### *Credit Cards*

The Bank offers a diverse range of credit cards under the umbrella brand name of "CardFinans". The Bank believes that CardFinans appeals to different customer segments with its Classic, Gold, Platinum, CardFinans Xtra (mass affluent segment), CardFinans Emekli (senior citizen segment), ClubFinans (premium segment), GO (university segment) and VadeKart (commercial segment) brands as well as co-branded and affinity cards. CardFinans offers features such as instalments, discounts and a customer loyalty programme called "Gift Money" that was launched in June 2014 and allows cardholders to buy and send pre-paid gift cards to friends and family for purchases at various retail shops in Turkey in amounts of up to TL 1,500. The CardFinans SME Business Card addresses the particular needs of SMEs by offering an instalment credit facility and a post-instalment feature. VadeKart was launched in February 2010 with postdating transaction, transaction instalment, postdating statement, express limit and authorised card user group features to strengthen the position of CardFinans in SME business services. The Bank launched Fix Card in May 2010, which offers instalment, discount and MoneyPoint features with no annual fee charge. The Group re-launched Fix Card in August 2012 as a contactless dual card that has credit card and debit card features in one card. The Group had issued approximately TL 1.3 million Fix Cards as of 31 December 2016 and, as a pioneer in the Turkish credit card market, Fix Card Contactless had attracted 78,609 customers as of 31 December 2016. "İlk Kartım" (My First Credit Card) launched in October 2013 and targets customers who do not have any credit history. The programme helps customers adapt to credit card usage and encourages them to spend and pay regularly.

The Group's performing retail credit card loan portfolio was TL 7,793.7 million, and represented 12.6% of the Group's performing loans and receivables and 35.4% of the Group's performing retail loan portfolio, as of 31 December 2016 (TL 7,716.9 million, 13.7% and 35.7%, respectively, as of 31 December 2015). The Group's net fee and commissions from credit card operations amounted to TL 784.7 million for 2016, or 13.4% of the Group's net operating income for that period (TL 726.6 million and 14.5% for 2015). In addition, interest earned from credit card balances totalled TL 1,161.4 million for 2016, or 24.8%, of the Group's total net interest income for the same period (TL 1,087.7 million and 26.6% for 2015).

Regulations introduced by the BRSA in the fourth quarter of 2013 require the companies that provide credit card products and services to, among other things, increase the monthly minimum payments required to be paid by cardholders, include credit card receivables in the calculation of the non-performing consumer loans to total consumer loans ratio, offer at least one type of credit card with no annual subscription fee and limit credit card instalment payments for certain types of purchases. In 2015, the BRSA published the 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016 and lowered the risk weighting for credit card instalment payments from a range of 100% to 250% (depending upon their outstanding tenor) to 75% (irrespective of their tenor). These changes had (as of 31 March 2016) a positive impact on the Bank's capital adequacy ratio.

The following table sets forth the market shares of CardFinans in terms of balances outstanding and total sales for the indicated years.

	2014	2015	2016
Outstanding balance .....	10.1%	9.7%	9.5%
Total sales.....	8.5%	8.3%	8.0%

Source: The Banks Association of Turkey.

As of 31 December 2016, the total number of credit cards issued by the Group was 4.8 million (representing 8.1% of the total Turkish credit card market according to statistics published by BKM) and the number of member merchants was 179,521. As of the same date, within the Turkish credit card market, the Group was the third largest Visa card issuer in terms of the number of cards issued according to statistics published by BKM.

### SME Banking Department

The Bank's SME banking activities consist primarily of revolving credit lines, instalment loans, overdrafts, business housing loans and demand deposits. As one of the first banks in Turkey to focus on this segment, the Bank started its SME banking operations at the beginning of 2003 to support Turkish small businesses. The goal of the SME Banking Department is to achieve sustainable and profitable growth by determining customer needs and providing quick and tailor-made solutions. SME Banking is divided into three sub-segments: (a) SME Banking Small Enterprises, which serves customers with annual turnover of less than TL 4 million, (b) SME Banking Medium Enterprises, which serves customers with annual turnover between TL 4 million to TL 40 million, and (c) Agricultural Banking.

According to data published by Small and Medium Enterprises Development of Turkey (*Küçük ve Orta Ölçekli İşletmeleri Geliştirme ve Destekleme İdaresi Başkanlığı – KOSGEB*), SMEs accounted for 99.8% of all companies in Turkey, 73.5% of the workforce and 62.0% of Turkey's business turnover and contributed to 56.4% of Turkey's exports in 2016. The Group expects SMEs to be the main driver of future growth in the banking sector, particularly given measures by Turkish regulatory authorities to reduce the general reserve requirements for cash and non-cash loans provided for SMEs for export purposes. The volume of SME loans in the Turkish banking sector has grown at a CAGR of 21.6% from 31 December 2006 to 31 December 2016, and SME loans penetration (measured by total SME loans as a percentage of GDP) has grown from 7.6% as of 31 December 2006 to 16.2% as of 31 December 2016, all according to the BRSA and Turkstat. The Bank's management believes that the banking sector's support to SMEs is essential both for developing SMEs and supporting their contribution to the national economy, as well as sustaining the growth of the banking sector, which faces challenges vis-à-vis competition and legal regulations. Therefore, the Bank's management intends for the Group to continue its focus on SMEs with high growth potential and has offered SMEs training and consulting regarding foreign trade.

Since 2005, SME banking has been the Group's second largest segment by the total loan amount. The Group was one of the first banks in Turkey to create an executive vice president position for SME banking and since 2008 has been developing its own SME credit scorecard. As of 31 December 2016, the Group served over 347,000 active customers through its 951 relationship managers in over 530 branches. Furthermore, in recent years, the Group has also significantly increased its ability to offer products and services to its SME customers. In 2016, the Group reviewed a daily average of 22,000 SME loan files. The Group has also created innovative service offerings for its SME customers, such as SME Cloud (described under "SME Banking Department—Products and Services") and internet based banking services.

The Group's total SME loans have grown at a CAGR of 18.1% from 31 December 2014 to 31 December 2016. On a BRSA Bank-only basis, the Group's share of SME loans as a percentage of business loans has decreased slightly from 47.9% as of 31 December 2014 to 47.0% as of 31 December 2016, compared to a decrease in the overall banking sector in Turkey from 41.3% as of 31 December 2014 to 34.7% as of 31 December 2016 according to the BRSA. The Bank experienced high SME loan growth, growing the volume of its SME loans from TL 13.6 billion as of 31 December 2014 to TL 18.9 billion as of 31 December 2016 with a market share of 4.7% as of 31 December 2016 according to the bank-only financials published in the Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)). Accordingly, the Group's SME loan book has grown significantly without experiencing a disproportionate decrease in the overall asset quality of its SME customers. The Group's NPL volumes have increased since 31 December 2014, from TL 517 million to TL 1,075 million as of 31 December 2016, and its NPL ratio has increased from 3.7% to 5.4% during the same period. The SME banking coverage ratio has similarly increased from 70.5% as of 31 December 2014 to 80.4% as of 31 December 2016. The increase in the Group's NPL volumes and NPL

ratio during such period primarily resulted from the slowdown in certain sectors in Turkey (such as tourism, construction and energy) due to the political and economic environment, the deterioration of which might continue to negatively impact the NPL ratio and asset quality of the banking sector in general and the Bank in particular.

As of 31 December 2016, the Group's SME banking operations had loans and receivables of TL 18,947.6 million, which represented 30.4% of the Group's total loans and receivables. As of such date: (a) the Group's loans and receivables from customers of small enterprises (with annual turnover of less than TL 4 million) was TL 8,250.6 million, (b) total time deposits and demand deposits from the Small Enterprises sub-segment were TL 1,153.7 million and TL 1,097.2 million, respectively, (c) the Group's loans and receivables from the medium enterprises sub-segment was TL 10,696.96 million and (d) the total amount of time deposits and demand deposits from the medium enterprises sub-segment was TL 1,666.9 million and TL 1,113.8 million, respectively.

### *Products and Services*

The Group has embraced a concept of solution-oriented services tailored to the Group's SME customers, with its wide product array ranging from foreign trade services to loans, deposits and cash flow products. It serves its customers depending upon their loan repayment ability through a rich range of products, from short-term loans with instalments that can foster the enterprises' need for working capital to long-term loans in large values necessary for large-scale investments.

The Group's overall strategy for the SME market is to focus primarily on two groups of customers: high quality service customers and "market-norm" service customers. High quality service customers provide a high current value and a high potential value to the Group, while market-norm service customers provide either: (a) a low current value and high potential value or (b) a high current value and a low potential value to the Group. Under these categories, the current value of a customer represents the overall current profitability of such customer to the Group and the potential value represents the total amount of loans and POS turnover and credit card limits associated with such customer with all banks in Turkey. As of 31 December 2016, high quality service customers had, on average, credits of approximately TL 94,700 and deposits of approximately TL 22,700 with the Group, while market-norm service customers had, on average, credits of approximately TL 23,000 and deposits of approximately TL 3,200 with the Group.

Typically, high quality service customers are served by the Group's more experienced SME relationship managers, each of whom manages a limited number of customer accounts. In these customer relationships, there is a significant emphasis on fostering customer loyalty by ensuring that the relationship manager is offering assistance and services to the customer on a frequent basis.

Market-norm customers are also served by the Group's SME relationship managers, but the marketing focus of the relationship manager varies based upon the current and potential value of the customer. For customers with a high current value but a low potential value, the relationship manager focuses on providing services in an efficient manner so as to maintain the Group's currently strong relationship with such customer. For customers with a low current value but a high potential value, the focus is on providing high quality service and competitive pricing so as to increase the ability of the Group to obtain more of the customer's business that is currently with other banks in Turkey.

As part of its overall SME strategy, the Group established SME Cloud, which is a telephone service with qualified SME customer service representatives. The Group believes that SME Cloud provides a cost efficient way for the Group to provide and cross-sell a wide range of products and services to smaller SME customers. As of 31 December 2016, SME Cloud was serving approximately 46,000 customers per month. The Group was also the first bank in Turkey to provide SME loans over the telephone, which is done through SME Cloud. Over time, the Bank's management plans to increase the efficiencies of SME Cloud in order to provide products and services to customers with either a high current value or high potential value to the Group. The expansion of SME Cloud might include having dedicated SME Cloud relationship managers in the Group's branches to build long-term relationships with such customers. In addition to the SME Cloud, other innovative products and services for SMEs include:

- (a) the "SME Money-in-the-Pocket" service, which enables small business owners to apply for a loan of up to TL 50,000 by sending a text message from a mobile phone and to learn the outcome of the application process on the same day;

(b) the “KOBİ Plus” service, which offers an extension of maturity on the amount of the customer’s loans, while the monthly payments remain unchanged;

(c) the “Dynamic Loan” service, which allows customers to set their own limits with collateralised checks, cash or POS receivables in less than an hour;

(d) the “SME Cash Account” service, which allows customers to withdraw cash from all of the Bank’s branches and the Bank’s or Single Point ATMs and enables payment of bills, checks, taxes, social security, loan and credit card balances, even in the absence of sufficient funds in the customer’s account; such service includes a maximum limit of TL 5,000 for withdrawals from Single Point ATMs;

(e) the “Salary Loan” service, which makes salary payments of SMEs even if they do not have sufficient funds in their accounts; the maximum amounts of salary payments are determined by the Group’s allocations department and generally does not exceed the amount of the customer’s salary; and

(f) the “POS Opportunity Package,” which offers desktop and mobile POS solutions backed with supporting banking operations, cash flow and commercial services; with this package, member SMEs enjoy certain fee exemptions and attractive commission rates.

The Bank’s management believes that it was one of the first banks in the Turkish banking market to introduce risk- and value-based pricing in the SME market. The key principles of risk- and value-based pricing include: (a) using analytical applications and behavioural scoring models to assess a customer’s probability of default on a loan, (b) differentiating the pricing of a loan based upon collateralization, with lower prices for collateral with higher expected rates of recovery, and (c) differentiating the pricing of SME products and services based upon the current profitability of the customer and that customer’s level of business with the Group.

#### *Agricultural Banking*

The Agricultural Banking sub-segment offered its services through 148 branches and 194 customer representatives as of 31 December 2016. Agricultural Banking diversifies its services by customizing its products to the related agricultural segment and to the specific region where activity is being carried out. As of 31 December 2016, Agricultural Banking had loans and receivables of TL 2.2 billion, representing growth of 31% against the previous year and 11% of the Group’s SME loan portfolio.

In order to support the modernization of the agricultural sector and to better take advantage of the economies of scale in agribusiness, the Group offers favourable payment terms and up to ten years maturity terms on its investment loans. The Group channels funds from institutions such as IPARD (which is a pre-accession programme of the EU) and the European Fund for Southeast Europe (EFSE) for rural development projects, while offering affordable working capital, agricultural mechanization and organic farming loans provided by PROPARCO, a subsidiary of the Agence Française de Développement (AFD) (*French Development Agency*).

Agricultural Banking supports certified agricultural production, which ensures and increases product quality for customers of the industry. In addition, organic farming activities are supported by favourable credit rates and repayment options. In an effort to establish long-term relationships with customers, in 2013 the Group launched the “Farmer’s Cash” service, which was created to meet the short-term funding requirements of customers by helping them pay their bills and social security payments with flexible repayment options.

Agribusiness is rapidly evolving by modernizing and restructuring itself in line with macroeconomic trends in Turkey. In line with these developments, the Bank’s Agricultural Banking department intends to continue to improve its business models and expand its organization parallel to the needs of the sector.



## Corporate and Commercial Banking

### *Overview*

Products and services provided by the Bank's Corporate and Commercial Banking Department include trade finance, corporate and commercial lending, project finance, corporate syndication and secondary market transactions, deposit taking and the issuance of certificated debt instruments. The primary sources of income of the Bank's Corporate and Commercial Banking Department consist of interest income attributable to corporate and commercial loans, as well as commission income from letters of credit and guarantees. The Group's corporate and commercial banking segment had loans and receivables of TL 21,065.7 million as of 31 December 2016, which represented 33.6% of the Group's total loans and receivables. The corporate and commercial segment also provided the Group with TL 1,679.2 million in demand deposits as of 31 December 2016, compared to TL 1,668.4 million as of 31 December 2015 and TL 1,428.0 million as of 31 December 2014.

Since 2006, the corporate and commercial loans market in Turkey has grown at a CAGR of 25.5%, increasing from TL 90.3 billion in 2006 to TL 894 billion in 2016, with total loan-to-GDP penetration increasing from 11.3% as of 31 December 2006 to 34.5% as of 31 December 2016, all according to the BRSA and Turkstat. The Bank's management believes that favourable government policies with respect to export-oriented businesses and infrastructure projects offer strong growth potential for the corporate and commercial banking sector, and that corporate and commercial banking has a relatively low NPL risk when compared to other segments.

The Group's corporate and commercial segment primarily targets medium-sized companies and served over 11,073 customers through a network of approximately 180 relationship managers in 57 branches as of 31 December 2016. As of the same date, credit limits were extended to approximately 10,392 customers and credit exposure was extended to approximately 5,355 customers. The corporate and commercial banking segment also generates business from larger businesses through low-yield loans and large infrastructure projects, as well as from certain investment loan and project finance transactions based upon profitability; *however*, the Group's primary focus is the middle market, consisting of companies above TL 20.0 million in annual turnover and a strong degree of corporate governance.

The Group's corporate and commercial banking segment is divided into corporate banking and commercial banking sub-segments as described below.

### *Corporate Banking*

The Bank serves its corporate customers, which include large business groups and multinational companies in Turkey, via four branches located in İstanbul and Ankara and sub-branches in Bursa, İzmir, Antalya and Adana.

Since its establishment, the Corporate Banking Department has created a strong customer base by developing customer-specific solutions. Corporate banking works in collaboration with the Bank's other business units to provide high quality services not only for corporate clients, but also for their partners, employees, dealers and suppliers, aiming to deliver a high level of customer satisfaction throughout the value chain.

Corporate banking attempts to acquire new customers for different business segments and thereby create synergistic benefits within the Bank. Increasing the profitability of the Corporate Banking Department remains a primary goal of the Bank in the competitive Turkish market. In order to increase profitability, the Bank's Corporate Banking department intends to increase non-risk income, penetrate further into the existing customer base and create additional profit for other business segments.

As of 31 December 2016, the corporate banking department had a total credit and non-credit customer base of over 1,430 companies, of which 915 had credit limits.

## *Commercial Banking*

Commercial banking serves customers that have an annual turnover between TL 40 million and TL 300 million. The number of active customers in this segment exceeded 8,700 as of 31 December 2016. The goal of commercial banking is to achieve sustainable and profitable growth by understanding customer needs and providing tailor-made solutions.

As of 31 December 2016, the Group's commercial banking department served its customers through 14 regional offices, 57 branches and 180 portfolio managers. The branches are full service branches in which retail and commercial customers are served together.

As of 31 December 2016, the number of CardFinans commercial credit cards in issue was 519,459, representing 15.46% of the total Turkish commercial credit card market according to statistics published by BKM, and the number of POS terminals of CardFinans was 252,855, representing a 7.5% market share according to statistics published by BKM.

In August 2013, the commercial banking organization was restructured in order to provide a holistic approach to its customers and to improve relationship banking, thereby increasing opportunities for cross-selling and expanding the existing trade network. To support this strategy, business lines were structured to operate under corporate and commercial banking relationships. The Commercial Banking Department focuses on increasing the number of active customers, sustainable growth by balancing wallet share/loan share and demand deposit volume. The Group provides cash management solutions and trade finance products insurance services and coordinates subsidiary transactions to expand its business with customers and increase its risk-free income.

## *Corporate and Commercial Banking Products and Services*

Loans and Receivables and Non-cash Loans. The Bank offers loan facilities predominantly in Turkish Lira, U.S. dollars and euro. Turkish Lira loans are generally short-term in nature, usually with maturities ranging from overnight to 365 days, and are principally for working capital financing; *however*, the Bank also extends medium-term loans with maturities between 365 and 730 days mainly to finance working capital requirements. The Bank has also introduced "Commercial Credits in the Form of Instalments," which are in essence Turkish Lira- or foreign currency-indexed instalment loans. Moreover, the Bank provides foreign currency principally for financing exports from Turkey. The Bank also extends longer term facilities to corporate customers in Turkey for industrial and manufacturing investment purposes in different sectors and project financing. In relation to both its domestic and foreign operations, the Bank provides non-cash facilities to companies in various industries through letters of guarantee, bid bonds and foreign trade non-cash products. By using conventional banking products as well as cash management products and by applying competitive pricing, the Bank aims to increase its market share in cash and non-cash loans.

The Group's cash loans to corporate and commercial customers have grown at a CAGR of 20.3% from TL 14.8 billion as of 31 December 2014 to TL 21.4 billion as of 31 December 2016. The Group's non-cash loans to corporate and commercial customers have grown at a CAGR of 16.9% from TL 7.8 billion as of 31 December 2014 to TL 10.6 billion as of 31 December 2016. As a major foreign currency-generating industry, the construction and contracting sector has been a focus of the Corporate and Commercial Banking Department since the Group's establishment. As of 31 December 2016, loans to the construction and contracting industry represented 13.3% of the Group's performing corporate and commercial loan portfolio, loans to the financial industry represented 2.8%, loans to the textile and fabrics industry represented 11.4% and loans to the food, alcohol and tobacco industry represented 10.8%.

## *Project and Structured Finance*

The Group's project and structured finance business has taken an active role mainly as lead arranger in financing many important projects, including privatizations, public-private partnerships, acquisitions and infrastructure projects, which have contributed to the growth of the Turkish economy. The project and structured finance division prepares loan proposals and project evaluation reports, including cash flow projections, and manages the Credit Committee approval process. Once loans are approved, the project and structured finance division manages legal documentation and disbursement phases as well as the bank-to-bank relationships. Throughout the maturity of all loans under its responsibility, the project and structured finance division performs the initial evaluation of all waiver and amendment requests, before passing them along to the Credit Committee should any formal approval be required.

From 2000 to 2016, the Group committed a total of TL 10,346.5 million to 32 primary and secondary cash and non-cash project finance syndications, of which TL 7,644 million was utilised. As of 31 December 2016, a total value of TL 7,644 million of the Group's TL 10,346.5 million in commitments was utilised. The Group focuses on medium-sized project finance transactions, using the "economic value added" concept to measure the profitability of each deal, and participates in larger-sized landmark projects only if such projects generate a positive economic value added return.

The Group's project and structured finance clients are concentrated in the infrastructure, energy and commercial real estate sectors.

### *Cash Management and Trade Finance*

In addition to providing credit facilities, the Group provides cash management services to its corporate, commercial and retail customers. Cash management is an important part of the Group's overall business and a key element of its strategy to increase demand deposits and service-related revenues. Cash management services include direct debiting for payment of invoices, supplier finance systems, utility bills, social security, tax payments, cash-in-transit services and providing foreign exchange transfers and remittance services as well as cash management solutions tailored for individual customers. The Group's trade financing activities consist of pre-export financing, import financing, issuing, confirming and discounting export and import letters of credit and letters of guarantee, and availing and discounting export and import drafts and promissory notes.

The overall mission of the Cash Management and Trade Finance group is to: (a) provide cost efficient and innovative cash flow and payment solutions that can be customised according to client size and (b) create partnerships with large corporations utilizing the Group's wide branch network and technological capability. The Cash Management and Trade Finance division also has a cooperation agreement with Citibank to focus on the sophisticated cash flow management needs of large corporate customers in Turkey.

In line with this strategy, as of 31 December 2016, the Group provided direct debit services to 25,525 companies and, since 31 December 2013, expanded the number of customers with the Bank's checks by 128,000 (resulting in a market share of 7.21%) and the number of customers with other banks' checks by 21,785 (resulting in a market share of 4.49%) (*source*: Interbank Check Clearing House). As of 31 December 2016, the Bank provided automatic payment by standing order services to 161,484 companies and more than one million individual customers. In addition, the Bank is one of the banks in Turkey authorised to collect: (a) social security contributions on behalf of the government from domestic corporate entities and businesses and/or (b) taxes on behalf of the government from corporate customers.

The Group's trade finance activities are funded through correspondent bank facilities matched in terms of currency and maturity and through general term loan facilities. As of 31 December 2016, the Bank had an international correspondent banking network of more than 1574 banks and a trade finance volume of approximately US\$19.3 billion (resulting in a market share of 5.55%). The Bank also participates in various export credit programmes provided by overseas export credit agencies.

The trade finance sales team consisted of 8 people as of 31 December 2016. The Group's trade finance business is also active in utilizing the Turkish Eximbank cash and non-cash loans, as well as the Central Bank's rediscount programme, all of which are to finance exporters.

### *E-Invoice*

"E-Invoice" is a payment and collection system, established by "eFinans" to provide e-invoicing services in line with the requirements of Turkish regulations. "eFinans," a subsidiary of the Bank, provides online solutions for banking facilities by electronic invoice filing, an electronic ledger application and an electronic trade portal. Electronic invoice filing allows for much faster processing time when compared to traditional invoicing methods, measured from the time of the initial invoicing to registration of the invoice, and also serves as data for credit ratings and analysis. The Group was the first banking group to have a subsidiary (*i.e.*, eFinans) in Turkey offering a dedicated electronic invoice service and, as of the date of this Base Prospectus, the Bank remained the only Turkish bank having a subsidiary providing electronic invoice, ledger, archive invoice and registered e-mail (REM) services via a software programme owned and fully controlled by a banking group. The total transactions processed by eFinans exceeded 81,193,000 as of 31 December 2016 and the number of E-

Invoices processed by eFinans grew from 331 as of 31 December 2013 to 4,136 as of 31 December 2016 (with eFinans' objective being to have processed 1.2 million transactions by 2023).

The Group offers E-invoice-guaranteed cash loans, under which corporate customers are permitted to borrow funds by assigning their long-term E-invoices issued through the eFinans system as a guaranty. When a corporate customer applies for an E-invoice-guaranteed cash loan, the Bank commences a standard credit assessment process, through which a limit is allocated based upon such customer's creditability. The maximum maturity of the loan must not be greater than the maximum maturity of the E-invoices assigned under the guaranty. Payments from customers under e-finance-guaranteed cash loans are made through the Bank's internal banking system, thus simplifying the process for making loan payments.

***Bancassurance.*** In 2011, the Bank established the SME Middle Size Enterprise Insurance Management unit under the Commercial Marketing Group. The unit serves the insurance needs of Corporate, Commercial and SME Banking customers. As of the date of this Base Prospectus, this unit works with nine insurance companies operating in Turkey, using the branch network of the Bank to provide tailor-made solutions for the needs of customers. Furthermore, the SME Middle Size Enterprise Insurance Management unit seeks to mediate the Bank's risk management by better controlling debt exposure by insuring loan collaterals.

## **Treasury Department**

The Bank's management believes that the Treasury Department is one of the largest treasury operations in Turkey, employing over 40 professionals as of 31 December 2016. The primary mission of the Treasury Department is to manage the Bank's liquidity, foreign exchange and interest rate risks. The Treasury Department concentrates in key markets, namely money and currency markets, fixed income and derivative markets in Turkey and other countries. Liquidity, exchange rate and interest rate risks are managed according to the decisions taken by the Bank's Assets and Liabilities Committee (the "ALCO"). Services provided by the Treasury Department include supplying prices in all instruments to local branches of the Bank or selected customers of the Group, providing consulting services to international customers investing in domestic markets and providing risk management services to selected customers in Turkey.

The Treasury Department consists of four groups: the Sales Group, the Foreign Exchange, Derivatives and Fixed Income Trading Group, the Liquidity Management Group and the Balance Sheet Management Group, each of which is described below.

***Sales Group:*** The Sales Group is responsible for the pricing of all transactions through the Bank's branches. In addition to conventional products, the sales desk offers customers and the Bank's branch network a wide range of derivatives and capital-protected savings products.

***Foreign Exchange, Derivatives and Fixed Income Trading Group:*** This group consists of three trading desks: Foreign Exchange, Derivatives and Fixed Income. The Foreign Exchange Desk manages the Group's foreign exchange exposure and engages in proprietary foreign exchange trading. The traders closely monitor domestic and international markets in order to benefit from currency movements and act as a market maker in Turkish Lira pairs to both customers and other banks. The Derivatives Desk has the mandate of trading Foreign Exchange and Equity Index derivatives. This desk manages the Group's volatility book and provides pricing of foreign exchange options, forwards and Equity Index derivatives to customers and other banks. The Fixed Income Desk is responsible for execution of all fixed income and interest rate derivatives transactions. Since the Bank is one of the primary dealers in the Turkish local currency government bond market, the Fixed Income desk is quite active in the local bond market. All trading desks have predetermined risk exposure limits, which are closely monitored by the Risk Management department.

***Liquidity Management Group:*** The Liquidity Management Group manages the short- and medium-term liquidity of the Bank and determines the deposit rates up to one year. Responsibilities of the Liquidity Management Group also include managing the reserve requirement of the Bank, preparing liquidity projection reports up to one year and monitoring regulatory liquidity ratios.

***Balance Sheet Management Group:*** The Balance Sheet Management Group is responsible for balance sheet risk management and funds transfer pricing. The Balance Sheet Management Group is responsible for executing the hedging strategy set by the ALCO and assessing potential exposures to risks in the balance sheet of the Bank, especially credits and

deposits, in terms of maturity and costs and evaluating developments in terms of risk and hedging. The Balance Sheet Management Group uses interest rate swaps, cross currency swaps, swaptions and other interest rate risk management instruments to hedge various types of exposures. The Balance Sheet Management Group is also responsible for determining medium-term note pricing and deposit and loan transfer pricing in main currencies for all tenors in order to ensure fair profit sharing among business lines and realistic pricing in products.

## Branches

As of 31 December 2016, the Bank maintained a branch network of 630 branches, consisting of 605 full-service branches, 17 retail-only branches, 4 corporate-only branches and 4 commercial-only branch located in 53 commercial centres in Turkey, mainly in İstanbul, İzmir, Ankara and Antalya. The Bank also has a branch at the Atatürk Airport Free Trade Zone in İstanbul and one branch in Bahrain. The Bank has dedicated certain branches, which are located primarily in upper-middle-income residential areas, to retail customers.

The continuous expansion of the Bank's branch network until 2013, in particular the number of retail branches, allowed the Group to organically grow its customer base. The Bank's management believes that such expansion strategy resulted in a branch network that is both productive and efficient. The following table sets forth information relating to the Bank's branch network and customer numbers for the periods indicated.

	As of 31 December		
	2014	2015	2016
Total number of branches .....	658	642	630
Full service branches .....	633	627	605
Number of active retail customers .....	4,939,534	4,926,128	5,000,784

From 2014 to 2016, the number of the Group's branches was reduced by 28 branches as a result of routine and on-going analyses to optimise branch locations. The Group plans to broadly maintain the size of its existing branch network.

## Enpara.com

In October 2012, the Group launched Enpara.com, which the Bank's management believes has become one of the most successful online-only banking platforms in Turkey. Within the Group, "Enpara.com" is managed as a separate banking unit with its own brand and business model. Enpara.com's customers are offered attractive interest rates on deposit products and offered zero-commissions for many types of banking transactions, such as bill payments, money transfers and foreign exchange.

Since its establishment, "Enpara.com" has grown its registered customer base from 18,000 in October 2012 to over 633,000 customers as of 31 December 2016, approximately 76.7% of whom were not pre-existing customers of the Group. Enpara.com's deposit base has also expanded significantly, growing at a CAGR of 22.5% from TL 3,710 million as of 31 December 2014 to TL 5,569 million as of 31 December 2016. Enpara.com's deposit base equalled the Turkish Lira deposits held by approximately 76 branches of the Group, based upon the average of the total deposits held by the Bank's retail branches (comprising 16.6% of the Group's retail deposit base), as of 31 December 2016. Most of Enpara.com's deposit growth is in "low ticket size" deposits between TL 50,000 and TL 500,000, which historically was much less cost-effective to acquire through a traditional branch network. In August 2014, Enpara.com launched Turkey's first online-only offering of consumer loans, which allows customers to obtain loans from the Bank without the need of visiting a branch or physically executing any documentation. As of 31 December 2016, approximately 20% of the Group's new consumer loan production volume was generated from Enpara.com, which equalled the new consumer loan production volume of approximately 100 branches, based upon the average consumer loans granted by the Bank's branches.

Enpara.com's customers are predominantly young professionals, which is a customer profile that has been difficult to attract through the traditional branch network in Turkey. As of 31 December 2016, approximately 90.0% of Enpara.com's customers were under the age of 45 and approximately 72.0% were self-employed or work in the private sector or perform civil service. Enpara.com's customers are targeted through television and digital social media advertising campaigns and they are able to apply for an account online by using a simple form application in which minimal information is required. Applicants receive a visit within one or two business days from a specialist relationship manager, who completes the know-

your-customer procedures and is authorised to provide instant approval. Enpara.com accounts are fully managed online or via mobile devices.

After serving retail customers for 4 years, Enpara.com launched Enpara.com Şirketim in October 2016 to serve small businesses with a similar model. Enpara.com Şirketim attracted 3,000 customers in its first three months.

### Alternative Delivery Channels

In line with its strategy of offering customers a high level of service, the Bank uses a variety of alternative delivery channels to reach customers, including ATMs, POS terminals, internet banking and the 24-hour call centre. In addition to providing its customers with easy and quick access to banking services, the use of alternative delivery channels contributes to significant cost savings as a result of reduced overhead.

The table below illustrates the Group's position in terms of ATM network and internet banking as well as customers as of and for the periods indicated:

	As of and for the year ended 31 December		
	2014	2015	2016
<b>ATMs</b>			
Number of ATMs .....	2,955	2,956	2,874
Number of ATM transactions per period.....	224,655,053	161,808,526	153,520,089
Market share (no. of ATM machines).....	6.5%	6.1%	5.9%
<b>Internet &amp; Mobile Banking</b>			
Number of customers (total users).....	1,225,694	1,546,970	1,787,374
Number of transactions per month.....	18,541,556	14,993,917	17,806,819

The Bank's Internet Branch was completely upgraded in 2013 to meet ever-changing customer needs and expectations on an easier-to-use and faster platform. With an interface that recognises the user, new functions to fulfil evolving customer needs, simplified menus and a technological infrastructure that allows personalization, the revamped internet site provides customers with ease of use through a timesaving "one click transaction" feature and an upcoming transactions reminder. Additionally, in 2014 the Corporate Internet Banking site was renewed to have an easier authorization and password process. Such renewal also enabled customers to view their accounts in one single screen and provided an easier transition between personal and corporate accounts.

The Group's information technology team renewed the Mobile Banking application for Android and iOS platforms in 2013. In 2014, the Blackberry and Windows platforms were enabled for customers, and in addition, "cep.finansbank.com.tr" was launched for customers using other phones. In the new versions of Mobile Banking, new functions were enabled such as: Agenda, One Click Transactions and payment of another person's credit card bill. As a result, Mobile Banking usage increased in 2015 and 2016, which has correspondingly resulted in a reduction in the number of monthly internet transactions, as customers shifted towards using Mobile Banking products.

In 2016, the Group continued to focus on direct banking to improve customer satisfaction and reduce the operating costs and workload at its branches. The Group established the Marketing and Customer Acquisition Management Unit within the Direct Banking Department during 2014. This unit is responsible for promoting (and directing customers to) ATM, internet banking, mobile banking and credit card internet branch channels.

The Group uses social media to advertise and sell banking products through these channels. In addition to the Bank's web page on Facebook, the CardFinans, Fix Card, SME Arena and Finansbank Career web pages went live during 2013. The Group has also made active use of mobile marketing channels, especially for collecting loan applications.

In 2016, the average number of monthly monetary transactions made through internet and mobile banking channels exceeded 3.6 million, an increase of 32% compared to the average number of monthly transactions in 2015. Total average monthly volume increased by 20% during 2016 and reached TL 12.8 billion. The average monthly transaction volume made through the Group's ATM network increased by 15% during 2016 and reached TL 5.9 billion for 2016, while the size of the Group's ATM network decreased by 3% in December 2016.

The Group's call centre, whose telesales and inbound customer representatives address customer requests for banking and investment transactions, credit cards and other banking products, provides service on a continuous basis 24 hours a day, seven days a week. In 2016, the call centre responded to approximately 37.2 million calls, and 53% of all incoming calls were managed in the interactive voice response (IVR) system. Nearly 15.5 million interactions were completed in 2016. During 2016, the call centre and telesales completed approximately 39,403 confirmed CardFinans, approximately 59,904 CardFinans Cash and approximately 242,267 automatic payment orders.

### Subsidiaries and other Affiliated Companies

The following table gives details as of 31 December 2016 for each company in which the Bank had a material equity interest.

Entity	Business	Commenced operations	Percentage held
<b>Subsidiaries</b>			
Finans Leasing.....	Leasing	1990	99.40%
Finans Factoring .....	Factoring	2009	100.00%
Finans Invest.....	Brokerage	1997	100.00%
Finans Portfolio Asset Management.....	Asset management	2000	100.00%
Hemenal Finansman .....	Financing	2015	100.00%
Ibtech .....	Information technology	2005	99.91%
eFinans.....	E-Invoicing	2013	51.00%
<b>Joint Ventures</b>			
Bantas .....	Cash delivery	2009	33.33%
Cigna Finans Pension .....	Pension	2007	49.00%

In the analysis that follows of the Bank's subsidiaries' business, all amounts are before elimination of intercompany transactions and balances with the rest of the Group.

#### Finans Leasing

Finans Leasing was established in 1990 and is listed on Borsa İstanbul. Finans Leasing's strategy has been to offer financing models in line with the customers' needs. As of 31 December 2016, Finans Leasing had a market share of 8.0% with a total business volume of US\$493.4 million in the leasing sector in Turkey, according to the Association of Leasing, Factoring and Financing Companies (*Finansal Kiralama, Faktoring ve Finansman Şirketleri Derneği*) (the "FİDER"). Finans Leasing has a lease portfolio that is diversified across several industries, with its finance lease receivables distributed as of 31 December 2016 as follows: building and construction 22.2%, manufacturing 15.5%, textile 14.7%, health and social activities 7.8%, chemical 6.7%, wood and wood products 5.8%, food 3.9%, mining and quarrying 3.8%, automotive 3.3%, transportation and storage 3.3%, retail and wholesale trade 2.1%, energy and power 2.0%. As of 31 December 2016, the total assets of Finans Leasing were TL 2.8 billion and its net profit for 2016 was TL 58.7 million.

On 13 August 2010, the Bank concluded its tender offer for the disposal of Finans Leasing. As a result of the tender offer, NBG acquired 27.3% of the share capital of Finans Leasing for TL 81.7 million. The Bank entered into a share purchase agreement with NBG to acquire shares representing 29.87% of the paid capital of Finans Leasing for TL 128.1 million. The share transfer was finalised on 8 February 2016. The Group held 99.40% of the shares of Finans Leasing as of the date of this Base Prospectus.

#### Finans Factoring

Finans Factoring, which started its operations in October 2009, has its headquarters in İstanbul and representative offices in Ankara, Gebze, İzmir, Kırşehir, Antalya, Adana, İkitelli, DES, Bursa, Kozyatağı, Gaziantep, Denizli, Pendik and Karaköy. As of 31 December 2016, the total assets of Finans Factoring amounted to TL 771 million and its paid-in capital amounted to TL 50 million. The company's net profit was TL 7 million for 2016, during which year its total factoring receivables amounted to TL 750 million. In terms of total assets, Finans Faktoring had a market share of 2.4% as of 31 December 2016 according to the FİDER. The distribution of factoring receivables for the most significant industry groups

as of 31 December 2016 was as follows: building and construction 22%, textiles 10%, mining 7%, organization for social services and sports 10% and wholesale trade and brokerage 10%.

#### *Finans Invest*

Finans Invest was established in December 1996 and began operations in January 1997. As an intermediary institution, Finans Invest provides a wide range of financial services to both individual and institutional investors, including investment counselling and brokerage services, portfolio management, intermediation of derivatives, leveraged transactions (such as foreign exchange, contracts for difference (CFDs)), short-selling and credit sale of capital markets instruments, fund investment services and corporate finance and international investment services. Under the Capital Markets Law, the activities of intermediary institutions are subject to licences issued by the CMB for a specific activity under the name of the intermediary institution. Currently, Finans Invest is duly licensed for all capital markets activities. Finans Invest ranked ninth by volume of stocks traded on the Borsa İstanbul with a 3.8% market share, according to a breakdown of stock market transactions by Borsa İstanbul members, in 2016. As of 31 December 2016, the total assets of Finans Invest were TL 268.2 million and its net profit for 2016 was TL 36.2 million.

#### *Finans Portfolio Asset Management*

Finans Portfolio Asset Management, established in September 2000, managed eight exchange-traded funds, 12 mutual funds, nine pension funds and one hedge fund, in each case as of 31 December 2016. Finans Portfolio Asset Management also manages discretionary portfolios for high net worth individuals and selected institutional customers. As of 31 December 2016, the total assets of Finans Portfolio Asset Management amounted to TL 13.7 million and its net profit for 2016 was TL 0.3 million.

Finans Portfolio Asset Management's market share in mutual funds was 1.5 % as of 31 December 2016 according to CMB statistics and its assets under management were TL 1.5 billion.

#### *Hemenal Finansman*

On 15 July 2015, the Bank entered into an agreement with Banque PSA Finans SA to purchase all of the shares of Hemenal Finansman for an amount of TL 8.4 million. On 9 November 2015, the BRSA approved the share acquisition and such share transfer was completed on 14 December 2015. As of 31 December 2016, Hemenal Finansman had TL 28.6 million of total assets.

#### *Cigna Finans Pension*

Finans Pension was established in 2007. The operations of Finans Pension include providing life insurance services, establishing pension mutual funds and conducting private pensions. Finans Pension started operating in the life and personal accident insurance market in 2007 and in the private pension market in 2008, in each case after obtaining the requisite licences and approvals.

On 9 November 2012, the Bank disposed of 51.0% of Finans Pension to Cigna for TL 202.9 million and also established a so-called earn-out structure of preference dividends paid to the Bank. As of the date of this Base Prospectus, the Bank held 49.0% of the shares of Finans Pension. Following the sale transaction, Finans Pension has been accounted for in the Group's financial statements using the equity method. The Bank and Finans Pension also signed an exclusive agency agreement for the duration of 15 years that covers life insurance and pension products. Finans Pension's title was changed to Cigna Finans Pension by resolution of the company's Extraordinary General Assembly dated 31 May 2013 and registered in Trade Registry Gazette on 13 June 2013.

As of 31 December 2016, Cigna Finans Pension had established seven pension mutual funds and two group pension funds and its net assets reached TL 84.9 million (TL 69.9 million as of 31 December 2015).



### *Ibtech*

Ibtech was established in 2005 and is located in İstanbul. Ibtech's focus is to provide designs and enhancements for software such as Core Banking (Core Finans), credit cards and internet banking and to develop applications for the use of the Bank. As of 31 December 2016, the total assets of Ibtech amounted to TL 46.5 million.

### *Bantas*

Bantas was established in 2009. Bantas is 33.33% owned by the Bank, with Denizbank A.Ş. and Türkiye Ekonomi Bankası A.Ş. each holding 33.33%, and is located in İstanbul. Bantas securely carries assets between branches and cash centres and gives ATM cash support. As of 31 December 2016, the total assets of Bantas amounted to TL 50.1 million.

### *eFinans*

eFinans was established in 2013 to provide e-invoicing services and is 51.00% owned by the Bank. The total assets of eFinans amounted to TL 10.1 million as of 31 December 2016 and its net loss for 2016 was TL 1.6 million.

## **Intellectual Property**

The Group's operations are not, to any significant extent (other than for the purposes of brand recognition and value), dependent upon any specific intellectual property right. The Group seeks to protect the trademarks and trade names that it deems necessary for its operations, and the Bank's management believes that these rights are sufficiently protected.

## **Insurance**

The Bank has a world-wide bankers blanket bond insurance policy for the Bank's operations in Turkey and Bahrain. This insurance policy covers cash assets, assets (including cash) in transit, ATMs and safe deposit boxes, as well as corrupt practices on the part of the Bank employees or use or abuse of the Bank's resources for their own benefit. Third-party fraud, particularly relating to internet banking, electronic funds transfer, securities trading and custody, is also covered. The Bank's automated systems are insured against damage caused by electronic viruses. New branch offices are insured automatically from their date of establishment. The Bank's management believes that the amount of insurance coverage that is presently maintained represents the appropriate level of coverage required to insure the business of the Group. For information on deposit insurance protection for the Bank's depositors, see "Turkish Regulatory Environment – The Saving Deposit Insurance Fund (SDIF)."

## **Competition**

The Group competes with other banks, financial services firms and a wide range of insurance companies in providing banking, mutual fund, capital markets and advisory services and financial and insurance products. As of 31 December 2016, 47 banks (excluding the Central Bank) were operating in Turkey, 34 of these were deposit-taking banks (including the Bank) and the remaining banks were development and investment banks (five participation banks, which conduct their business under different legislation in accordance with Islamic banking principles, are not included in this analysis). The Group is not a significant operator in any of the international markets in which it has a presence or a branch (such as Bahrain). For more information regarding the Bank's competitors, see "The Turkish Banking Sector." See also "Risk Factors – Risks related to the Group's Business – Competition in the Turkish Banking Sector."

## **Legal Proceedings**

The Bank and its subsidiaries are defendants in certain claims and legal actions arising in the ordinary course of business. Other than the Competition Board investigation described below, the Group is currently not involved in any litigation, arbitration or other administrative proceedings that, if decided against the Bank or any of its subsidiaries, would individually or in the aggregate have a material adverse effect on its business, results of operations or financial condition. There are no material proceedings pending in which any director of the Bank, any member of its senior management or any of the Bank's affiliates is either a party adverse to the Bank or any of its subsidiaries or has a material interest adverse to the Bank or any of its subsidiaries. As of 31 December 2016, the Group had made provisions for litigation of TL 24.6 million.

### *Competition Board Investigation*

In August 2009, the Competition Board announced that it had initiated an investigation into eight major Turkish banks, including the Bank, in response to allegations that the banks had violated Law No. 4054 on the Protection of Competition (the “*Competition Law*”) by acting together in wage tenders organised by public and private entities in order to avoid competitive promotional discounts and benefits offered to such public entities during the tender process. Under the Competition Law, a violation of Article 4 may result in administrative fines corresponding to up to 10% of the annual gross income of the relevant entity, although the ultimate amount of the fine is determined by the Competition Board based upon the specific facts and circumstances.

On 19 August 2010, the Competition Board experts prepared a report concluding that the banks’ actions constituted a violation of the Competition Law. The report proposed that the Bank should be subject to an administrative fine corresponding to 0.3% and 0.8% of its annual gross income for the violation of the relevant articles of the Competition Law. On 8 March 2011, the Competition Board announced that, following the completion of its investigation, the Bank was issued an administrative fine corresponding to approximately 0.3% (*i.e.*, TL 7.9 million) of its annual gross income for 2010. From the eight major Turkish banks subject to the Competition Board’s investigation, five were issued administrative fines corresponding to approximately 0.4% of their annual gross income, two (including the Bank) were issued administrative fines corresponding to approximately 0.3% of their annual income and one bank was not subject to any administrative fines. In accordance with the Competition Board’s decision, the Bank paid a reduced penalty of TL 5.9 million as a result of the provisions of law permitting a 25% reduction if paid within 30 days after the Bank’s receipt of the final decision. The Bank appealed the fine to the Council of State on 20 October 2011, following its receipt of the official written decree from the Competition Board. The Bank’s claim for annulment of the decision was dismissed by the Council of State. The Bank commenced an appeal of the court’s decision at the Plenary Session of the Administrative Law Chamber on 12 February 2016. As of the date of this Base Prospectus, the Plenary Session of the Administrative Law Chamber has not yet made its final judgment on this case.

The Competition Board initiated a separate investigation against 12 banks operating in Turkey, including the Bank, in November 2011 to determine whether they had violated the Competition Law related to interest rates and fees in the deposit, credit and credit card services markets. The Competition Board announced its final decision with respect to such investigation on 8 March 2013, ruling that all of the defendants have violated Article 4 of the Competition Law and applying fines on each of them based upon their respective 2011 annual gross income. The fine levied against the Bank amounted to 1% of the Bank’s annual turnover for 2011, equal to approximately TL 54.0 million. The Bank benefited from a 25% pre-payment discount by paying 75% of the fine (*i.e.*, TL 40.5 million) within one month after the receipt of the reasoned decision of the Competition Board. The Bank has commenced action for annulment of the Competition Board’s decision at the Ankara Administrative Court. The action for annulment of the decision was dismissed by the Ankara Administrative Court. Following receipt of the court’s decision, the Bank appealed the court’s decision at the Council of State on 7 July 2015. As of the date of this Base Prospectus, the Council of State has not yet made its final judgment on this case.

Under Articles 57 and 58 of the Competition Law, customers may be able to bring claims (including in a class action) against the Bank seeking treble damages. As of the date of this Base Prospectus, there have been two legal proceedings initiated against 12 banks (including the Bank) in this respect. The first lawsuit was dismissed by the court for lack of jurisdiction. The second lawsuit was filed on 7 January 2014 and is pending as of the date of this Base Prospectus. It should be noted that there is no precedent Turkish court decision approving or disapproving any such claims by customers and there are no resolved cases opened by any customers against the Bank in this respect.

### *Consumer Transactions Inspection*

The Bank was charged with an administrative fine of TL 43.6 million as a result of an annual audit of consumer and mortgage loans that was carried out by the Ministry of Customs and Trade. After reviewing such loans that were disbursed between 2011 and 2014, the Ministry took the view that certain provisions of the Law on Consumer Protection (Law No. 4077) (abrogated as of the date of this Base Prospectus) had not been complied with. As the payment of such amount is without prejudice to making an appeal, the Bank paid three quarters of this fine (*i.e.*, TL 32.7 million) on 28 August 2015 in accordance with the provisions of law permitting a 25% reduction if paid within 30 days after the Bank’s receipt of the final decision. In September 2015, the Bank filed a lawsuit seeking cancellation of the fine, with respect to which the court has not yet made its final judgment.

### *Arsan Soğukpınar Elektrik Üretim A.Ş. Litigation*

An action was filed against the Bank by Arsan Soğukpınar Elektrik Üretim A.Ş., Horyan Enerji A.Ş., Köprübaşı Enerji Elektrik Üretim A.Ş., Arsan Enerji A.Ş. and Ceviz Enerji Elektrik Üretim A.Ş., in which the plaintiffs claimed that they sustained losses due to an alleged breach by the Bank of a financing agreement executed with the plaintiffs. The loss claimed by the plaintiffs was in aggregate US\$44,628,685 (excluding applicable interest). The Bank submitted a counter-claim indicating that no such financing agreement existed. At the end of the judgment process, the court decided in favour of the Bank and such decision was approved by the Supreme Court. The opposing party requested revision of the decision on 10 August 2015 and the Supreme Court of Appeal decided in favour of the Bank on 26 January 2017.

### *Resource Support Utilisation Fund ("RSUF") Tax Assessment*

A tax assessment from the Tax Inspection Office of the Ministry of Finance, relating to the Resource Support Utilisation Fund and the Bank's 2011 tax year, has been made on certain of the Bank's fees earned on retail loans for amounts exceeding a certain percentage of the fees collected for consumer loans which have been categorised as interest (and therefore subject to RSUF taxation) in the assessment. The total amount of the assessment (including the principal and interest) is TL 30.8 million. The Bank is disputing the assessment in the courts, but the court has not yet made its decision. Provisions for the full amount of the assessment have been taken in the Bank's financial statements.

### **Information Technology**

The Group makes use of recent and innovative technologies, which enables it to provide customers with high service quality and product diversity. The Bank's management believes that innovation and utilization of technology support the Group's long-term strategic direction, help accelerate innovation and expand the Group's customer base and satisfaction. The Bank intends to continue to invest in information technology in order to keep and strengthen its competitive position in the sector and increase stockholder value. The Group also operates modern primary and disaster recovery centres, which serve its banking operations and are continuously improved in terms of capacity and cost efficiency.

The Group's total information technology capital expenditure was US\$30.3 million in 2014, US\$41.0 million in 2015 and US\$33.5 million in 2016, which represented 6.7%, 45.6% and 55.6%, respectively, of the Group's total capital expenditure for the applicable year.

The Group's information technology system is centrally managed and controlled by its Enterprise Monitoring and Management Systems (described below). The system is then divided into central operations, which are monitored on an on-going basis, and branch operations, which comprise digitised teller and back office processes. The Group's information technology system is supported by disaster recovery centres, including back-up facilities, which serve its banking operations and are continuously improved in terms of capacity and cost efficiency. System availability averages 99.95% without planned downtime, which is scheduled seven times a year and reduces system availability to 99.89%.

In line with the Group's strategy to increase cost efficiency, the Group's centralised operations personnel have decreased by 11.4% in 2016 compared to 2015. The Group seeks further efficiency in its information technology systems through a focus on appropriate allocation of data resources to critical systems. As of 31 December 2016, the Group allocated approximately 65.0% of its servers to what it considers to be "critical" systems and the remainder to operational and productivity systems. The Group also has a stated objective of decreasing allocation of data resources in its retail and other operations in order to increase allocation of data resources to its growing corporate and commercial banking systems.

### *Ibtech*

In May 2005, the Group established Ibtech, an information technology specialist subsidiary. Ibtech is the only bank information technology firm accredited to be located in the Technology Innovation Zone situated at Kocaeli, where it operates with a special licence under a 45-year lease from the government. Ibtech's location in the Technology Innovation Zone enables it to exchange know-how with government institutions in an efficient manner. As of 31 December 2016, Ibtech had 597 full-time employees, with expertise in the banking industry and information technology. See also "Subsidiaries and other Affiliated Companies."

## *The Group's IT Programmes*

The Enterprise Monitoring and Management System is the consolidated monitoring infrastructure that integrates the Group's various programmes. The Group uses CoreFinans, a core-banking application that is an all-inclusive in-house-developed application. CoreFinans has been continuously enhanced with new functionality since it was launched in 2002. With its service-oriented architecture, CoreFinans provides flexibility, scalability, ease of use, ease of integration and measurability, which are vital ingredients for the Group's operations. In addition to the core-banking application, the Group's information technology team develops and maintains alternative delivery channel applications, encapsulated with customer data management and infrastructure layers. In 2013, CoreFinans was integrated with the Group's telecommunications infrastructure, enabling branches to hold promotion campaigns and perform sales over the phone.

Over the past few years, the Group has carried out several projects focused on its banking delivery channels and has a number of ongoing projects. For instance:

### *Completed Projects:*

- (a) *Implementation of Information Technology Systems for Hemenal Consumer Financing Company:* the Bank has established a new IT system for Hemenal Consumer Financing Company.
- (b) *HSBC-Finansbank Cooperation Project:* This project was undertaken to enable the Bank to serve HSBC customers in the Bank's branches using the Bank's infrastructure and banking applications for some processes.
- (c) *Enpara.com SME:* Enpara.com consumer banking services were launched in 2012. Enpara was launched in order to serve SME customers via the internet, mobile applications, call centers and interactive voice response systems. In addition, a tablet application has been developed for ENPARA direct sales persons.
- (d) *Use of UnionPay Cards on Finansbank ATMs:* UnionPay debit and credit card holders are now able to carry out cash advance and account/balance inquiry transactions on the Bank's ATMs.
- (e) *Use of UnionPay Cards on Finansbank Point of Sale Systems:* as a part of this project, UnionPay branded cards can be used with the Bank's point of sale systems. The following developments were completed within the scope of the project;
  - UnionPay cards can be processed at the Bank's physical point of sales systems;
  - online and offline certifications have been completed; and
  - improvements in accounting and clearing flows have been made available.
- (f) *QCP Automation of Banking Transactions Contract Document:* Under the scope of this project,
  - an Image Processing & Classification application ("IPC"), which has been developed by the Group in-house, will be utilised as Smart Document Control ("SDC") in the Group's customer document management system;
  - SDC will be used to automate the quality control process of certain banking documents uploaded from core finance screens by checking the signatures and text fields of such documents that are completed by customers; and
  - reports will be prepared for all documents and rejections controlled by the SDC.
- (g) *Micro Collection Project:* In this project, small to medium businesses, profit-centered corporate customers and details of all their products (including credit cards, instalment credit, cash credit, overdraft accounts etc.) have been added into a centralised collection system, bringing together information from different

channels. This pool of information has started to feed into the collection strategy. Whereas the prior system involved manual searches for data, the new system has improved efficiency.

(h) *EMIR (European Market Infrastructure Regulations) Compliance Project*: the main scope of this project includes:

- setting CSA (Credit Support Annex) parameters in compliance with the GMRA (Global Master Repurchase Agreement); and
- the classification and reporting of derivative transactions within these parameters in compliance with EMIR.

(i) *TROY-National Payment System*: A new card payment system called TROY, which can be used as an alternative to Visa and Mastercard for domestic transactions, has been developed by BKM. The Bank participated as a pilot bank for the implementation of this new payment system which involved the Bank carrying out the following:

- credit cards and debit cards were printed with the TROY brand;
- card printing and personalisation were changed according to the new payment system parameters; and
- TROY compatible arrangements have been made in the automation, day-end, back office and clearing applications.

(j) *Smart Screen & Digital Document Approval Infrastructure by Digital Channels*: In September 2015, in-branch retail loan sales process was streamlined through a digital structure built for the required contracts, application and customer information forms. With the new structure, once the application steps are completed in the branch by the relationship manager, customers could access the documents online on internet and mobile banking platforms where they finalise the sales process without a physical signature, after which documents are sent to customers via e-mail or SMS in PDF formats and stored digitally.

In April 2016, the digital approval platform was established to include other products, services and channels. A web-site ([onay.qnbfinansbank.com](http://onay.qnbfinansbank.com)) was built specifically for digital approval. Customers can access the platform either through their personal electronic devices or tablet computers called 'Smart Screens' located in branches. This platform now includes 40 processes and five channels (Smart Screens, internet banking, mobile banking, ATM and [onay.qnbfinansbank.com](http://onay.qnbfinansbank.com)) promising a fast, easy-to-use, effective multichannel experience. Approximately 99% of personal loan applications and 52% of other processes are currently signed digitally. Dedicated Smart Screens will be distributed to each and every retail relationship manager in branch by July 2017. All printed documents have been planned to be moved to the platform by the end of 2017.

The digital approval platform and Smart Screens (i) have enhanced the customer experience by reducing complexity in processes and shortening the waiting time, (ii) have increased sales efficiency by using the time saved from operational work to boost sales, (iii) have improved control efficiency by replacing the quality control steps with system controls (leading to fewer operational errors) and (iv) are contributing to the environment and economy through the reduced use of paper.

(k) *Offering DCC ("Dynamic currency conversion") for Foreign Customers at ATMs*: the DCC project will allow foreign banks' customers to convert their withdrawal amount to their home currency in cash withdrawal transactions. The DCC infrastructure is based on the notion that the exchange rate between the TR and the processing (home) currency is fixed for each international transaction, without being influenced by market fluctuations, against a certain commission. With the help of a fixed exchange rate, customers will have access to the exact amount that will appear on their accounts/credit card statements.

- (l) *QNB Rebranding*: Following the acquisition and the change of the Bank's marketing name to QNB Finansbank, the rebranding of all alternative delivery channels such as internet banking, mobile banking and ATMs, call centre communication as well as other customer touch points and communications was completed in order to maintain the Group's brand integrity.
- (m) *Operation Field Support Center*: the Bank's branch operations have been centralised into an Operation Field Support Center in order to increase service quality and operational efficiency. To achieve this, technical infrastructure was built and the implementation of the project was finalised in the second half of 2016.

Ongoing:

- (n) *Simulation Application Development for the Bank's ATMs*: The aim of the project is to create a smart simulation application and platform for ATM software and test engineers. Using this application, both developers and testers will be able to perform their functions without any time and location constraints. The main goal is to remove the dependency on ATM machines for such tests and related works.
- (o) *Mobile Application - Solo Product Sales*: In 2015, an alternative sales channel Mobile-Solo Product Sales application was developed and deployed on the mobile Android platform, which allows the direct sales team to sell certain selected products (e.g., overdraft account, automatic utility payment orders, pension transfers, etc.). In 2016, Mass Segment Customer Relations Managers started to use the Mobile-Solo Product Sales application in order to increase the size of the product portfolio. The Mobile-Solo Product Sales application allows users to use a digital approval platform at the end of the application so that the documents are approved and stored digitally. The Bank is planning to add credit card applications to the Mobile-Solo products in 2017 to let customers approve the application forms and contracts digitally instead of with a physical signature.
- (p) *Next Generation & UX Based ATM User Interfaces Implementation Project*: Design and process studies have been initiated in order to renew ATM front-ends and flows in order to serve the Bank's customers with the latest technology and make their daily banking transactions quicker and easier. Additional dynamic and customer focused solutions are expected to be realised in 2017.
- (q) *Joint ATMs for Deposit Processes*: Since 2009, all domestic banks' cards have been able to be used for cash withdrawal and balance inquiry transactions at all banks' ATMs owing to a common/shared ATM project. Money deposit transactions to savings accounts will be offered from all common/shared ATMs by the end of 2017 as well. The Bank expects significant commission revenues both on the issuer and the acquirer side. The project is expected to facilitate accessing/depositing to accounts for customers.
- (r) *Call Steering*: The Call Steering project aims to eliminate the complexity of navigating contact centres with a natural language solution that lets customers use their own words to describe why they are calling. Call Steering routes callers to the correct destination without the need for complicated menu mazes – resulting in increased automation, reduced call duration and increased customer satisfaction. It also reduces contact centre costs by shortening call times, reducing the number of misrouted calls and improving overall call automation rates. By drastically reducing menu complexity, call steering will allow the Bank to consolidate multiple customer service phone numbers into one self-service application. The project is expected to be completed in May 2017.
- (s) *Assessment of Voice Biometrics Products*: The Bank is evaluating various voice biometrics products which could potentially provide opportunities for identifying and authenticating customers when speaking to call centres. The Bank hopes to use this to improve customers' experience and information security. This technology uses the customers' unique voiceprint for authentication which is a natural, effortless, and much more accurate way to authenticate a customer. In addition to being less susceptible to current fraud techniques, this method is also expected to bring saving opportunities in the customer contact centre.

- (t) *Banksoft*: The Bank adopted Banksoft, which provides a software solution for card payment integration. The main applications include credit and debit card management systems, merchant and terminal management systems, fraud detection, campaign management, switch management and clearing and settlement modules.

## Employees

The Bank places a high priority on recruiting and retaining the highest quality staff in alignment with its long-term business strategies and regards its staff as its most significant resource. For attracting suitable candidates, the Bank's efforts have centred on HR activities for strengthening the Bank's brand image. The Bank also aims to provide a high level of personal and professional training that is both role-oriented and designed to develop certain skills and competencies and promote a coherent, unified corporate culture. The Bank aims to compensate its employees competitively and operates diversified performance-driven premium and year-end success bonus models as well as several practices for reinforcement of engagement and fulfilment such as appreciation and recognition programmes, internal communication activities and retention plans. With the goal of establishing long-term and efficient relationships with employees, the Bank conducts and analyses employee engagement and satisfaction inventories and turnover studies. It also provides vertical and horizontal career opportunities.

As of 31 December 2016, the Bank employed 12,451 persons, of whom 55% were based in one of the Bank's branches. Among its employees, more than 74% were engaged in sales, with 2,329 employees forming the direct sales force, as of 31 December 2016. Additionally, the Bank's subsidiaries (including Cigna Finans Pension) employed 1,871 employees as of such date.

The following table sets forth the number of employees of the Bank by operation as of each of the indicated dates:

By operation	As of 31 December		
	2014	2015 <sup>(1)</sup>	2016
Head Office .....	4,195	2,929	2,915
Branches .....	7,659	7,292	6,850
Alternative sales channels .....	687	2,358	2,329
Regional offices .....	289	371	357
<b>Total .....</b>	<b>12,830</b>	<b>12,950</b>	<b>12,451</b>

(1) In 2015, the Bank started to use a new methodology of calculating the number of employees working for the head office and alternative sales channels. Accordingly, while comparing the number of employees as of 31 December 2014, 2015 and 2016, the number of employees for the head office and alternative sales channels for a year should be combined.

As of 31 December 2016, more than 80% of the Bank's employees had associate degrees or above. As of the same date, the Bank's employees had an average of 7.84 years of experience in the banking sector, an average seniority at the Bank of 6.24 years and an average age of 33 years, the Bank's management believes that the Bank's relations with its employees are positive. The number of employees working at the Bank's branches decreased between 31 December 2014 and 31 December 2016 as a result of the Bank's strategy to have a more efficient branch network.

## Property

The Bank's principal properties, including its head office, are located primarily in two areas of İstanbul, Levent (Kristal Kule) and Ümraniye. The Bank's other material properties are in three other Turkish cities: Erzurum, İzmir and Bursa. The market value of these material properties, based upon external appraisals in December 2016, was TL 1,399.6 million. The Bank operates most of its branches based upon medium-term leases, with typical lease periods of five to 10 years. Some of the Bank's subsidiaries and other affiliated companies own their own properties while others lease the premises in which they operate.

On 11 March 2014, the Group purchased a commercial building for TL 931.0 million to be used as the Group's headquarters. On 14 October 2014, the Bank agreed to sell its Gayrettepe headquarters in İstanbul for a contractually agreed value that was higher than the then current book value and such sale was approved by the Bank's Board of Directors on

23 October 2014. On 30 October 2014, the Bank also began an open tender process for the sale of its Polat building in İstanbul, and the result of such tender process was approved by the Bank's Board of Directors on 13 November 2014. Title of the Gayrettepe headquarters building was transferred in March 2015 and the title to the Polat building was transferred shortly thereafter.

## Ratings

As of the date of this Base Prospectus, the Bank has been assigned the following ratings by Fitch and Moody's, which are both registered in the EU for purposes of the CRA Regulation.

	Rating Agency	
	Fitch	Moody's
Long-term foreign currency .....	BBB-	Ba2
Short-term foreign currency .....	F3	NP
Long-term local currency deposit.....	BBB-	Ba1
Short-term local currency deposit.....	F3	NP
Long-term national rating.....	AA+ (tur)	—
Support .....	2	—
Viability/Baseline Credit Assessment	bb+	ba3
Outlook.....	Stable	Negative

The ratings set forth above are accurate only as of the date of this Base Prospectus and are subject to change at any time. A rating only reflects the views of the relevant rating agency and is not a recommendation to buy, sell or hold the Notes (or beneficial interests therein) and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.



## RISK MANAGEMENT

The Bank considers effective risk management to be crucial to its success. The Bank allocates substantial resources to upgrading its policies, methods and infrastructure to ensure compliance with best international practices and the guidelines of the Basel Committee on Banking Supervision (the “*Basel Committee*”).

### Risk Management Governance

Risk management governance at the Bank starts with the Board of Directors. The Board Risk Committee (the “*BRC*”), the ALCO, the Corporate and Retail Credit Policy Committees (the “*CCPC*”, “*CPRC*” and the “*RCPC*”), the Operational Risk Management Committee (the “*ORMC*”) and the Risk Management Department are the most important bodies in the risk management structure. The Board of Directors determines the general risk policy and the risk appetite of the Bank. The BRC, in its monthly meetings, defines risk policies and strategies, reviews the types of risks the Bank is exposed to, monitors the implementation of the risk management strategies and brings important risk issues to the attention of the Board. The ALCO, meeting monthly, is responsible for monitoring and managing the structural asset-liability mismatches of the Bank, as well as monitoring and controlling liquidity risk and foreign currency exchange risk. The CCPC and RCPC meet on an as-required basis and are responsible for monitoring and evaluating the Bank’s applicable lending portfolio and determining principles and policies regarding the credit risk management processes, such as loan approval, limit setting, rating, monitoring and problem management. The ORMC meets every three months and is responsible for reviewing operational risk issues of the Bank and defining the necessary actions to be taken to minimise these risks. The Risk Management Department, working independently from the Bank’s executive functions and reporting to the Board of Directors, is organised under four groups (market risk, credit risk, operational risk and model validation), each having responsibility for identifying, measuring, monitoring, controlling and managing the relevant risks as well as for model validation and assessing the predictive ability of risk estimates and the use of ratings in credit processes.

The Group aims to adopt best practices regarding risk management governance, taking into account all relevant guidelines and regulatory requirements, as set by the Basel Committee, the BRSA and the CMB, as well as any decisions of the competent authorities supervising the Group’s entities.

The Internal Audit Division (the “*IAD*”), which reports directly to the Board of Directors through the Audit Committee, complements the risk management framework and acts as an independent reviewer, focusing on the effectiveness of the risk management framework and control environment.

The Group’s risk management structure is designed to achieve existence of clear lines of responsibility, the efficient segregation of duties and the prevention of conflicts of interest at all levels.

#### *Board Risk Committee*

The Group’s risk management policies are approved by the BRC, the members of which are the Chairman of the Bank’s Board of Directors and three other members of the Bank’s Board of Directors who are adequately qualified and experienced in the field of risk management. According to its internal regulation, the BRC is responsible for all strategic risk management decisions including, for example, the approval and review of risk strategy, policies and capital adequacy and allocation as well as oversight of the ALCO, the CCPC, the RCPC and the ORC.

For a further description of the BRC, see “Management – Executive Committees of the Bank – Board Risk Committee.”

#### *Risk Management Department*

The Group’s Risk Management Department is responsible for monitoring and managing all potential risks for the Bank in a centralised and efficiently coordinated manner. The primary goal of the Risk Management Department is to provide the business lines with appropriate capital allocation (economic capital) for risks they are exposed to and incentivise risk-adjusted return on capital.

The Risk Management Department seeks to protect the Group against unforeseen losses and to maintain earnings stability through the independent identification and assessment of risks. It uses a framework for evaluating risks for risk management, seeking to produce transparent, objective and consistent risk management information as the basis for organizing the Group's structure. Its role in maximizing the Group's earnings potential involves measuring performance on a risk-adjusted basis and allocating capital accordingly. In addition, it is responsible for providing the BRC and the Executive Committee with accurate data and analysis required for measuring, monitoring and managing risks and for supporting the implementation of risk management decisions. Group risk management policies are approved by the BRC.

The Risk Management Department undertakes to do the following:

- analyse, measure, monitor, control, mitigate and report to management all significant on- and off-balance sheet risks undertaken at the Bank and the Group level,
- adopt risk management policies with regard to significant credit, market, operational and other risks undertaken by the Bank and the Group,
- evaluate the internal capital that is required in respect of all aforementioned risks and estimate all relevant capital ratios of the Bank and the Group,
- establish a framework for undertaking risk applicable to all levels of management and collective bodies of the Bank and the Group,
- establish early warning systems and perform stress tests on a regular basis, and
- guide decision-making processes at the Group level by providing the necessary risk management related evaluation.

#### *Asset and Liability Management*

The ALCO proposes asset and liability management procedures and policies to the Bank's Board of Directors that are compatible with prevailing laws and regulations. The ALCO is responsible for executing these policies and managing structural interest rate risk within the limits defined by the Board of Directors. The ALCO meets monthly. At these meetings, the ALCO reviews critical risk issues and determines the strategies for asset and liability management.

#### *Internal Audit Division*

The IAD has an independent and advisory role, the objective of which is to conduct assurance and consulting activities designed to add value and improve operations. Internal audit contributes to the achievement of corporate objectives by: (a) bringing a systematic, disciplined approach to the evaluation of the effectiveness of risk management, internal controls and corporate governance, (b) recommending appropriate measures to improve their efficiency and effectiveness and (c) monitoring the implementation of corrective actions.

The internal audit activity is structured so as to be independent of, and free from interference by, any element, unit or management level within the Bank. In order to ensure this independence, the Chief Audit Executive reports ultimately to the Bank's Board of Directors, with a functional and administrative reporting line through the Head of Internal Systems and the Audit Committee. This reporting line also applies for the approval of the internal audit charter, the risk-based internal audit plan, the internal audit budget and resource plan, the internal audit activity's performance relative to its plan and decisions regarding the appointment and removal of the Chief Audit Executive.

#### **Management of Specific Risks**

The Bank's risk management processes distinguish among the types of risks set out below. See also Section 4 of the BRSA Financial Statements for the Group for 2016.

## Credit Risk

Credit risk represents the risk arising from a counterparty not fulfilling its responsibilities stated in an agreement either partially or totally. The credit policy committees and departments are responsible for managing the Group's credit risk by controlling the overall lending process through approving the Bank's lending criteria and credit risk policies and delegating authorities depending upon the type of the product. These committees and departments help to establish effective and efficient internal policies, procedures and methodologies to define, quantify, measure, control and report credit risks.

The Group's Risk Management Department is responsible for building a regular cycle of rating models validation that includes monitoring of model performance and stability and, where necessary, model improvement. The table below provides an overview of the Group's credit risk management rating model:

Phase	Retail Loans	Business Loans
Origination	Scorecards Highly automated and model-driven application process	Incentivizing hard collateralization Use of scorecards and credit decision framework as a decision support tool Customised underwriting processes with different authorisation levels based up on customer segment
Monitoring	Proactively monitored and managed portfolio monitored on a daily basis Behavioural scorecards generating early warning signals	Proactively monitored credit portfolio with early warning signals, analytical decision support tools and management dashboards
Early Collection	In-house and outsourced collection teams of full-time employees, supported by information technology systems and segmentation tools	Centralised and regional collection specialists for each customer segment
Legal Collection	Central legal enforcement team managing NPL collection with the support of external law firms	Centralised legal collection teams and agents

The Bank actively uses collateral management as an important risk mitigation mechanism, including a legal review confirming the enforceability of the collateral arrangements under the applicable law. The market value of collateral generally is appraised at least annually or more often whenever there is a reason to believe that a significant decrease in its market value has occurred.

As long as a customer has a credit line, the Bank continuously monitors the credit risk of the customer. Quality, timeliness and sufficiency of information flow are under the responsibility of the underwriting department. The financial standing and the business risk profile of a customer are continuously monitored and the corporate ratings are updated and the customer limits are reviewed at least annually. Early warning systems have been established in order to ensure that customers for which a significant deterioration in the credit quality or payment performance has been observed are transferred to the watch list and closely monitored. Similarly, restructured and rescheduled loans are carefully monitored in line with the Group's credit risk policy.

Credit Cards. The credit card portfolio is the largest component of the Bank's retail banking loans (TL 7,564.2 million as of 31 December 2014, TL 7,716.8 million as of 31 December 2015 and TL 7,793.7 million as of 31 December 2016). Due to the weight of credit card loans in the Bank's balance sheet, the portfolio is subject to close monitoring and analysis on an on-going basis with what the Bank's management believes are robust techniques.

The Group has established a credit card scoring system supported by a number of models, which system is based upon a customer's application and behavioural score cards. Scoring systems and risk analytics are incorporated throughout the credit process, from the grant of credit through to collection. The Group's risk management unit is responsible for building a regular cycle of model validation that includes monitoring of model performance and stability and, if necessary, model improvement.

Credit cards that are in arrears or are considered to be a potential problem for the Bank are actively monitored and managed with the intent of avoiding loss, or mitigating it to the extent reasonably possible. The Bank has established processes whereby delinquent credit cards are managed in a timely fashion so that the collection performance of the credit

card loans portfolio is successful. The Bank has also implemented early warning systems with the goal of ensuring that customers subject to significant credit quality or payment performance deterioration are monitored with special care, and the Group relies on a network of in-house and outsourced early collection agents for collection efforts.

In 2014, the Group put in place stricter underwriting criteria and higher cut-off levels for its retail credit card business. The Group's management believes that this has resulted in the stabilisation of additional credit card NPLs, which amounted to TL 1,077.6 million as of 31 December 2016 (compared to TL 1,427.1 million as of 31 December 2015 and TL 1,076.0 million as of 31 December 2014).

*Mortgage Lending.* The mortgage lending portfolio is the third largest component of the Bank's retail banking loans, with a total exposure of TL 5,907.7 million, TL 4,961.1 million and TL 5,131.1 million as of 31 December 2014, 2015 and 2016, respectively. Accordingly, similar to credit card loans, the mortgage portfolio is also closely monitored and multi-dimensional risk analyses are performed on an on-going basis, including a property valuation conducted by an independent certified agent. The Group aims to have a loan-to-value ratio of 40.0% in its mortgage business in order to support high recovery rates. The Group's NPL volumes in its mortgage lending business have declined from TL 62.0 million as of 31 December 2014 to TL 51.6 million as of 31 December 2015 and to TL 44.3 million as of 31 December 2016.

*Consumer Loans.* In the consumer loans business, the Group employs a dedicated early collection team comprised of in-house, outsourced and branch-based employees and agents.

*Business Loans.* The Group uses various scorecards in the origination stages of its business loans products, including behaviour scorecards, with customised underwriting processes employing different authorization levels depending upon the customer segment. Generally, the Group incentivises hard collateralization of its business loans, which means the collateral must be in the form of cash or real estate. Further, the Group proactively monitors its credit portfolio with respect to its business loans, using early warning signals, analytical decision support tools and management dashboards. In terms of collection, the Group employs centralised and regional collection specialists for each customer segment for purposes of early collection, as well as a centralised team of collection teams and agents for collection efforts.

Given that inadequate diversification might have a significant impact on the value of the Group's business loan portfolio, the Group has established maximum concentration limits for single names and industries. As a result, the Bank's top 20 corporate and commercial customers accounted for 33.3% of the Bank's total corporate and commercial performing loans and receivables and only 11.4% of the Bank's performing loan book as of 31 December 2016.

### *Counterparty Risk*

The Group faces counterparty risk from the over-the-counter transactions and the repurchase agreements in which it is involved. Counterparty risk is the risk arising from an obligor's failure to meet its contractual obligations. For the efficient management of counterparty risk, the Bank has established a framework of counterparty limits. The financial institution department is responsible for setting and monitoring the limits for the Bank's financial institution counterparties.

Counterparty limits for the Bank's financial institution counterparties are set based upon credit ratings that are published by internationally recognised ratings agencies (in particular, by Moody's and S&P). According to the Bank's policy, if rating agencies have different views on the creditworthiness of a counterparty, then only the lowest rating will be taken into consideration. In cases where a counterparty is not rated by internationally recognised ratings agencies, its rating is determined by the Bank's internal rating model.

The counterparty limits apply to all financial instruments that the Treasury department actively trades in the interbank market. The limits framework is revised according to the business needs of the Bank and prevailing conditions in international financial markets. A similar limit structure for the management of counterparty risk is enforced across all of the Group's subsidiaries.

The Group seeks to reduce counterparty risk by standardizing relationships with counterparties through the use of documentation maintained by the International Swaps and Derivatives Association (ISDA), the International Capital Markets Association (ICMA) and the International Securities Lending Association (ISLA) that include all necessary closeout netting clauses and margining agreements. Additionally, for the most active counterparties in over-the-counter derivatives, credit

support annexes have been put in effect so that on the basis of daily valuations, net current exposures are managed through margin accounts where cash collaterals can be reciprocally posted.

The Group avoids taking positions in derivative contracts where the values of the underlying assets are highly correlated with the credit quality of the counterparty.

The Bank uses the “current exposure method” for the calculation of regulatory capital requirements arising from counterparty credit risk.

#### *Interest Rate Risk*

Interest rate risk is the risk related to the potential losses on the Group’s portfolio due to adverse movements in interest rates. A principal source of interest rate risk exposure arises from the Group’s bond portfolios and its interest rate exchange-traded and over-the-counter transactions, including the interest rate risk that derives from the positions it retains in Turkish government bonds. As a means of hedging, the Group enters into swap transactions in order to hedge the interest rate risk of its eurobond portfolio, which consists predominantly of Turkish government bonds denominated in foreign currency.

In order to offer loans to its customers, the Group also obtains liquidity in U.S. Dollars, which are then converted into Turkish Lira through cross-currency interest rate swaps. These cross-currency interest rate swaps act as a hedge to the interest rate risk that derives from the Group’s loan portfolio.

*Interest Rate Risk in the Banking Book.* Interest rate risk in the banking book is the current or prospective risk to earnings (net interest income) and capital due to adverse movements in interest rates affecting the banking book positions. Exposure to interest rate risk in the banking book arises from re-pricing mismatches between assets and liabilities. The Group’s banking book consists mainly of loans and receivables, leasing and factoring receivables, cash and balances with central banks, amounts due from banks, customer deposits, amounts due to banks, marketable securities issued and funds borrowed that are measured at amortised cost. The Bank’s management believes that it maintains adequate measurement, monitoring and control functions for interest rate risk in the banking book, including:

- measurement systems for interest rate risk that capture material sources of interest rate risk and assess the effect of interest rate changes in ways that are consistent with the scope of the Group’s activities,
- measurement of vulnerability to loss under stressful market conditions,
- processes and information systems for measuring, monitoring, controlling and reporting interest rate risk exposures in the banking book, and
- a documented policy regarding the management of interest rate risk in the banking book.

Interest rate risk that would arise from changes in interest rates depending upon the Group’s position is managed by the ALCO. Interest rate sensitivity of assets, liabilities and off-balance sheet items is analysed by top management in the ALCO meetings held monthly by taking market developments into consideration. The management of the Group follows the interest rates in the market on a daily basis and revises interest rates of the Group when necessary.

In addition to customer deposits, the Bank funds its long-term fixed interest rate Turkish Lira-denominated instalment loan portfolio with long-term (up to 10 years) floating interest rate foreign currency funds obtained from international markets. The Bank swaps the foreign currency-denominated liquidity obtained from the international markets to Turkish Lira-denominated liquidity with long-term swap transactions (fixed Turkish Lira interest rate and floating foreign currency interest rate).

Even though the Bank is exposed to structural interest rate risk on its balance sheet due to the nature of its existing activities, the Bank’s policies aim to ensure that this risk stays within pre-defined limits. The ALCO aims to protect the economic value of equity, while sustaining a stable earnings profile. Duration/gap analyses, which rely upon calculations of net discounted future cash flows of interest rate sensitive balance sheet items, are conducted to manage this risk.

The Bank runs net economic value sensitivity scenarios with changes in interest rates and interest rate margins in order to calculate their impact on net economic value. In addition to the Basel standard interest rate shock scenario, the 2001 crisis and the May 2004, June 2006 and 2008 scenarios are also simulated. As of 31 December 2016, the expected change in net economic value under the Basel scenario, which is defined by the BRSA, was TL 1,373.4 million (12.2% of equity), which is well below the 20% limit advised by the Basel Committee (Principles for the Management and Supervision of Interest Rate Risk, July 2004).

The following table sets forth the Group's "re-pricing" gap as of 31 December 2016. The Group reports its "re-pricing" gap only on an annual basis.

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-Interest- Bearing	Total
<i>(TL thousands)</i>							
<b>Assets</b>							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased, Precious Metal) and Balances with the T.R. Central Bank .....	7,541,319	-	-	-	-	5,562,565	13,103,884
Due from Banks .....	75,512	-	12,182	-	-	224,372	312,066
Financial Assets at Fair Value Through Profit/Loss .....	762	8,370	2,147	12,766	31,198	6,235,788	6,291,031
Money Market Placements .....	1,667,618	-	-	-	-	-	1,667,618
Inv. Securities Available-for-Sale .....	1,540,616	403,471	1,609,451	847,566	2,787,198	(156,189)	7,032,113
Loans and Receivables .....	13,430,498	7,611,418	21,746,543	15,606,797	2,672,475	1,546,362	62,614,093
Investment Securities Held to Maturity .....	178,373	1,181,254	1,626,021	1,301,498	1,516,723	96,638	5,900,507
Other Assets .....	542,660	287,328	860,692	1,528,411	86,391	4,099,040	7,404,522
<b>Total Assets .....</b>	<b>24,977,358</b>	<b>9,491,841</b>	<b>25,857,036</b>	<b>19,297,038</b>	<b>7,093,985</b>	<b>17,608,576</b>	<b>104,325,834</b>
<b>Liabilities</b>							
Bank Deposits .....	1,193,196	572,973	67,578	-	-	139,238	1,972,985
Other Deposits .....	30,613,782	9,899,613	1,874,874	47,910	-	9,456,085	51,892,264
Money Market Borrowings .....	4,842,526	914,488	824,886	-	27,944	9,989	6,619,833
Sundry Creditors .....	4,389,726	-	-	-	-	2,331,160	6,720,886
Securities Issued .....	708,413	2,280,490	1,551,647	1,750,319	-	40,708	6,331,577
Funds Borrowed .....	2,295,865	2,471,838	9,333,096	231,261	351	66,927	14,399,338
Other Liabilities .....	4,200	-	-	-	-	16,384,751	16,288,951
<b>Total Liabilities .....</b>	<b>44,047,708</b>	<b>16,139,402</b>	<b>13,652,081</b>	<b>2,029,490</b>	<b>28,295</b>	<b>28,428,858</b>	<b>104,325,834</b>
On Balance Sheet Long Position .....	-	-	12,204,955	17,267,548	7,065,690	-	36,538,193
On-Balance Sheet Short Position .....	(19,070,350)	(6,647,561)	-	-	-	(10,820,282)	(36,538,193)
Off-Balance Sheet Long Position .....	5,138,216	11,756,849	-	-	-	-	16,895,065
Off-Balance Sheet Short Position .....	-	-	(1,342,029)	(9,351,397)	(2,379,841)	-	(13,073,267)
<b>Total Position .....</b>	<b>(13,932,134)</b>	<b>5,109,288</b>	<b>10,862,926</b>	<b>7,916,151</b>	<b>4,685,849</b>	<b>(10,820,282)</b>	<b>3,821,798</b>

### Equity Risk

Equity risk is the risk related to potential losses that the Group might incur due to adverse movements in the prices of stocks and equity indices. The Group holds a limited portfolio of stocks, the majority of which are traded on the Borsa İstanbul, and also retains positions in stock and equity index derivatives traded in Turkish and international exchanges.

### Foreign Exchange Risk

Foreign exchange risk is the risk related to the potential loss due to adverse movements in foreign exchange rates. The Group's foreign exchange risk derives from its open currency position ("OCP").

The Group trades in all major currencies, holding mainly short-term positions for trading purposes and for servicing its institutional, corporate, domestic and international clients. According to the Bank's strategy, the end-of-day OCP is required to comply with regulatory limits.

The Group evaluates its exposure for the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group enters into foreign currency forward transactions and swap transactions to decrease foreign currency position risk. The Group also engages in foreign option transactions. The position limit of the

Group related to foreign exchange risk is determined according to the foreign currency net position standard ratio determined by the BRSA.

Turkish banking authorities regulate and monitor the net open position maintained by banks, as discussed in “Turkish Regulatory Environment.” The Bank’s net foreign currency position is closely monitored by the Treasury Department with respect to a limit set by the BRC.

The Bank’s consolidated subsidiaries and its associates determine position limit related with foreign exchange risk as determined by the applicable regulatory bodies. The Bank’s Bahrain branch conducts its operations in U.S. Dollars.

The following table sets forth the Group’s net foreign currency position after including off-balance sheet positions (notional values of derivatives) as of the indicated dates.

	<b>Net foreign currency position</b>
	<i>(TL millions)</i>
As of 31 December 2014 .....	(1,218.7)
As of 31 December 2015 .....	(247.8)
As of 31 December 2016 .....	(1,644.9)

*Foreign Exchange Risk Concentration.* The Group’s exposure to foreign exchange risk as of 31 December 2016, before taking into consideration the effect of hedging, is presented in the following table. As described above, the end-of-day OCP is required to comply with regulatory limits. Compliance is achieved by entering into appropriate offsetting positions. Consequently, the net exposure to each foreign currency is maintained at low levels and within the regulatory limits. The Group publicly reports its foreign exchange risk concentration only on an annual basis.

	<u>Euro</u>	<u>U.S. Dollars</u>	<u>Others</u>	<u>Total</u>
	<i>(TL thousands)</i>			
<b>Assets</b>				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased, Precious Metal) and Balances with the T.R. Central Bank .....	2,705,117	6,901,877	1,567,029	11,174,023
Due From Banks .....	97,013	149,538	17,365	263,916
Financial Assets at Fair Value through Profit/Loss .....	80,698	91,443	245	172,386
Money Market Placements .....	-	-	-	-
Investment Securities Available-for-Sale .....	348,455	2,531,588	-	2,880,043
Loans and Receivables .....	7,764,280	8,836,547	16,922	16,617,749
Investments in Assoc., Subsidiaries and Entities under Common Control .....	-	-	-	-
Investment Securities Held-to-Maturity .....	16,189	2,500,366	-	2,516,555
Derivative Financial Assets Hedging Purposes .....	1,298	32,263	-	33,561
Tangible Assets .....	-	-	48	48
Intangible Assets .....	-	-	-	-
Other Assets .....	1,362,338	663,221	42,753	2,068,312
<b>Total Assets</b> .....	<b>12,375,388</b>	<b>21,706,843</b>	<b>1,644,362</b>	<b>35,726,593</b>
<b>Liabilities</b>				
Bank Deposits .....	429,229	1,017,335	222,232	1,668,796
Foreign Currency Deposits .....	5,901,732	13,646,709	1,150,954	20,699,395
Money Market Borrowings .....	178,710	3,340,999	-	3,519,709
Funds Provided from Other Financial Institutions .....	3,205,364	9,275,421	1,373,101	13,853,886
Securities Issued .....	183,426	4,286,885	-	4,470,311
Sundry Creditors .....	2,679,211	1,779,198	19,147	4,477,556
Derivative Financial Liabilities Hedging Purposes .....	63,701	166,788	-	230,489
Other Liabilities .....	118,899	242,169	252	361,320
<b>Total Liabilities</b> .....	<b>12,760,272</b>	<b>33,755,504</b>	<b>2,765,686</b>	<b>49,281,462</b>
Net Balance Sheet Position .....	<b>(384,884)</b>	<b>(12,048,661)</b>	<b>(1,121,324)</b>	<b>(13,554,869)</b>
<b>Net Off-Balance Sheet Position</b> .....	<b>448,647</b>	<b>10,341,525</b>	<b>1,119,800</b>	<b>11,909,972</b>

As of 31 December 2016, the Group's net foreign currency exposure was a short position of TL 1,644.9 million (compared to a short position of TL 247.8 million as of 31 December 2015) resulting from an on balance sheet short position of TL 13,554.9 million (compared to a TL 12,749.2 million short position as of 31 December 2015) and an off balance sheet long position of TL 11,910.0 million (compared to a TL 12,501.4 million long position as of 31 December 2015). Taking into account the application of fair value hedge accounting to a debt obligation with the notional amount of U.S.\$380 million (TL 1,342.1 million) recorded on the balance sheet, the Group's net foreign currency short position in 2016 was TL 302.8 million.

#### *Market Risk*

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity and bond prices and foreign exchange rates) and their levels of volatility. The Group's trading activities include a wide variety of financial products in order to enhance its profitability and its service to clientele. These trading activities require the Group to assume market risk, which the Group seeks to identify, estimate, monitor and manage effectively through a framework of principles, measurement processes and a valid set of limits that apply to all of the Group's transactions. The capital required for general market risk and specific risk is calculated and reported monthly in accordance with the "standard method" as defined in the "Regulation on the Measurement and Assessment of Capital Adequacy of Banks" issued by the BRSA and, within the time period determined by the BRSA following the calculation, the BRSA is required to be notified thereof. The most significant types of market risk for the Group are interest rate risk and foreign exchange risk.



*Value-at-Risk.* The Risk Management Division calculates daily value-at-risk (“*VaR*”) for the Bank’s trading book and total portfolio, which consists of its trading book and available-for-sale portfolio. In particular, the Bank has adopted a historical simulation methodology with a 99% confidence interval and a one-day holding period. Overall “Bank Risk Tolerance” and VaR limits for each risk factor are determined in order to manage the market risk efficiently and to keep the market risk within the desired limits. The Group’s Risk Management Department monitors VaR balances daily for compliance with the limits. Periodic stress tests and scenario analyses are used to support the results of the VaR analysis.

The limits have been determined by reference to worldwide best practices; they refer not only to specific types of market risk, such as interest rate, foreign exchange and equity risk, but also to the overall market risk of the Bank’s trading and available for sale portfolios.

The tables below set forth the Bank’s VaR as of and for the period ended on the indicated dates:

As of and for the year ended 31 December 2014				
	Total VaR	Interest rate VaR	Equity VaR	Foreign exchange risk VaR
<b>VaR</b>		<i>(TL thousands)</i>		
As of period end .....	40,404	38,003	28	3,319
Period Average .....	33,348	32,952	267	3,056
Period Maximum .....	60,455	59,302	1,422	9,850
Period Minimum .....	16,839	16,680	1	203

As of and for the year ended 31 December 2015				
	Total VaR	Interest rate VaR	Equity VaR	Foreign exchange risk VaR
<b>VaR</b>		<i>(TL thousands)</i>		
As of period end .....	30,765	35,376	15	4,263
Period Average .....	34,256	33,991	14	3,441
Period Maximum .....	48,345	46,051	44	8,838
Period Minimum .....	21,623	23,829	–	637

As of and for the year ended 31 December 2016				
	Total VaR	Interest rate VaR	Equity VaR	Foreign exchange risk VaR
<b>VaR</b>		<i>(TL thousands)</i>		
As of period end .....	55,227	55,436	1	340
Period Average .....	46,643	46,994	14	944
Period Maximum .....	83,835	84,557	31	4,929
Period Minimum .....	24,757	24,928	1	65

As of 31 December 2016, Total VaR increased from TL 30.8 million to TL 55.2 million due to an increase in market volatility. The Group uses a historical VaR methodology, with a one-year observation period and exponentially weighted moving average (“*EWMA*”). *EWMA* captures the dynamic features of volatility, in which the latest observations carry the highest weight in the volatility estimation. For example, observations of the most recent 100 days (out of the last 252 days included in the *EWMA*) cover 95.0% of the volatility estimate. The significantly lower market volatility for the 100 days preceding 31 December 2016 compared to the same figure as of 31 December 2015 resulted in a lower VaR figure for 31 December 2016.

The Bank also performs back-testing in order to verify the predictive power of its VaR model. There were five excesses in back-testing results in 2016. Back-testing is used to determine whether a change in the value of the portfolio, as a

result of actual changes in risk factors, corresponds to the VaR predicted by the model for the same period of time. Therefore, such a limited number of excesses in one year verify the predictability power of the model. In addition, the Bank performs stress test analyses and stress VaR calculation on its trading book on a monthly basis. The scenarios refer to extreme movements of interest rates and foreign exchange prices and are based upon the latest financial crises that have taken place in Turkey. The stress period for stress VaR calculation is defined from January 2008 to December 2008 in order to cover the 2008 global financial crisis.

In addition, the Bank performs stress test analyses on its trading and available-for-sale portfolios on a monthly basis. The scenarios refer to extreme movements of interest rates and foreign exchange prices and are based upon the latest financial crises that have taken place in Turkey.

*Limitations of the VaR model.* The VaR model is based upon certain theoretical assumptions, which under extreme market conditions might not capture the maximum loss the Bank will suffer. Some of the limitations of the Group's methodology are summarised as follows:

- The use of historical data series as predictive measures for the behaviour of risk factors in the future might prove insufficient in periods of intense volatility in financial markets.
- The one-day holding period for VaR calculations (or 10 days for regulatory purposes) implies that the Bank will be able to liquidate all of its trading assets within this length of time. This assumption might underestimate market risk in periods of insufficient liquidity in financial markets or in cases where certain assets in the Bank's portfolio cannot be easily liquidated.
- VaR refers to the plausible loss on the Bank's portfolio for a 99% confidence interval, not taking into account any losses beyond that level.
- All calculations are based upon the Bank's positions at the end of each business day, ignoring the intra-day exposures and any realised losses that might have been incurred.
- VaR estimates rely upon small changes in the prices of risk factors. For bigger movements, the methodology would not fully capture the effect on the value of the portfolio.

### *Liquidity Risk*

Liquidity risk is defined as the current or prospective risk to earnings and capital arising from the institution's inability to meet its liabilities when they come due without incurring unacceptable losses. It reflects the potential mismatch of payment obligations to incoming payments, taking into account unexpected delays in repayments (term liquidity risk) or unexpectedly high payment outflows (withdrawal/call risk). Liquidity risk involves both the risk of unexpected increases in the interest expense the portfolio of assets at appropriate maturities and rates and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

The primary objectives of the Group's asset and liability management are to ensure that sufficient liquidity is available to meet the Bank's commitments to its customers in respect of repayment of deposits and ATM transactions, to satisfy the Bank's other liquidity needs and to ensure compliance with 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.

The ALCO is responsible for forming and overseeing the implementation of the asset and liability management strategy of the Bank. The objective of the Bank's asset and liability management strategy is to structure the Bank's balance sheet in view of liquidity risk, maturity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has adequate capital and is using capital to maximise net interest income. The ALCO sets the Bank's policies for interest rate levels and terms for loans and deposits and makes decisions regarding maturities and pricing of loans and deposits. In addition, members of the Treasury Department, including the group managers, managers, assistant managers and fixed

income and foreign exchange traders, meet each business day to monitor the risk exposure of the Bank, particularly the Bank's net foreign currency short position and the daily interest rate gap and duration.

The Bank's Treasury Department is responsible for managing and implementing the Bank's asset and liability positions on a day-to-day basis and ensuring the availability of funds for all of the Bank's products and services distributed through the Bank's branch network. The Treasury department measures and evaluates on a daily basis the Bank's risk exposure and unfavourable changes in market conditions and regularly monitors the short-term mismatches between assets and liabilities.

The Group's primary funding source is total deposits (customer deposits and due to other banks), which constituted 54.5%, 54.9% and 51.6% of total liabilities as of 31 December 2014, 2015 and 2016, respectively. The Bank's management believes that total deposits provide it with a stable funding base.

As of 31 December 2016, demand deposits, of which 51.0% were Turkish Lira-denominated, constituted 17.4% of the Group's total deposits. As of the same date, time deposits represented the remainder of total deposits, with Turkish Lira-denominated deposits representing a majority with 60.0% of the total time deposits. The following table sets forth the deposit breakdown by currencies as of each of the indicated dates:

	As of 31 December		
	2014	2015	2016
<b>Demand deposits</b> .....	<b>13.9%</b>	<b>15.6%</b>	<b>17.4%</b>
Turkish Lira-denominated .....	8.1%	8.0%	8.9%
Foreign currency-denominated .....	5.8%	7.7%	8.5%
<b>Time deposits</b> .....	<b>86.1%</b>	<b>84.4%</b>	<b>82.6%</b>
Turkish Lira-denominated .....	56.7%	51.6%	49.6%
Foreign currency-denominated .....	29.3%	32.7%	33.0%
<b>Total deposits<sup>(1)</sup></b> .....	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Turkish Lira-denominated .....	64.9%	59.6%	58.5%
Foreign currency-denominated .....	35.1%	40.4%	41.5%

(1) Total deposits include customer deposits and due to other banks.

The following table sets forth the maturity profile of deposits as of each of the indicated dates:

	As of 31 December		
	2014	2015	2016
	<i>(TL thousands)</i>		
<b>Demand deposits</b> .....	<b>5,835,363</b>	<b>7,548,323</b>	<b>9,358,456</b>
Turkish Lira-denominated .....	3,404,192	3,846,269	4,768,222
Foreign currency-denominated .....	2,431,171	3,702,054	4,590,234
<b>Up to 1 month</b> .....	<b>6,297,747</b>	<b>6,278,794</b>	<b>6,846,989</b>
Turkish Lira-denominated .....	3,956,920	4,237,290	5,026,672
Foreign currency-denominated .....	2,340,827	2,041,504	1,820,317
<b>1 to 3 months</b> .....	<b>25,637,114</b>	<b>30,258,780</b>	<b>33,324,191</b>
Turkish Lira-denominated .....	16,835,515	18,206,369	19,263,563
Foreign currency-denominated .....	8,801,599	12,052,411	14,060,628
<b>3 to 12 months</b> .....	<b>1,877,557</b>	<b>2,606,133</b>	<b>2,858,809</b>
Turkish Lira-denominated .....	1,214,311	1,367,891	1,509,388
Foreign currency-denominated .....	663,246	1,238,242	1,349,421
<b>1 to 5 years</b> .....	<b>2,247,953</b>	<b>1,619,247</b>	<b>1,476,804</b>
Turkish Lira-denominated .....	1,761,844	1,129,766	926,146
Foreign currency-denominated .....	486,109	489,481	550,658
<b>Total deposits<sup>(1)</sup></b> .....	<b>41,895,734</b>	<b>48,311,277</b>	<b>53,865,249</b>
Turkish Lira-denominated .....	27,172,782	28,787,585	31,493,991
Foreign currency-denominated .....	14,722,952	19,523,692	22,371,258

(1) Total deposits include customer deposits and due to other banks.

### *Insurance Risk*

The insurance policies issued by the Group carry a degree of risk. The risk under any insurance policy is the possibility of the insured event resulting in a claim. By the very nature of an insurance policy, risk is based upon fortuity and is therefore unpredictable.

The principal risk that the Group may face under its insurance policies is that the actual claims and benefit payments, or the timing thereof, differ from expectations. This could occur because the frequency or severity of claims is greater than estimated.

The above risk exposure is mitigated, to some extent, by diversification across a large portfolio of insurance policies. The variability of risks is also improved by the careful selection and implementation of the Group's underwriting policy, reinsurance strategy and internal guidelines, within an overall risk management framework. Pricing is based upon assumptions and statistics with regard to trends, current market conditions and past experience.

Reinsurance arrangements include proportional, optional facultative, excess of loss and catastrophic coverage.

### *Operational Risk*

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems or from external events.

Operational risk is managed based upon a framework for identifying, measuring, monitoring and managing all risks within the scope of the definition of operational risk. All the activities and processes of the Bank are identified and documented in its "Activity Process Model." Activity-based operational risks are identified through "risk control self assessment" ("RCSA"), which is an annual base self-assessment process. The operational risks that the Bank faces have been identified, assessed and categorised by the RCSA process since 2007. Operational loss data collection, which started in January 2005, enables the Bank to be compliant with "Advanced Approaches" of Basel II, which is a report published in 2004 by the Basel Committee entitled "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" that set out a new international capital adequacy framework ("*Basel II*"). While loss data are accumulated to provide meaningful statistical data, business processes (where improvements are required) are defined based upon the results. The "Structured Scenario Analysis" process takes place on an annual basis, involving the engagement of senior business experts in a series of workshops. A key risk indicators collection and monitoring process aims to provide metrics that allow the proactive and/or retroactive monitoring of risk trends. The Bank's Operational Risk Committee defines necessary improvement actions.

A business continuity management plan, prepared in order to minimise losses due to business disruption, has been implemented by the Group. Comprehensive annual tests of the Bank's disaster recovery centre are undertaken with the participation of business units and the IT department.

### **Model Validation**

The Bank's Model Validation Unit is responsible for assessing the predictive ability of the Bank's risk estimates and its use of ratings in credit processes. The unit's main goal is to attain the maximum benefit from the employment of these models while staying in compliance with regulatory requirements. Validations of credit cards, retail loans and SME application and behavioural scorecards are undertaken periodically. The performances of existing scorecards are also monitored. Moreover, the models of the treasury control unit and market risk management are examined and the results reported to management. The implementation of the IT and database infrastructure for periodic monitoring of the scorecard performances is on-going.

### **Anti-Money Laundering, Combating the Financing of Terrorism and Anti-Bribery Policies**

Turkey is a member country of the Financial Action Task Force (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 (the “*Law on the Prevention of Laundering Proceeds of Crime*”).

The main provisions of the Law on the Prevention of Laundering Proceeds of Crime and related 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 Financial Crimes Investigation Board.

In an effort to ensure compliance with FATF requirements, Law No. 6415 on the Prevention of the Financing of Terrorism was introduced on 16 February 2013, which introduced an expanded scope to the financing of terrorism offense (as defined under Turkish anti-terrorism laws). The law further criminalised terrorist financing and implemented an enhanced legal framework for identifying and freezing terrorist assets.

The Bank’s management believes that the Group is in full compliance with the Law on the Prevention of Laundering Proceeds of Crime and the related legislation in effect, namely the “Regulation on Programme of Compliance with Obligations of Anti-Money Laundering and Combating the Financing of Terrorism” and the “Regulation on Measures Regarding Prevention of Laundering Proceeds of Crime and Financing of Terrorism.” These regulations include requirements to have written policies and procedures on anti-money laundering and “know your customer” principles such as assigning a compliance officer, an audit and review function to test the robustness of anti-money laundering policies and procedures, monitoring customer activities and transactions and employee training.

## Capital Adequacy

The Group is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the BIS. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets, off-balance sheet exposures, market and other risk positions. The 2013 Equity Regulation, which entered into force on 1 January 2014, defines the capital of a bank as the sum of: (a) principal capital (*i.e.*, Tier I capital), which is composed of core capital (*i.e.*, Common Equity Tier I capital) and additional principal capital (*i.e.*, additional Tier I capital), and (b) supplementary capital (*i.e.*, Tier II capital) *minus* capital deductions. The 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016, provides that: (i) both the unconsolidated and consolidated minimum Common Equity Tier I capital adequacy ratios are 4.5% and (ii) both unconsolidated and consolidated minimum Tier I capital adequacy ratios are 6.0% (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0%).

The following table sets forth the Group’s consolidated capital adequacy ratios as of the indicated dates, calculated in accordance with the 2012 Capital Adequacy Regulation, which was replaced by the 2015 Capital Adequacy Regulation as of 31 March 2016.

	As of 31 December	
	2015	2016
	(TL thousands)	
<b>Capital:</b>		
Tier I capital <sup>(1)</sup> .....	9,094,231	9,922,078
Tier II capital <sup>(2)</sup> .....	2,732,231	1,582,608
<b>Total capital</b> .....	<b>11,826,462</b>	<b>11,504,686</b>
Deductions <sup>(3)</sup> .....	(67,433)	(63,682)
<b>Net total capital</b> .....	<b>11,759,029</b>	<b>11,441,004</b>
Risk Weighted Assets (including market & operational risk) .....	<b>75,706,950</b>	<b>80,174,960</b>
<b>Capital Adequacy Ratios:</b>		
Tier I ratio .....	12.01%	12.38%
Total capital ratio <sup>(4)</sup> .....	15.53%	14.27%

- (1) Includes share capital, reserves, retained earnings and profit for the period.
- (2) Includes revaluation reserve plus general provisions, foreign exchange differences, valuation of marketable securities and subordinated debt.
- (3) Includes loans to banks, financial institutions (domestic/foreign) or qualified shareholders in the form of secondary subordinated debts and debt instruments purchased from such parties qualified as primary or secondary subordinated debts and net book values of properties exceeding 50% of the capital and of assets acquired against overdue receivables and held for sale as per the Article 57 of the Banking Law but retained more than five years after foreclosure.
- (4) Includes net total capital as a percentage of risk weighted assets including market and operational risk.

The Bank maintains regulatory capital ratios (in accordance with BRSA calculations) on both a Bank-only and consolidated basis in excess of the regulatory minimum. The Group's Tier I ratio and total capital ratio were 12.38% and 14.27% as of 31 December 2016 and 12.01% and 15.53% as of 31 December 2015, respectively. The Bank's Tier I ratio and total capital ratio were 12.6% and 14.53% as of 31 December 2016 and 12.00% and 15.40% as of 31 December 2015, respectively. See "Turkish Regulatory Environment – Capital Adequacy" for additional information.

## MANAGEMENT

### Overview

Pursuant to the provisions of the Turkish Commercial Code (Law No. 6102), and the articles of association of the Bank, the Board of Directors is responsible for the management of the Bank.

As of the date of this Base Prospectus, the Board of Directors consists of 11 members. The articles of association provide that the Board of Directors shall consist of a minimum of five members, with the General Manager of the Bank (and the Deputy General Manager in his absence) serving as a delegated member of the Board of Directors, and all other members being elected by the shareholders of the Bank. Members of the Board of Directors can be elected only for three fiscal year terms and can be re-elected or changed at any time. Meetings of the Board of Directors occur at the Bank's head office or (to the extent a written notice is served to the Bank's Chairman, Vice-Chairman and the members of the Board of Directors) the Board of Directors may also convene at another location in İstanbul or in another city in Turkey or abroad. The required meeting quorum at any Board of Directors meeting is a majority of the members. Resolutions must be passed by a majority of the members present at a meeting. In particular, the Bank's Board of Directors has the power to:

- establish branches, agencies and representative offices in Turkey and abroad,
- approve the Bank's labour rules,
- appoint executive vice presidents pursuant to the relevant recommendation of the Bank's Chief Executive Officer,
- approve the Group's annual BRSA consolidated financial statements and the Bank's annual BRSA Bank-only financial statements, and
- issue bonds in accordance with the Bank's Articles of Association.

The Bank's senior management includes the Bank's Executive Vice Presidents and Heads of Divisions as well as the Coordinators responsible for retail marketing and retail loans.

### Board of Directors

The following table sets out the members of the Board of Directors, their position and the date of their appointment to the Board. The current term of all members of the Board of Directors is valid until the next General Assembly Meeting of the Bank, expected to be held in March 2018.

Name	Position	Date first appointed
Dr Mehmet Ömer Arif Aras.....	Chairman	2000
Sinan Şahinbaş.....	Vice Chairman	2004
Temel Güzeloglu .....	Board Member and General Manager	2010
Ali Teoman Kerman .....	Board Member and Head of Audit Committee	2013
Osman Reha Yolalan .....	Board Member	2016
Fatma Abdulla S.S. Al-Suwaidi.....	Board and Audit Committee Member	2016
Abdulla Mubarak N. Alkhalifa .....	Board Member	2016
Ali Rashid A.S. Al-Mohannadi.....	Board Member	2016
Grant Eric Lowen .....	Board Member	2016
Ramzi T.A. Mari.....	Board and Audit Committee Member	2016
Durmuş Ali Kuzu.....	Board and Audit Committee Member	2016

The business address of the members of the Board of Directors is Esentepe Mahallesi, Büyükdere Cad., Kristal Kule Binası, No:215, Şişli, İstanbul, Turkey. Set forth below are brief biographies of each of the current members of the Board of Directors.

### **Chairman**

#### *Dr Ömer A. Aras - Chairman of the Board of Directors and Group CEO*

Dr Ömer A. Aras earned a bachelor's degree in economics from the Economic and Commercial Sciences Academy in 1975. He then received an MBA in 1978 and a PhD in 1981 from Syracuse University. Subsequently and until 1984, Dr Aras served as a faculty member in the Business Administration Department at Ohio State University. Between 1984 and 1987, he worked as Credit Marketing Manager and Credit Committee Member at Citibank. Dr Aras participated in the establishment of the Bank in 1987, and served as Assistant General Manager for two years and as General Manager for six years. From 1989 to 2006, he served as Vice Chairman of Fiba Holding. Between 2003 and 2007, he was a Board Member of the Turkish Industrialists' and Businessmen's Association (TUSIAD). From November 2006 until April 2010, Dr Aras served as the Vice-Chairman of the Board of Directors of the Bank and Group CEO of the Bank, Finans Leasing, Finans Portfolio and Finansinvest. Since April 2010, Dr Aras has been serving as the Chairman and Group CEO.

### **Vice Chairman**

#### *Sinan Şahinbaş - Vice Chairman of the Board of Directors*

Mr Sinan Şahinbaş earned a bachelor's degree in civil engineering from İstanbul Technical University, Faculty of Engineering in 1988. Mr Şahinbaş then received master's degrees in International Relations from İstanbul University and in Finance from Yeditepe University. He started his professional career at the Bank in 1990 and served in different positions in various departments of the Bank. He worked in the establishment of representative offices of Finansbank (Suisse) SA and Finansbank (Holland) NV in Turkey. In 1997, he was appointed Executive Vice President of Garanti Bank (Holland) NV. A year later, Mr Şahinbaş moved back to Finansbank (Holland) NV and served as the General Manager between 1999 and 2001. He became Senior Executive Vice President at the Bank in 2001 and served as General Manager from 2003 to 2010. Mr Şahinbaş was appointed Vice Chairman in April 2010.

### **Board Members**

#### *Temel Güzeloğlu - Member of the Board of Directors and General Manager*

Mr Temel Güzeloğlu has bachelor's degrees in Electrical and Electronic Engineering and in Physics from Boğaziçi University, a master's degree in Electrical and Computer Engineering from Northeastern University (Boston, Massachusetts), and an MBA from Bilgi University. Mr Güzeloğlu worked as the Executive Vice President of the Bank in charge of Retail Banking until August 2008 and afterwards served as Executive Vice President in charge of Retail Banking and member of the Management Committee. He was appointed General Manager in April 2010.

#### *Ali Teoman Kerman - Member of the Board of Directors and Head of the Audit Committee*

Mr Kerman received his graduate degree in Economics from University of Hacettepe in 1980 and obtained post graduate degree in Project Planning and National Development from University of Bradford in 1982. He began his career at the Undersecretariat of Treasury where he held several positions including Deputy Under Secretary responsible from Regulation of Banking, Non-banking sector, Foreign Exchange, Insurance and Department of Administration. In 2000, he was appointed as the Vice President responsible from Regulation, Enforcement and Licensing of newly establishing Banking Regulation and Supervision Agency (BRSA). He also served as a Board Member of Savings Deposit Insurance Fund (SDIF) for three years and Chairman of the Board in Generali, EGE and Toprak Insurance Companies. Mr Kerman retired in April 2005 and set up KDM Financial consultancy company. Mr Kerman was appointed as a Member of the Board of Directors of the Bank in April 2013 and the Head of the Audit Committee in April 2014.



*Osman Reha Yolalan - Member of the Board of Directors*

Mr Yolalan has a bachelor's degree in Industrial Engineering from İstanbul Technical University, holds a master's degree in Industrial Engineering from Boğaziçi University and a PhD in Management Sciences from Laval University, Quebec-Canada. Mr Yolalan started his career as a specialist in the Strategic Planning Department of Yapı Kredi Bank. He worked as the Head of Corporate and Economic Research Department from 1994 to 2000 and the Executive Vice President in charge of Financial Analysis and Credit Risk Management from 2000 to 2004. Mr Yolalan was appointed as the CEO of Yapı Kredi Bank in 2004 and served as a member of the board of directors in 2004 and 2005. He has been working at Tekfen Holding as the Vice President in charge of Corporate Affairs since 2006. He has been teaching as a part-time professor in a number of universities in Turkey and has authored various articles in the field of bank management. Mr Yolalan was appointed as a member of the Board of Directors of the Bank in June 2016.

*Fatma Abdulla S.S. Al-Suwaidi - Member of the Board of Directors*

Mrs Al-Suwaidi holds a bachelor's degree in Accounting, a master's degree in Risk Management and an MBA from Qatar University. She joined QNB in 1999 and, as of 20 September 2016, she was serving as the Assistant General Manager of QNB's Group Credit department, which is responsible for the bank's risk assessment and monitoring. As of the same date, she was a board member at QNB Tunisia and Commercial Bank International PSC (UAE). She was appointed as a member of the Board of Directors of the Bank in June 2016. She is also a member of the Audit Committee.

*Abdulla Mubarak N. Alkhalifa - Member of the Board of Directors*

Mr Alkhalifa holds a bachelor's degree in Business Administration from Eastern Washington University (United States). He joined QNB in 1996 and, as of 20 September 2016, he was serving as a Co-Executive General Manager and the Group Chief Business Officer of QNB. As of the same date, he was a board member of QNB ALAHLI S.A.E. (Egypt), Housing Bank for Trade and Finance (Jordan), QNB Capital LLC and QNB Finance Ltd. He was appointed as a member of the Board of Directors of the Bank in June 2016.

*Ali Rashid A.S. Al-Mohannadi - Member of the Board of Directors*

Mr Mohannadi holds a bachelor's degree in Computer Science from Qatar University. He joined QNB in 1996 and, as of 20 September 2016, he was a Co-Executive General Manager and the Group Chief Operating Officer of QNB. As of the same date, Mr Mohannadi was a board member in QNB ALAHLI S.A.E (Egypt) and Commercial Bank International PSC (UAE). He was appointed as a member of the Board of Directors of the Bank in June 2016.

*Grant Eric Lowen - Member of the Board of Directors*

Mr Lowen is a qualified Chartered Accountant and a member of the Chartered Accountants Australia and New Zealand. He is a graduate member of the Australian Institute of Company Directors, a member of The Institute of Internal Auditors (Australia) and a graduate of the Wharton/RMA Advanced Risk Management programme of the University of Pennsylvania, Philadelphia, United States. He served as the Head of Risk Management and the Group Auditor at Commonwealth Bank of Australia and had senior roles in the Risk Management and Finance departments of Westpac Banking Corporation. Mr Lowen joined QNB in 2012 and, as of 20 September 2016, he was a Co-General Manager and the Group Chief Risk Officer of QNB. As of the same date, he was a board member at QNB ALAHLI S.A.E (Egypt) and a member of the Board of Commissioners at QNB Indonesia. He was appointed as a member of the Board of Directors of the Bank in June 2016.

*Ramzi T.A. Mari - Member of the Board of Directors*

Mr Mari completed the Certified Public Accountant Examination in the State of California, United States and holds a master's degree in Accounting from the California State University, United States. Mr Mari joined QNB in 1997 from Jordan Bank and, as of 20 September 2016, he was a Co-General Manager and the Chief Financial Officer of QNB. As of the same date, he was a board member at Housing Bank for Trade and Finance (Jordan), QNB ALAHLI S.A.E. (Egypt), QNB Capital LLC and Qatar International Holding LLC. He was appointed as a member of the Board of Directors of the Bank in June 2016. He is also a member of the Audit Committee.

*Durmuş Ali Kuzu- Member of the Board of Directors*

Mr. Ali Kuzu received a bachelor's degree in Business Management from the Ankara University Department of Faculty of Political Sciences in 1996, an MBA from Urbana Illinois University in 2008, and is currently enrolled in a Ph.D programme at Başkent University. After beginning his career at Vakıfbank in 1996 and then Türkiye Emlak Bankası from 1997 to 1999, he went on to hold various Vice Presidency and managerial positions at the Undersecretariat of the Treasury, the Public Oversight Accounting and Auditing Standards Authority and the Banking Regulation and Supervision Agency (BRSA). He was appointed Member of the Board and Member of Audit Committee in August 2016.

**Executive Vice Presidents, Heads of Divisions and Coordinators**

The Executive Vice Presidents, Heads of Divisions and Coordinators each report to the Chairman and Vice Chairman and are responsible for supervising and coordinating the activities of their respective units, monitoring progress with regard to the Bank's business targets and goals, approving expenditures, investments and financing within set limits and contributing to the Bank's management regarding the design of the Bank's strategy, setting targets for the Bank and drawing up an annual budget for their respective divisions.

<b>Executive Vice Presidents</b>	<b>Area of responsibility</b>
Hakan Alp.....	Human Resources
Emine Özlem Cinemre .....	International Division
Köksal Çoban .....	Treasury
Dr Mehmet Kürşad Demirkol .....	Information Technologies, Process Management, Operations ADC
Filiz Sonat.....	Credits
Hasan Murat Şakar .....	Purchasing and Technical Service
Adnan Menderes Yayla .....	Financial Control and Planning
Halim Ersun Bilgici .....	Retail and Commercial Credits
Erkin Aydın .....	Consumer Banking and Payment Systems
Osman Ömür Tan .....	Corporate Banking and Commercial Banking
Enis Kurtoğlu.....	Mass Banking and Direct Sales
Murat Koraş.....	Payment Systems
Onur Özkan .....	Private Banking and Asset Management
Elsa Pekmez Atan .....	Enpara.com
Emel Yılmaz Özbay.....	Legal Affairs
Engin Turhan .....	Commercial Banking and Project Finance
<b>Heads of Divisions</b>	<b>Area of responsibility</b>
Ersin Emir.....	Internal Audit
Ahmet Erzengin .....	Head of Compliance Division and Internal Control
Zeynep Aydın Demirkıran .....	Risk Management
Bülent Yurdalan.....	Internal Systems

The business address of the Bank's Executive Vice Presidents, Heads of Divisions and Coordinators is Esentepe Mahallesi, Büyükdere Cad., Kristal Kule Binası, No:215, Şişli, İstanbul, Turkey. Set forth below is brief biographical information regarding the Bank's Executive Vice Presidents, Heads of Divisions and Coordinators who are not also directors.

**Executive Vice Presidents**

*Hakan Alp*

Mr Hakan Alp graduated from Ankara University, Faculty of Political Sciences, with a bachelor's degree in International Relations in 1989. He worked for the Internal Audit Department between 1991 and 1997 at Garanti Bank where he also served as Senior Vice President in charge of Training from 1997 until 1999. He then started working for Humanitas Doğuş Human Resources Management and served as Executive Vice President in charge of Training, Executive Development, Finance and Administration and Operations from 2000 to 2003. He held the position of Executive Vice President in charge of Human Resources from 2003 until 2005 at Tansaş and from 2005 to 2006 at Süttaş. In 2007, he became

Senior Vice President in charge of Human Resources at the Bank. Mr Alp was appointed as the Executive Vice President in charge of Human Resources as of June 2010.

*Emine Özlem Cinemre*

Mrs Emine Özlem Cinemre graduated from Bogaziçi University, Department of Business Administration in 1988. She started her career in the same year within the International Banking Division of the Bank. Between 1988 and 1997, Mrs Cinemre assumed various responsibilities at the Bank. In 1997, she was appointed as the Executive Vice President responsible for Financial Institutions. Currently, Mrs Cinemre serves as Executive Vice President in charge of International Relations, including Correspondent Banking, Structured Funding, International Business Development, Investor Relations, Financial Institutions and Credit Management.

*Köksal Çoban*

Mr Köksal Çoban graduated from Middle East Technical University with a degree in Business Administration and earned a master's degree in Finance from City University. He worked at Turk Eximbank between 1990-1995 and at Demirbank between 1995-1997. Mr Çoban joined the Bank's Treasury in 1997 as International Markets Manager and served as Director of International Markets from 1998 to 2000. Beginning in 2000, he assumed various managerial positions within the Treasury Department. Mr Çoban was appointed as the Executive Vice President in charge of Treasury in August 2008.

*Mehmet Kürşad Demirkol*

Mr Mehmet Kürşad Demirkol graduated from the Faculty of Electrical and Electronics Engineering at Bilkent University in 1995 as student marshal and subsequently earned MSc and PhD degrees from Stanford University. He worked as an Application Engineer at Oracle-Redwood between 1996 and 1997 and as a Research Assistant at Stanford University from 1997 to 1999. He served as Senior Associate at the Atlanta and İstanbul offices of McKinsey & Company from 1999 until 2003. Mr Demirkol worked as the Group Head of Business Development and Strategy Department at the Bank between 2004 and 2005. He served as Vice President of Information Technology and Card Operations at Finansbank Russia in 2005. He then served as Business Development and Marketing Director at Memorial Healthcare Group from 2005 to 2007. In 2007, he started working as Head of Information Technologies at Vakıfbank and was appointed Chief Information Officer of the bank in the same year. Additionally, he undertook the post of Chief Operating Officer in charge of Operations and Alternative Delivery Channels in 2008. Mr Demirkol has worked at the Bank as Executive Vice President in charge of Information Technologies and Process Management since October 2010. From November 2011 he has served as the Executive Vice President in charge of IT and Operations.

*Filiz Sonat*

Ms Filiz Sonat received bachelor's degrees in Mechanical Engineering from İstanbul Technical University and in Business Administration from Anadolu University. After working as a Mechanical Engineer at a private construction company between 1982 and 1986, she started her banking career at İktisat Bank in 1987 and served as Executive Vice President at Sümerbank in 1998. Ms Sonat joined the Bank in 1999 and served as Coordinator in charge of Credits until 2007. She worked as Executive Vice President in charge of Corporate and Commercial Credits from 2007 until October 2013, when she became the Executive Vice President responsible for Credits.

*Hasan Murat Şakar*

Mr Hasan Murat Şakar holds a bachelor's degree in Industrial Engineering from İstanbul Technical University. He worked as Business Unit Manager at Rehau Polimeri Kimya Sanayi from 2002 to 2005 and as Purchasing Manager at Arçelik between 1992 and 2002. Mr Şakar served as the Coordinator of Purchasing and Technical Services at the Bank from March 2005 until August 2008. He was appointed as the Executive Vice President in charge of Purchasing and Technical Services at the Bank in August 2008.

#### *Adnan Menderes Yayla*

Mr Adnan Menderes Yayla earned a bachelor's degree in Economics from Ankara University, Faculty of Political Sciences in 1985 and an MBA degree from the University of Illinois at Urbana-Champaign in 1994. He worked as an Assistant Auditor and Auditor for the Ministry of Finance from 1985 to 1995; Project Valuation Division Head for Privatization Administration from 1995 to 1996; Managing Director, Senior Managing Director and Partner of Pricewaterhouse Coopers offices in İstanbul and London from 1996 to 2000; and Executive Vice President in charge of Financial Control and Risk Management for Türk Dış Ticaret Bankası (Fortis) from 2000 to 2008. Having joined the Bank in May 2008, Mr Yayla has been serving as Group Chief Financial Officer since that time.

#### *Halim Ersun Bilgici*

After receiving a bachelor's degree in Law from Ankara University in 1991, Mr Halim Ersun Bilgici received a master's degree in Economics from Yeditepe University in 2010. He started his banking career at İktisat Bank in 1992. In 2002, he started working as the Coordinator of Retail Marketing at Şekerbank T.A.Ş. Mr Bilgici began working at the Bank's Credits Department in 2003. He was appointed as the Executive Vice President in charge of Retail Credits in 2013. Since October 2013, he has been serving as the Executive Vice President responsible for Retail and Commercial Credits.

#### *Erkin Aydın*

Mr Erkin Aydın earned a bachelor's degree in Civil Engineering at Bogaziçi University, Faculty of Engineering in 1997 and an MBA at the University of Michigan, School of Business in 2003. Mr Aydın started his career as a Business Development and Project Engineer at Guy F. Atkinson Construction in the USA in 1998. Later, he worked as a Project Manager for Clark Construction Group. In 2002, Mr Aydın joined McKinsey & Company in İstanbul and worked respectively as Consultant, Project Manager and Associate Partner. He started to work for the Bank in 2008 as Head of Housing and Consumer Loans. As of February 2010, Mr Aydın was appointed Retail Marketing Coordinator and in May 2011 he was appointed as the Executive Vice President in charge of Retail Banking. As of October 2013, he became the Executive Vice President responsible for Consumer Banking and Payment Systems.

#### *Osman Ömür Tan*

Mr Osman Ömür Tan earned a bachelor's degree in Statistics from Hacettepe University. He began working at Yapı Kredi Bankası as a Management Trainee in 1995 and joined the Bank in 1998. At the Bank, he has served respectively as Corporate Branch Customer Relationship Manager, Corporate Branch Manager, Group Manager in charge of Head Office Key Accounts and Group Manager in charge of Corporate Banking. Mr Tan was appointed Executive Vice President in charge of Corporate Banking, Structured Finance and Trade Finance in October 2011. From October 2013 he has been the Executive Vice President responsible for Corporate and Commercial Banking.

#### *Enis Kurtoğlu*

Mr Enis Kurtoğlu graduated from the Electrics and Electronics Engineering Department of Boğaziçi University in 1999 and then completed an MBA at University of London. He served as the Marketing Director at Citibank A.Ş. between 1999 and 2010. After working as the Mass Banking Senior Vice President between 2010 and 2012 and the Mass Banking Director between 2012 and 2014 at the Bank, he served as the Mass Banking and Direct Sales Director from 2014 to May 2015. Since May 2015, he has been serving as the Mass Banking and Direct Sales Executive Vice President.

#### *Murat Koraş*

Mr Murat Koraş graduated from the Industrial Engineering Department of Boğaziçi University in 1999 and then completed an MBA at Özyegin University. He worked as a specialist at the Bank between 1999 and 2001. In 2004, he started working as the Assistant Manager of Information Technology Project Management at Aviva. Since September 2004, he served as the Strategy Office Assistant Manager, Data Mining Assistant Manager, Analytic Marketing Vice President and Portfolio Management and Analytics Senior Vice President of the Bank until 2012. Mr Koraş served as the Bank's Consumer Payment Systems Director from 2012 to 2015. Since May 2015, he has been serving as the Payment Systems Executive Vice President.

### *Onur Özkan*

After graduating with a double major from the Management and Political Science and International Relations Department of Boğaziçi University, Mr Özkan completed a graduate degree from the Financial Engineering Department of Boğaziçi University. He served as the Exclusive Deposits and Investment Assistant Manager, Exclusive Segment Vice President, Consumer Segments Management Senior Vice President and the Exclusive Segment and Sector Banking Senior Vice President at the Bank between 2004 and 2012. Subsequently, he worked as the Exclusive Segment and Sector Banking Management Director between 2012 and 2013, Exclusive Segment and Private Banking Director between 2013 and 2014 and the Private Banking and Exclusive Segment Product and Segment Management Director from 2014 to May 2015. From May 2015, he has been serving as the Private Banking and Asset Management Executive Vice President.

### *Elsa Pekmez Atan*

Ms Atan graduated from the Management Department of Boğaziçi University in 1999 and then completed an MBA at Harvard University. She worked as a business analyst at McKinsey & Company between 1999 and 2002. She was assigned as an associate principal at McKinsey & Company between 2004 and 2010. She served as the Process Management Senior Vice President, Strategic Planning and Analytics Senior Vice President, CEO's Office Senior Vice President and Enpara.com Division Manager at the Bank between 2010 and 2013. She served as the Enpara.com Director between 2013 and 2015. From May 2015, she has been serving as the Enpara.com Executive Vice President.

### *Engin Turhan*

Mr. Turhan started at Finansbank A.Ş in 2003 as Management Trainee, in MT programme. After being assigned in different departments in the Loans division until 2005, he joined the Project Finance area and worked at expert and managerial levels in Project Monitoring, Project Evaluation, Corporate Finance and Syndications departments. After being assigned as Corporate Banking Structured Finance and Syndication Group Manager in 2012, Derivatives Sales function was also affiliated to him in 2014 and he was appointed as Director. In 2015 Commercial Banking was also affiliated to Mr. Turhan's functions and, since June 2016, he has officiated as Executive Vice President responsible for Commercial Banking and Project Finance. Having graduated from Economics Department in Marmara University Faculty of Economics and Administrative Sciences, Mr. Turhan has also Master's Degree in International Economics Politic and Business Administrative.

### *Emel Yılmaz Özbay,*

She graduated from Law Faculty of Istanbul University in 2000. Being active in business life since 1999, she worked at several private law offices. After working as attorney at Koçbank A.Ş from 2002, she joined Finansbank A.Ş in 2004 and was assigned as the Legal Affairs Domestic and International Agreements Unit Manager and Consultancy Division Manager. She was Chief Legal Advisor until February 2016. She became the Legal Affairs Executive Vice President as of February 2016.

## **Heads of Divisions**

### *Ersin Emir - Head of Internal Audit*

Mr Ersin Emir graduated from Middle East Technical University in 1994 with a bachelor's degree in Business; he earned a master's degree in Organizational Psychology from the University of London in 2010. He started his banking career in 1995 as Assistant Auditor in İşbank. Mr Emir then started working at the Internal Audit Department of the Bank as Auditor in 1998. He was appointed Vice President of Internal Audit in 2004 and assumed responsibilities of the Head Office and Subsidiary Audits in the last two years in this capacity. Mr Emir was appointed Head of Internal Audit in March 2011.

### *Ahmet Erzengin - Head of Internal Control and Compliance*

After graduating from Middle East Technical University, Department of Public Administration, Mr Ahmet Erzengin worked at Pamukbank from 1988 to 1993. He joined the Bank in 1993 as Banking Regulations Manager. In 1996, Mr Erzengin was appointed Head of Operations overseeing the operations of the branches and headquarters. With the

establishment of the Head of Operations Center in 2001, he served as Operations Center until 2005. At the beginning of 2006, Mr Erzengin assisted in the establishment of the Compliance Department and was appointed Head of Compliance. In September 2012, Mr Erzengin was appointed Head of Internal Control and Compliance.

*Zeynep Aydın Demirkıran - Head of Risk Management*

Mrs Zeynep Aydın Demirkıran has a bachelor's degree in Economics from Bilkent University and master's degree in Economics from Georgetown University in Washington DC. She taught at Georgetown University until December 1998. Mrs Demirkıran then worked as a Specialist within the Risk Management Department of Türkiye İş Bankası between 1999 and 2002. She joined the Bank in 2002 and assumed the responsibilities of Senior Risk Manager and Basel II Programme Coordinator. In September 2011, Mrs Demirkıran was appointed Head of Risk Management.

*Bülent Yurdalan - Head of Internal System*

Mr Bülent Yurdalan graduated from Eskişehir Economic and Commercial Sciences Academy Business Administration Department in 1980. After an employment of 5 years at Citibank-Turkey, Mr Yurdalan joined the Bank in 1988 and was assigned to top level positions at the Credits, Audit, Treasury Operations and External Relations Departments of the Bank (and held similar positions at some other Fiba Group banks). Mr Yurdalan was appointed as the Head of Internal Audit Division in 2003 and subsequently served as the Executive Vice President in charge of Retail Credits. In August 2013, he was assigned as the Head of Internal Systems.

## **Board Committees**

As of the date of this Base Prospectus, there are five committees established under the Board of Directors of the Bank. Some information on each such committee is set out below:

*Audit Committee.* For a description of the Audit Committee, see “– Executive Committees of the Bank – Audit Committee.”

*Credit Committee.* For a description of the Credit Committee, see “– Executive Committees of the Bank – Credit Committee.”

*Remuneration Committee.* The Remuneration Committee defines the remuneration and incentive policies for the Board of Directors and senior management and advises the Board of Directors on such matters in order to ensure the compliance of such policies with the Bank's ethical values, strategy implementation and targets.

*Board Risk Committee.* For a description of the Board Risk Committee, see “– Executive Committees of the Bank – Board Risk Committee.”

*Corporate Governance Committee.* For a description of the Corporate Governance Committee, see “– Executive Committees of the Bank – Corporate Governance Committee.”

## **Executive Committees of the Bank**

As of the date of this Base Prospectus, the Bank has eight executive committees.

*Credit Committee.* The mission of the Credit Committee is to examine, evaluate and approve the loan limits that fall under the authority of the Board of Directors and the Credit Committee in keeping with the Bank's loan strategies and the relevant legislation, to keep the quality of the Bank's loan portfolio under control and to take part in and manage the release process of loans within the framework of the risk/return relationship. The Credit Committee meets once each week.

*Audit Committee.* Pursuant to Article 24 of the Banking Law, the Audit Committee was established to monitor, on behalf of the Board of Directors, the effectiveness, functioning and adequacy of the Bank's internal controls and procedures and accounting and reporting systems, in accordance with applicable laws and regulations. The Audit Committee monitors the integrity and reliability of information generated from those controls and procedures, makes the necessary preliminary

evaluations required for selection of the independent external audit firms and rating, evaluation and outsourcing of organizations by the Board of Directors, regularly monitors the operations of such organizations selected by the Board of Directors with whom contracts are made and ensures that the internal audit activities of subsidiaries subject to consolidation are carried out on a consolidated basis and coordinated with the internal audit activities of the Bank. The Audit Committee meets on a quarterly basis. The Audit Committee consists of a minimum of two members appointed from among the non-executive members of the Board of Directors.

*Board Risk Committee.* The BRC determines risk management policies and strategies, reviews risks to which the Bank is exposed, monitors the implementation of risk management strategies and brings important risk issues to the attention of the Board of Directors. The BRC meets once each month. For additional information on the BRC, see “Risk Management – Risk Management Governance – Board Risk Committee.”

*Corporate Governance Committee.* The Bank established a Corporate Governance Committee in 2005 to strengthen the Bank’s corporate governance policies and its level of adherence to corporate governance principles and to submit proposals to the Board of Directors. The committee annually issues a report on the consistency with Corporate Governance Principles, which report is submitted to the General Assembly and is made available on the website of the Bank. See also “- Corporate Governance.”

*Asset / Liability Committee.* The ALCO proposes asset and liability management procedures and policies to the Board of Directors which are compatible with applicable laws and regulations. The ALCO is responsible for executing the policies and managing structural interest rate risk within the limits defined by the Board of Directors. The ALCO meets twice each month, reviews critical risk issues and determines the strategies for asset and liability management.

*Corporate Credit Policies Committee.* The Corporate Credit Policies Committee is responsible for defining corporate credit policies, continuously monitoring the quality of the Bank’s non-retail credit portfolio and granting loans with the objective of maximizing the Bank’s profitability within a risk-return framework. The Corporate Credit Policies Committee meets once each month.

*Retail Credit Policies Committee.* The Retail Credit Policies Committee is responsible for defining retail credit policies, continuously controlling the quality of the Bank’s retail credits and credit cards portfolios and managing these portfolios with the objective of maximizing the Bank’s profitability within a risk-return framework. The Retail Credit Policies Committee meets once each month.

*Operational Risk Management Committee.* The Operational Risk Management Committee defines operational risk policies, reviews operational risk issues and defines the necessary actions to minimise operational risks. The Operational Risk Management Committee meets on a quarterly basis.

## **Corporate Governance**

### *General*

The Bank’s corporate governance practices meet the mandatory requirements imposed by the laws and regulations of Turkey, the BRSA, the CMB and other applicable regulations, as well as the articles of association of the Bank. The Bank’s corporate governance practices are based upon best international practices and form a framework that seeks to ensure consistency and efficiency in the Board’s practices and the governance of the Bank and the Group. The Bank’s corporate governance practices also seek to ensure strategic direction, management supervision and adequate control of the Bank with the ultimate goal of increasing the long-term value of the Bank and protecting the general corporate interest. For additional information, see “Risk Management – Risk Management Governance.”

### *CMB Corporate Governance Principles*

The Communiqué No.II-17.1 on Corporate Governance (as amended, 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 Borsa İstanbul,

whereas some others are applicable solely to companies whose shares are traded in certain markets of the Borsa İstanbul. The Corporate Governance Communiqué provides specific exemptions and/or rules applicable to banks that are traded on the Borsa İstanbul. The Bank is also subject to the corporate governance principles stated in the banking regulations and the regulations for capital markets that are applicable to banks. The Bank is required to state in its annual activity report whether it is in compliance with the principles applicable to it under the Corporate Governance Communiqué. In case of any non-compliance, explanations regarding such non-compliance are also to be included in such report. Should the Bank fail to comply with any mandatory obligations, then it may be subject to sanctions from the CMB. As of the date of this Base Prospectus, the Bank complies with the mandatory principles under the Corporate Governance Communiqué.

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 capitalization and the market value of their free float shares, subject to recalculation on an annual basis. The Bank is classified as a "Tier II" 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 monitor 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.

### **Compensation**

The members of the Board of Directors receive a fee for attending meetings of the Board of Directors. In 2014, 2015 and 2016, this fee amounted to TL 670.3 thousand, TL 786.7 thousand and TL 928.1 thousand, respectively, in the aggregate for all directors. Members of the Board of Directors do not receive any additional compensation for acting as directors; *however*, certain directors are employees of the Bank and receive compensation for such employment.

In 2014, 2015 and 2016, a total of TL 23.2 million, TL 32.3 million and TL 39.4 million, respectively, was paid to the Board members based upon their performance. Loans extended to Board members and managers are limited under Article 50 of the Banking Law. No loans are granted to Board members and managers above these limits. No members of the Board of Directors or any of the Bank's executive officers have any options in respect of the Bank's share capital.

Additionally, the amount of the salary, remuneration and expenses paid and benefits in kind granted to the Bank's senior management (Executive Vice Presidents, Heads of Divisions and Coordinators) in 2014, 2015 and 2016 was TL 27.3 million, TL 30.2 million and TL 35.5 million, respectively.

### **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, Executive Vice Presidents, Heads of Divisions or Coordinators and their respective private interests or other duties.

### **Auditors**

*Statutory Auditors.* The Turkish Commercial Code (Law No 6102), which entered into force on 1 July 2012, abolished the requirement for joint stock companies to have statutory auditors, which requirement had existed under the former Turkish Commercial Code (Law No. 6762) since 1956. As a result, Turkish joint stock companies were required to amend their articles of association to comply with the new provisions of the Turkish Commercial Code (Law No 6102) by 1 July 2013. At the General Assembly Meeting, dated 28 March 2013, as per the relevant provisions of the Banking Law and the Turkish Commercial Code (Law No 6102), Deloitte was appointed as the Independent Auditor of the Bank until the end of 2013 and, as per Article 399 of the Turkish Commercial Code (Law No 6102), Deloitte was appointed as the "group auditor" until the first ordinary General Assembly Meeting convened in 2014. Ernst & Young was appointed as the "group auditor" for 2014, 2015 and 2016 in the ordinary General Assembly Meeting in 2014, 2015 and 2016, respectively.



*External Auditors.* The BRSA and CMB regulations require the Bank to undergo an external audit on a quarterly basis. Under the BRSA regulations, the external audit firms and external auditors must fulfil certain requirements to be qualified as “independent.” A bank may retain the independent audit services of the same external audit firm for a maximum of seven consecutive fiscal years. The same individual auditors are not permitted to carry out audit services for the same bank for more than seven consecutive fiscal years. 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. In 2014, the Regulation regarding the Internal Systems and Internal Capital Adequacy Assessment Process of Banks established new standards as to principles of internal audit and risk management systems to bring such standards into compliance with Basel II requirements.

The BRSA Financial Statements for the Bank and the Group for 2014, 2015 and 2016 incorporated into this Base Prospectus have been audited by Ernst & Young, independent auditor, as stated in its report incorporated by reference herein.

### **Internal Controls**

Pursuant to the Banking Law, banks must establish internal control, risk management and internal audit systems, including adequate number of supervisors, which must be in compliance with the scope and structure of their activities, covering all their branches and undertakings subject to consolidation in order to monitor and control the risks that they encounter.

## SHARE CAPITAL AND OWNERSHIP

### Share Capital

The Bank has adopted the authorised share capital system that, under Turkish law, allows the Bank to increase its issued share capital up to its authorised share capital amount upon resolution by its Board of Directors and without need for further shareholder approval. The authorised share capital of the Bank is TL 12,000.0 million, represented by 120,000 million registered ordinary shares, with a par value of TL 0.10 each. As of 31 December 2016, the issued and paid-in share capital of the Bank was TL 3,150 million, consisting of 31,500 million ordinary shares, each having a nominal value of TL 0.10. The total equity of the Group as of 31 December 2016 amounted to TL 10,303.8 million. Pursuant to the Banking Law, the Bank's shares are issued in registered form.

### Ownership

The following table sets forth certain information with respect to the Bank's principal shareholders as of 31 December 2016.

Name of owner	Number of shares	% of outstanding share capital
Qatar National Bank .....	31,461,380,000	99.88%
Borsa İstanbul free float .....	38,620,000	0.12%
<b>Total</b> .....	<b>31,500,000,000</b>	<b>100.00%</b>

### Share Sale

The CMB, the Competition Board and the Undersecretariat of Treasury granted their authorizations for the transfer of shares from the NBG Group to QNB under the Share Purchase Agreement on 22 April 2016, 4 May 2016 and 12 May 2016, respectively. The transfer of shares from the NBG Group to QNB was finalised on 15 June 2016. As of such date, QNB held 99.81% of the shares in the Bank, with the remaining 0.19% continuing to be traded on the Borsa İstanbul. QNB might implement different priorities for the Bank's business and/or otherwise alter the Bank's business, either of which could have a material impact upon the Bank.

Pursuant to the Communiqué, the shareholders of the Bank (other than QNB), had a right to sell their shares in the Bank to QNB within the three month period starting on 16 June 2016. At the end of such period, as of 16 September 2016, 99.88% of the shares of the Bank were owned by QNB and the remaining shares were traded on the Borsa İstanbul.

### *Qatar National Bank*

QNB was established in 1964 as the first Qatari-owned bank. It is 50% owned by the government of Qatar via the Qatar Investment Authority and the remaining shares are traded on the Qatar Exchange. As of 31 December 2016, QNB had total assets of US\$ 197.7 billion, loans and advances of US\$ 143 billion, deposits of US\$ 139.2 billion and a market capitalization of US\$ 37.6 billion. As of 31 December 2016, QNB, together with its subsidiaries and associate companies, operated in more than 30 countries around the world across three continents. QNB is listed on the Qatar Exchange (ticker: "QNBK").

## RELATED PARTY TRANSACTIONS

The Bank is controlled by QNB through its ownership of a 99.88% stake in the Bank as of 31 December 2016. See “Share Capital and Ownership –Share Sale.” Set forth below is a summary of the Bank’s material transactions and arrangements with QNB and its other related parties.

Turkish banking regulations limit exposure to related companies, and the Group’s exposure to QNB and its subsidiaries and other affiliated/other rated parties is within the limit permitted by the regulations. See “Turkish Regulatory Environment – Lending Limits.”

The Group has entered into banking transactions with members of the Board of Directors of the Bank and key management of the Bank and other Group companies, as well as with the close members of family and entities controlled or jointly controlled by those persons, in the normal course of business. The list of the members of the Board of Directors of the Bank is presented under “Management - Board of Directors.”

The following table sets forth information for the indicated dates on the Bank’s volume of loans and other receivables with the Group’s risk group and interest and commission income from the Bank’s risk group during the indicated period:

The Bank’s Risk Group	Associates and Subsidiaries		Bank’s Direct and Indirect Shareholders		Other Legal and Real Persons in Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
<b>Loans and Other Receivables</b>			<i>(TL Thousands)</i>			
Balance at 1 January 2016.....	–	11,315	–	21,651	–	964
Balance at 31 December 2016.....	–	5,896	–	–	1,252	1,586
Interest and Commission Income for this period.....	–	152	–	3	23	19

The following sets forth information for the indicated dates on the volume of deposits provided to the Bank by such related parties and the amount of interest paid thereon during the indicated periods:

The Bank’s Risk Group	Associates and Subsidiaries		Bank’s Direct and Indirect Shareholders		Other Legal and Real Persons in Risk Group	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>Deposits</b>			<i>(TL Thousands)</i>			
Balance at 31 December 2015 (for 31 December 2016) and 1 January 2015 (for 31 December 2015) .....	11,345	202,176	-	17,036	258,905	19,100
Balance at 31 December 2016 and 31 December 2015 (as applicable) .....	15,700	11,345	-	–	179,718	258,905
Interest on Deposits for the year ended <sup>(1)</sup> .....	915	12,487	-	–	15,743	11,238

Information on forward and option agreements and similar agreements made with the Bank's risk group during the same periods are set out below:

The Bank's Risk Group	Associates and Subsidiaries		Bank's Direct and Indirect Shareholders		Other Legal and Real Persons in Risk Group	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>Transactions for Trading Purposes</b>			<i>(TL Thousands)</i>			
Balance at 31 December 2014 (for 31 December 2015) and 31 December 2013 (for 31 December 2014) .....	-	-	168,641	134,496	74,646	102,824
Balance at 31 December 2015 and 31 December 2014 (as applicable) .....	-	-	-	168,641	-	74,646
Total Income/Loss for the year ended <sup>(1)</sup> .....	-	-	-	(4,077)	-	1,693
Transactions for Hedging Purposes	-	-	-	-	-	-
Balance at 31 December 2014 (for 31 December 2015) and 1 January 2014 (for 31 December 2014) .....	-	-	-	-	-	-
Balance at 31 December 2015 and 31 December 2014 (as applicable) .....	-	-	-	-	-	-
Total Income/Loss for the year ended .....	-	-	-	134,496	-	102,824
Total Income/Loss for the year ended .....	-	-	-	134,496	-	102,824

## THE TURKISH BANKING SECTOR

*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. See "Responsibility Statement."*

### 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 US\$4,916 million at the end of 2001 from US\$8,056 million for 28 banks at the end of 2000, according to the Banks Association of Turkey.

The Turkish money markets and foreign exchange markets have stabilised since 2001, in large part due to regulatory reform and other governmental actions (including a three-part audit undertaken in 2001 and 2002, after which all private commercial banks were either found to be in compliance with the 8% 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 26 private banks have (as of the date of this Base Prospectus) been transferred to the SDIF due to, among other things, weakened financial stability and liquidity, and efforts are continuing on the resolution of the SDIF banks while restructuring and privatisation of the state banks is progressing.

In August 2004, in an attempt to reduce the regulatory costs inherent in the Turkish banking system, the government reduced the rate of the Resource Utilisation Support Fund ("RUSF") applicable on short-term foreign currency commercial loans lent by banks domiciled in Turkey to zero; *however*, the 3% 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 increased from 0% to 1% and those with an average maturity of between two to three years increased from 0% to 0.5%, while those with an average maturity of three years or more remained at 0%. The government also increased the RUSF charged on interest of foreign currency-denominated retail loans from 10% to 15% 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 utilization) to 15% 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. Since 2012, Odea Bank A.Ş., Bank of Tokyo-Mitsubishi UFJ Ltd., Intesa Sanpaolo S.p.A. and Rabobank A.Ş. started their operations in Turkey. In October 2012, Standard Chartered Bank purchased Credit Agricole Yatırım Bankası Türk Anonim Şirketi. On 2 April 2015, the BRSA announced that Commercial Bank of China acquired 75.50% of the shares of Tekstil Bank A.Ş. from GSD Holding A.Ş. In May 2015 and February 2016, the BRSB granted permission to Ziraat

Katılım Bankası A.Ş. (“*Ziraat Katılım*”) and Vakıf Katılım Bankası A.Ş. (“*Vakıf Katılım*”), respectively, for each to start operations as a participation bank. The Turkish government has recently established a sovereign wealth fund. While the structure, mandate and use of this fund are not yet clear, shares held by the government in certain banks and other companies, including Ziraat Bank and Halkbank, have been transferred to (or announced to be transferred to) this fund.

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.....	46	45	45	45	44	45	46	47	47	47

Source: Banks Association of Turkey (www.tbb.org.tr)

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

As of 31 December 2016, 47 banks were operating in Turkey (excluding participation banks). Thirty-four of these were deposit-taking banks (including the Bank) and the remaining banks were investment and development banks (five participation banks, which conduct their business under different legislation in accordance with Islamic banking principles, are not included in this analysis). Among the deposit-taking banks, three banks were state-controlled banks, nine were private domestic banks, 21 were private foreign banks and one was under the administration of the SDIF.

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 17.4% from 31 December 2006 to 31 December 2016, driven by loan book expansion and customer deposits growth, which increased by a CAGR of 22.0% and 15.6%, respectively, during such period, in each case according to the BRSA. Despite strong growth of net loans and customer deposits since 2006, 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 66.9% and 56.1%, respectively, as of 31 December 2016 according to BRSA data, whereas 19 countries in Eurozone’s banking sector had loan and deposit penetration ratios of 163.7% and 158.5%, respectively, as of the same date based upon the ECB’s data.

The following table shows key indicators for deposit-taking banks in Turkey as of (or for the period ended on) the indicated dates.

	As of (or for the year ended) 31 December				
	2012	2013	2014	2015	2016
<b>Balance sheet</b>					
	<i>(TL millions, except percentages)</i>				
Loans .....	806,793	1,065,986	1,259,572	1,359,970	1,587,245
Total assets .....	1,370,690	1,732,401	1,994,329	2,130,602	2,455,261
Customer deposits.....	775,126	949,318	1,056,629	1,175,654	1,377,764
Shareholders' equity .....	181,940	193,724	232,007	228,144	262,391
<b>Income statement</b>					
Net interest income .....	47,837	52,353	59,705	70,409	83,488
Net fees and commission Income .....	14,704	17,444	19,351	21,037	22,761
Total income .....	70,986	80,396	86,500	97,784	119,410
Net Profit .....	21,539	22,473	22,936	23,885	34,224
<b>Key ratios</b>					
Loans/deposits .....	104.1%	112.3%	119.2%	115.7%	116.1%
Net interest margin .....	4.7%	4.4%	4.2%	4.2%	4.4%
Return on average equity .....	15.5%	14.0%	12.5%	11.3%	12.2%
Capital adequacy ratio .....	17.3%	14.6%	15.7%	15.0%	15.1%

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 91.5% 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 bank-only financials published in the Public Disclosure Platform (www.kap.gov.tr). These three state-controlled banks accounted for 33.8% of deposit-taking Turkish banks' performing loans and 33.2% of customer deposits as of 31 December 2016 according to the BRSA. The top four privately-owned domestic banks as of such date were İşbank, Garanti, Akbank and Yapı Kredi Bank, which in total accounted for approximately 45.4% of deposit-taking Turkish banks' performing loans and approximately 45.6% of customer deposits as of 31 December 2016 according to the BRSA. The remaining banks in the top 10 deposit-taking banks in Turkey as of such date included three mid-sized banks, namely the Bank, Türk Ekonomi Bankası and Denizbank A.Ş. ("Denizbank"), which were controlled by QNB (following the completion of the transfer of shares from the NBG Group to QNB as of 30 June 2016, see "Share Capital and Ownership – Share Sale"), TEB Holding and Sberbank, respectively, as of 31 December 2016.

The following table shows major shareholders, key indicators and market shares of the top 10 deposit-taking banks ranked by total assets in the Turkish banking sector as of 31 December 2016.

Rank by Assets	Bank	Major Shareholders	Assets (US\$ millions)	Assets market share	Loans market share <sup>(1)</sup>	Deposits market share	Branches
1	Ziraat Bank	Treasury (100%)	101.297	14.57%	14.64%	15.31%	1814
		İşbank Personnel	88.234	12.69%	12.80%	12.40%	1374
		Supplementary Pension Fund (40.2%),					
2	İşbank	Cumhuriyet Halk Partisi (28.1%)					
3	Garanti	BBVA (39.9%),	80.456	11.57%	11.66%	11.43%	968
		Doğuş Group (6.2%)					
4	Akbank	Sabancı Holding, affiliates and family (48.8%)	76.736	11.04%	10.19%	11.06%	841
5	Yapı Kredi Bank	Koç Financial Services <sup>(2)</sup> (81.8%)	71.584	10.30%	10.74%	10.69%	936
6	Halkbank	Privatization Administration (51.1%)	65.531	9.43%	9.90%	9.25%	964
7	Vakıfbank	General Directorate of Foundations (74.5%)	71.584	10.30%	9.24%	8.62%	924
8	Finansbank	QNB (99.88%)	28.740	4.13%	3.93%	3.77%	630
9	Denizbank	Sberbank (99.85%)	29.209	4.20%	3.84%	4.32%	694
10	Türk Ekonomi Bankası	TEB Holding (55.0%) <sup>(3)</sup>	22.574	3.25%	3.52%	3.60%	515
		BNP Paribas (40.8%)					

Source: Banks Association of Turkey ([www.tbb.org.tr](http://www.tbb.org.tr)) and BRSA ([www.bddk.org.tr](http://www.bddk.org.tr))

Note: Rankings and market shares among deposit-taking banks only.

Note: The Banks Association of Turkey's definition of branch varies from the Bank's definition. Therefore, the information provided above may differ slightly from what is provided elsewhere in this Base Prospectus.

(1) Performing loans only are included.

(2) Koç Financial Services is a joint venture of Koç Group, Unicredit Group and Temel Ticaret ve Yatırım A.Ş.

(3) TEB Holding is a 50/50 joint venture between BNPP Fortis Yatırım Holding A.Ş. and Çolakoglu Group.



## TURKISH REGULATORY ENVIRONMENT

### Regulatory Institutions

Turkish banks 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. The BRSA supervises the application of banking legislation, monitors the banking system and is responsible for ensuring that banks observe banking legislation.

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 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.

Pursuant to the Regulation on 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 they consolidate) internal audit, internal control and risk management systems commensurate with the scope and structure of their activities, 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 ICAAP Regulation also requires banks to conduct an "internal capital assessment process" which is an internal process whereby banks calculate the amount of capital to cover risks to which they are or may be exposed on a consolidated basis and with a forward-looking perspective, taking into account their near- and medium-term business and strategic plans. This process must be designed in accordance with the bank's needs and risk attitude and should constitute an integral part of the decision-making process and corporate culture of the bank. In this context, each bank is required to prepare an ICAAP Report representing the bank's own assessment of its capital requirements. An ICAAP Report helps banks in constructing and operating an internal capital adequacy assessment process compatible with its risk profile, activity environment and strategic plans. An ICAAP Report is required to be submitted annually together with the stress test analysis, data, system and process verification research and internal model validation reports. The board of directors of a bank is responsible for maintenance of adequate equity to ensure establishment and implementation of the ICAAP Report.

### *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 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.

### *Banks Association of Turkey*

The Banks Association of Turkey 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% 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%, 20%, 33% or 50% of the share capital of a bank, requires the permission of the BRSA 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 BRSA. 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 acquisition or transfer of any shares of a legal entity owning 10% or more of a bank is also subject to BRSA approval if such transfer results in the total number of such legal entity's shares directly or indirectly held by a shareholder increasing above or falling below 10%, 20%, 33% or 50% of the share capital of such legal entity. The BRSA'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 are transferred without the permission of the BRSA, the voting and other shareholder rights of the legal person stemming from these shares, other than the right to receive 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 a general assembly have obtained the applicable authorisations from the BRSA. 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 BRSA. 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.

## Lending Limits

The Banking Law sets out certain lending limits for banks and other financial institutions designed to protect those institutions from excessive exposure to any one counterparty (or group of related counterparties). In particular:

- Credits extended to a natural person, a legal entity or a risk group (as defined under Article 49 of the Banking Law) in the amounts of 10% or more of a bank's shareholders' equity are classified as large credits and the total of such credits cannot be more than eight times the bank's shareholders' equity. In this context, "credits" include cash credits and non-cash credits such as letters of guarantee, counter-guarantees, sureties, avals, endorsements and acceptances extended by a bank, bonds and similar capital market instruments purchased by it, loans (whether deposits or other), receivables arising from the future sales of assets, overdue cash credits, accrued but not collected interest, amounts of non-cash credits converted into cash and futures and options and other similar contracts, partnership interests, shareholding interests and transactions recognised as loans by the BRSA. Avals, guarantees and sureties accepted from, a real person or legal entity in a risk group for the guarantee of loans extended to that risk group are not taken into account in calculating loan limits.
- The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or a risk group directly or indirectly to 25% of its equity capital. In calculating such limit, a credit extended to a partnership is deemed to be extended to the partners in proportion to their liabilities. A risk group is defined as an individual, his or her spouse and children and partnerships in which any one of such persons is a member of a board of directors or general manager, as well as partnerships that are directly or indirectly controlled by any one of such persons, either individually or jointly with third parties, or in which any one of such persons participate with unlimited liability. Furthermore, a bank, its shareholders holding 10% or more of the bank's voting rights or the right to nominate board members, its board members, its general manager and partnerships directly or indirectly, individually or jointly, controlled by any of these persons or a partnership in which these persons participate with unlimited liability or in which these persons act as a member of the board of directors or general managers constitute a risk group, for which the lending limits are reduced to 20% of a bank's equity capital, subject to the BRSA's discretion to increase such lending limits up to 25% or to lower it to the legal limit. Real and legal persons having surety, guarantee or similar relationships where the insolvency of one is likely to lead to the insolvency of the other are included in the applicable risk groups.
- Loans extended to a bank's shareholders (irrespective of whether they are controlling shareholders or they own qualified shares) registered with the share ledger of the bank holding more than 1% of the share capital of the bank and their risk groups may not exceed 50% of the bank's capital equity.

Non-cash loans, futures and option contracts and other similar contracts, avals, guarantees and suretyships, transactions carried out with credit institutions and other financial institutions, transactions carried out with the central governments, central banks and banks of the countries accredited with the BRSA, as well as bills, bonds and similar capital market instruments issued or guaranteed to be paid by them, and transactions carried out pursuant to such guarantees are taken into account for the purpose of calculation of loan limits within the framework of principles and ratios set by the BRSA.

The BRSA determines the permissible ratio of non-cash loans, futures and options, other similar transactions, avals, acceptances, guarantees and sureties, and bills of exchange, bonds and other similar capital markets instruments issued or guaranteed by, and credit and other financial instruments and other contracts entered into with, governments, central banks and banks of the countries accredited with the BRSA for the purpose of calculation of loan limits.

Pursuant to Article 55 of the Banking Law, the following transactions are exempt from the above-mentioned limits lending:

- (a) transactions backed by cash, cash-like instruments and accounts and precious metals,

- (b) transactions carried out with the Undersecretariat of Treasury, the Central Bank, the Privatisation Administration and the Housing Development Administration of Turkey, as well as transactions carried out against bills, bonds and similar securities issued or guaranteed by these institutions,
- (c) transactions carried out in the Central Bank markets or other legally-organised money markets,
- (d) in the event a new loan is extended to the same person or to the same risk group (but excluding checks and credit cards), any increase due to the volatility of exchange rates, taking into consideration the current exchange rate of the loans made available earlier in foreign currency (or exchange rate), at the date when the new loan was extended; as well as interest accrued on overdue loans, dividends and other elements,
- (e) equity participations acquired due to any capital increases at no cost and any increase in the value of equity participations not requiring any fund outflow,
- (f) transactions carried out among banks on the basis set out by the BRSA,
- (g) equity participations acquired through underwriting commitments in public offerings; provided that such participations are disposed of in a manner and at a time determined by the BRSA,
- (h) transactions that are taken into account as deductibles in calculation of own funds, and
- (i) other transactions to be determined by the BRSA.

#### **Loan Loss Reserves**

Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables and to reserve an adequate level of provisions against impairment in the value of other assets, for qualification and classification of assets, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring loans, follow-up procedures and the repayment of overdue loans. Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans and other receivables in accordance with this article are considered as expenditures deductible from the corporate tax base in the year they are set aside.

Procedures relating to loan loss reserves for non-performing loans are set out in Article 53 of the Banking Law and in regulations issued by the BRSA. Pursuant to the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside published in the Official Gazette No. 26333 on 1 November 2006 and amended from time to time thereafter (the “**Regulation on Provisions and Classification of Loans and Receivables**”), banks are required to classify their loans and receivables into one of the following groups:

- (a) *Group I: Loans of a Standard Nature and Other Receivables:* This group involves loans and other receivables:
  - (i) that have been disbursed to financially creditworthy natural persons and legal entities,
  - (ii) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor,
  - (iii) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and that can be fully collected, and
  - (iv) for which no weakening of the creditworthiness of the applicable debtor has been found.

The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group.

- (b) *Group II: Loans and Other Receivables Under Close Monitoring:* This group involves loans and other receivables:
- (i) that have been disbursed to financially creditworthy natural persons and legal entities and where the principal and interest payments of which there is no problem at present, but that 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 collection of principal and interest payments have been delayed for more than 30 days from their due dates 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 credit 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 any of these loans is classified in Group II and others are classified in Group I, then all of such customer’s loans are required to be classified in Group II. The terms of a bank’s loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group.

- (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 credit standing 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 Improbable 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. This regulation also requires Turkish banks to provide a general reserve calculated at 1% of the total cash loan portfolio *plus* 0.2% 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, for which the general reserve is calculated at 0.5% of the total commercial cash loan portfolio, (b) commercial non-cash loans defined in Group I, for which the general reserve is calculated at 0.1% 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% for standard loans defined in Group I and a general reserve calculated at 2.0% of the total cash loan portfolio plus 0.4% 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 (except for: (i) commercial cash loans, cash loans for SMEs and relating to transit trade, export, export sales and deliveries and services, and activities resulting in gains of foreign currency, for which the general loan loss reserve is calculated at 1.0% and (ii) non-cash loans related to the items stated in (i) for which the general loan loss reserve is calculated at 0.2%). 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.

In order to support certain sectors, on 7 April and 5 August 2016, the BRSA published amendments to the Regulation on Provisions and Classification of Loans and Receivables, adding new provisional articles related to loans and other receivables that banks provide to borrowers operating in the tourism and energy industries. These provisional articles provided that (among other things) the terms of loans and other receivables that are granted to these borrowers and classified under Group II (*Loans and Other Receivables Under Close Monitoring*) may be modified up to two times until 31 December 2016. If at least 10% of the total receivables have been repaid, then such loan or other receivable may be re-classified under Group I (*Loans of a Standard Nature and Other Receivables*) to the extent the terms set out in the new loan agreement are satisfied. If the terms of a loan or other receivable are modified for the second time and such loan or other receivable is re-classified under Group II from Group I or continues to be monitored under Group II due to not satisfying the conditions for re-classification under Group I, then these may be re-classified under Group I only if at least 15% of the total receivables have been repaid. If there was additional funding in the second modification of a loan or other receivable, then these will be classified under Group III (*Loans and Other Receivables with Limited Recovery*) until at least 5% of the total receivables are repaid. The banks may re-classify loans and other receivables with modified terms under Group III (*Loans and Other Receivables with Limited Recovery*), Group IV (*Loans and Other Receivables with Suspicious Recovery*) and Group V (*Loans and Other Receivables Having the Nature of Loss*) as per the applicable provisions of the Regulation on Provisions and Classification of Loans and Receivables. 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 during the state of emergency. The provisional article 12 states that (among other things) the loans and other receivables classified as frozen receivables by the banks may be restructured up to two times until 31 December 2017. Such restructured loans may be classified under Group II (*Loans and Other Receivables Under*

*Close Monitoring*) if: (a) in 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 in a timely manner and in full, and (b) in 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 in a timely manner and in full. Banks must continue to reserve the required provisions during such restructuring period. Loans and other receivables classified under Group II (*Loans and Other Receivables Under Close Monitoring*) after the restructuring are monitored under the “Renewed/Restructured Loans Account.” Information regarding renewed/restructured loans and other receivables is required to be disclosed in the annual and interim financial reports of the banks. Furthermore, the provisional article 13 (which entered into force retroactively as of 21 July 2016) states (among other things) that the delay periods of payments stipulated for the loans defined in Groups II (*Loans and Other Receivables Under Close Monitoring*), Group III (*Loans and Other Receivables with Limited Recovery*), Group IV (*Loans and Other Receivables with Suspicious Recovery*) and Group V (*Loans and Other Receivables Considered as Losses*) 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 enforced within the scope of the state of emergency declared in Turkey by the Decree of the Council of Ministers dated 20 July 2016 and for: (i) public officials who have been discharged from their positions within the scope of the state of emergency and (ii) real persons and legal entities the assets of which are subject to injunctions within the scope of the state of emergency.

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% 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, specific provisions must be set aside for the loans and receivables in Groups III, IV and V at least in the amounts of 20%, 50% and 100%, respectively. An amount equal to 25% of the specific provisions set forth in the preceding sentence is required to be 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% 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 and funds gained from repo transactions over 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 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 notes, debenture bonds, lease certificates issued under the on Regulating Public Finance

and Debt Management numbered 4749 and dated 28 March 2002 and similar securities issued directly or guaranteed by such institutions, (c) securities issued directly or guaranteed by (or guarantees and sureties given by) central governments or central banks of countries that are members of the OECD, (d) guarantees and sureties given by banks operating in OECD member states, (e) securities issued directly or guaranteed by the ECB or guarantees and sureties given by the ECB, (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) insurance policies for trade receivables and (k) Credit Guarantee Fund (*Kredi Garanti Fonu*) (“KGF”) guarantees not benefitting from Treasury support.

Category III Collateral: (a) commercial enterprise pledges, (b) other export documents, (c) auto pledges, commercial route license pledges and commercial auto license pledges, (d) mortgages on aircraft or ships, (e) sureties from real or legal persons whose creditworthiness is higher than the debtor itself and (f) 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 subsequent 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% 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% of the principal and other receivables are collected on a yearly basis.



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 during the state of emergency. The provisional article 12 states that (among other things) the loans and other receivables classified as frozen receivables by the banks may be restructured up to two times until 31 December 2017. Such restructured loans may be classified under Group II (Loans and Other Receivables Under Close Monitoring) if: (a) in 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 in a timely manner and in full, and (b) in 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 in a timely manner and in full. Banks must continue to reserve the required provisions during such restructuring period. Loans and other receivables classified under Group II (Loans and Other Receivables Under Close Monitoring) after the restructuring are monitored under the “Renewed/Restructured Loans Account.” Information regarding renewed/restructured loans and other receivables is required to be disclosed in the annual and interim financial reports of the banks.

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 (which is amended from time to time) that 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 Programme, which is a joint programme of the International Monetary Fund and the World Bank. This regulation requires banks to adopt IFRS 9 principles (unless an exemption is granted by the BRSA) related to the assessment of credit risk by the beginning of 2018 and to set aside allowances for expected credit losses in line with such principles.

### **Capital Adequacy**

Article 45 of the Banking Law defines “Capital Adequacy” as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, maintain and report their capital adequacy ratio, which, within the framework of the BRSA’s regulations, cannot be less than 8%. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio of 8%.

The BRSA is authorised to increase the minimum capital adequacy ratio, to set different ratios for each bank and to revise risk weights of assets that are based upon participation accounts, but must consider each bank’s internal systems as well as its asset and financial structures.

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 on Banking Supervision (the “*Basel Committee*”) in December 2010 and revised in June 2011 (*i.e.*, Basel III) into the applicable law in Turkey, the Equity Regulation and 2012 Capital Adequacy Regulation entered into force on 1 January 2014 and the 2015 Capital Adequacy Regulation entered into force on 31 March 2016. The 2015 Capital Adequacy Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e.*, Tier 1 capital), which is composed of core capital (*i.e.*, Common Equity Tier 1 capital) and additional principal capital (*i.e.*, additional Tier 1 capital) and (b) supplementary capital (*i.e.*, Tier 2 capital) *minus* capital deductions. Pursuant to the Equity Regulation: (i) both the unconsolidated and consolidated minimum Common Equity Tier 1 capital adequacy ratio are 4.5% and (ii) both unconsolidated and consolidated minimum Tier 1 capital adequacy ratio are 6.0%.

The BRSA also published several amendments to its regulations and communiqués on various matters, such as internal capital adequacy ratios and internal systems, in accordance with the Basel Committee’s RCAP, which is conducted by the BIS with a view to ensure Turkey’s compliance with Basel regulations. The amendments relating to the Equity Regulation and the 2015 Capital Adequacy Regulation entered into force on 31 March 2016. The 2015 Capital Adequacy Regulation sustains the capital adequacy ratios introduced by the former regulation, but the former regulation, but changed items including: (a) the risk weights of foreign currency required reserves in the Central Bank from 0% to Turkey’s foreign currency risk weight, which was 50% prior to 31 March 2016, and (b) exclusion of free provision for possible losses from capital calculations. The 2015 Capital Adequacy Regulation lowered the risk weights of certain assets, including reducing: (a) the risk weights of residential mortgage loans from 50% to 35% and (b) the risk weights of consumer loans (excluding residential mortgage loans) qualifying as retail loans (*perakende alacaklar*) in accordance with the 2015 Capital Adequacy Regulation and instalment payments of credit cards from a range of 100% to 250% (depending upon their outstanding tenor) to 75% (irrespective of their tenor); *provided* that such receivables are not re-classified as “non-performing loans;” *however*,

on 24 February 2017, the BRSA published a decision that enables banks to use a 0% risk weight for foreign currency-required reserves in the Central Bank.

In 2013, the BRSA published the Regulation on the Capital Maintenance and Countercyclical Capital Buffer, which entered into force on 1 January 2014 and provides additional core capital requirements both on a consolidated and unconsolidated basis. Pursuant to this regulation, the additional core capital requirements are to be calculated by the multiplication of the amount of risk-weighted assets by the sum of a capital maintenance buffer ratio and bank-specific countercyclical buffer ratio. According to this regulation, the capital conservation buffer for banks is 1.25% for 2017, which will be phased to 2.5% through 2019. The BRSA has 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% of a bank's risk-weighted assets in Turkey (effective as of 1 January 2016); *however*, such ratio might fluctuate between 0% and 2.5% 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.

In 2013, the BRSA also published the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, which entered into force on 1 January 2014 with the exception of certain provisions that entered into effect on 1 January 2015), seeking to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and unconsolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach).

Furthermore, the Regulation on Liquidity Coverage Ratios 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% in respect of total consolidated and unconsolidated liquidity and 80% in respect of consolidated and unconsolidated foreign exchange liquidity; *however*, pursuant to the BRSA Decision on Liquidity Ratios, such ratios were applied as 70% and 50%, respectively in 2016 and 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-compliances that have already been remedied. With respect to consolidated total and foreign currency liquidity coverage, these cannot be noncompliant consecutively within a calendar year and such ratios cannot be non-compliant for more than two times within a calendar year, including the non-compliances that have already been remedied.

Pursuant to the Equity Regulation, if a Turkish bank invests in debt instruments of other banks or financial institutions that are already invested in that Turkish bank's additional Tier 1 or Tier 2 capital, the amount of such debt instrument (and their issuance premia) are required to be deducted when calculating that Turkish bank's additional Tier 1 or Tier 2 capital (as applicable).

See also a discussion of the implementation of Basel III in “-Basel Committee - Basel III” below.

#### *Tier 2 Rules under Turkish Law*

According to the Equity Regulation, which came into force on 1 January 2014, Tier 2 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 the debt instruments that have been approved by the BRSA upon the application of the board of directors of the applicable bank along with a written statement confirming compliance of the debt instruments with the conditions set forth below and their issuance premia (the “*Tier 2 Conditions*”):

(a) the debt instrument shall have been issued by the bank and approved by 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 1 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 2015 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 evaluation 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 amortization 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 licence 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 clause (e) above.

In addition, 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 approval by 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 2 capital, the Equity Regulation also provides a limit for inclusion of general provisions to be set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts of receivables (as the case may be, depending upon the method used by the bank to calculate the credit risk amount of such receivables) in Tier 2 capital such that 1.25% of the sum of risk-weighted portion of the receivables in calculating the credit risk exposure by using the standardised approach is taken into consideration; *however*, the portion of surplus of this amount that exceeds general provisions is not taken into consideration in calculating the Tier 2 capital.

Furthermore, in addition to the Tier 2 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 2 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 Equity Regulation provides 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 2 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 such loan agreement or the prospectus of such debt instrument (*borçlanma aracı izahnamesi*), as applicable, or if such 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 2 capital.

Debt instruments and loans that are approved by the BRSA are included in accounts of Tier 2 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 2 capital calculations, and that have less than five years to maturity, shall be included in Tier 2 capital calculations after being reduced by 20% 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% 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 (as of the date of this Base Prospectus) results in a 50% risk weighting for Turkey; *however*, the Turkish rules implementing the Basel principles in Turkey (*i.e.*, the "Turkish National Discretion") revised this general rule by providing that Turkish Lira-denominated claims on sovereign entities in Turkey and the Central Bank shall have a 0% risk weight. According to the 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016, the risk weights of foreign currency-denominated required reserves on the Central Bank in the form of required reserves were increased from 0% to 50%; *however*, on 24 February 2017, the BRSA published guidance to allow foreign currency-required reserves held with the Central Bank to be subject to a 0% risk weight.

The BRSA published the Communiqué on the Calculation of Principal Subject to Credit Risk by Internal-Ratings Based Approaches and the Communiqué on the Calculation of Principal Subject to Operational Risk by Advanced Measurement Approaches for the banks to apply internal ratings for the calculation of principal subject to credit risk and

advanced measurement approaches for the calculation of principal subject to operational risk, which entered into effect on 1 January 2015. The BRSA also issued various guidelines noting that the use of such internal rating and advanced measurement approaches in the calculation of capital adequacy is subject to the BRSA's permission.

**Basel III.** Turkish banks' capital adequacy requirements have been and might continue to be further affected by Basel III, as implemented by the Equity Regulation, 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 published initially the Equity Regulation and amendments to the 2012 Capital Adequacy Regulation, each entering into effect on 1 January 2014. The 2013 Equity Regulation introduced core Tier 1 capital and additional Tier 1 capital as components of Tier 1 capital. Subsequently the BRSA replaced the 2012 Capital Adequacy Regulation with the 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016. These changes: (a) introduced a minimum unconsolidated and consolidated Common Equity Tier 1 capital adequacy ratio of 4.5% and a minimum unconsolidated and consolidated minimum Tier 1 capital adequacy ratio of 6.0% (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0%) and (b) changed the risk weights of certain items that are categorised under "other assets." The Equity Regulation also introduced new Tier 2 rules and determined new criteria for debt instruments to be included in the Tier 2 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, some of which amendments entered into force on 31 March 2016. For information related to the leverage ratios, capital adequacy ratios and liquidity coverage ratios of banks, see "Capital Adequacy" above.

The BIS reviewed Turkey's compliance level with Basel regulations within the scope of the RCAP and published its RCAP assessment report in March 2016, in which Turkey was assessed as compliant with Basel standards.

If the Bank and/or the Group is unable to maintain its capital adequacy or leverage ratios above the minimum levels required by the BRSA or other regulators (whether due to the 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.

On 23 February 2016, the BRSA issued the D-SIBs Regulation in line with the Basel Committee standards, 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. Initially, 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 D-SIBs Regulation requires banks identified as D-SIBs to maintain a capital buffer depending upon their respective classification. As of 1 January 2019, these buffers are to be applied as 3% for Group 4 banks, 2% for Group 3 banks, 1.5% for Group 2 banks and 1% for Group 1 banks. These additional capital requirements, which came into effect on 31 March 2016, are to be fully implemented by 2019 subject to a transitional period as set out below:

Groups	2016	2017	2018
Group 4 (empty group).....	0.750%	1.500%	2.250%
Group 3.....	0.500%	1.000%	1.500%
Group 2.....	0.375%	0.750%	1.125%
Group 1.....	0.250%	0.500%	0.750%

As of the date of this Base Prospectus, the Bank is not classified as a D-SIB under the D-SIBs Regulation.

## 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.

Pursuant to the Communiqué Regarding Reserve Requirements (the “*Communiqué regarding Reserve Requirements*”), as of the date of this Base Prospectus, the Central Bank imposes different reserve requirements for different currencies and different tenors and adjust these rates from time to time in order to encourage or discourage certain types of lending.

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 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, 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 4th quarter of 2013 through the 3rd 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 4th quarter of 2014 through the 3rd 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 4th 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%

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.

#### **Calculation of Liquidity Coverage Ratio**

The Regulation on Liquidity Coverage Ratios requires banks to comply with minimum ratios to be set aside on a consolidated and an unconsolidated basis. In this context, the BRSA Decision on Liquidity Ratios provides that, for the period from 5 January 2015 to 31 December 2015, the minimum total liquidity coverage ratios and foreign currency coverage

ratios for deposit banks were 60% and 40%, respectively, and (in the absence of any new arrangement) such ratios have (and shall be) increased in increments of ten percentage points for each year from 1 January 2016 until 1 January 2019. The BRSA Decision on Liquidity Ratios further provides that a 0% liquidity adequacy ratio limit applies to deposit banks.

### **Foreign Exchange Requirements**

According to the Regulation on Foreign Exchange Net Position/Capital Base issued by the BRSA and published in the Official Gazette dated 1 November 2006 and numbered 26333, for both the bank-only and consolidated financial statements, the ratio of a bank's foreign exchange net position to its capital base should not exceed (+/-) 20%, which calculation is required to be made on a weekly basis. 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%, 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, a bank's boards of directors is 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 on Independent Audit of Banks, published in the Official Gazette dated 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. The ICAAP Regulation established standards as to principles of internal control, internal audit and risk management systems and an internal capital adequacy assessment process in order to bring such regulations into compliance with Basel II requirements.

In 2015 and 2016, the BRSA issued certain amendments to the Regulation regarding the Internal Systems and Internal Capital Adequacy Assessment Process of Banks to align the Turkish regulatory capital regime with Basel III requirements. These amendments relating to internal systems and internal capital adequacy ratios entered into force on 20 January 2016 and the other amendments entered into force on 31 March 2016. These amendments impose new regulatory requirements to enhance the effectiveness of internal risk management and internal capital adequacy assessments by introducing, among other 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.

### **The Saving Deposit Insurance Fund (SDIF)**

Article 111 of the Banking Law relates to the SDIF. The SDIF has been established to develop trust and stability in the banking sector by strengthening the financial structures of Turkish banks, restructuring Turkish banks as needed and insuring the savings deposits of Turkish banks. The SDIF is a public legal entity set up to insure savings deposits held with banks and (along with all other Turkish banks) the Bank is subject to its regulations. The SDIF is responsible for and authorised to take measures for restructuring, transfers to third parties and strengthening the financial structures of banks, the shares of which and/or the management and control of which have been transferred to the SDIF in accordance with Article 71 of the Banking Law, as well as other duties imposed on it.

#### **(a) *Insurance of Deposits***

Pursuant to Article 63 of the Banking Law, savings deposits (except for commercial deposits) held with banks are insured by the SDIF. The scope and amount of savings deposits subject to the insurance are determined by the SDIF upon the approval of the Central Bank, the BRSA and the Treasury. The tariff of the insurance premium, the time and method of collection of this premium, and other relevant matters are determined by the SDIF upon the approval of the BRSA.

#### **(b) *Borrowings of the SDIF***

The SDIF: (i) may incur indebtedness with authorisation from the Undersecretariat of the Treasury or (ii) the Undersecretariat of the Treasury may issue government securities with the proceeds to be provided to the SDIF as a loan, as necessary. Principles and procedures regarding the borrowing of government debt securities, including their interest rates and terms and conditions of repayment to the Treasury, are to be determined together by the Treasury and the SDIF.

#### **(c) *Power to require Advances from Banks***

Provided that BRSA consent is received, the banks may be required by the SDIF to make advances of up to the total insurance premiums paid by them in the previous year to be set-off against their future premium obligations. The decision regarding such advances shall also indicate the interest rate applicable thereto.

#### **(d) *(Contribution of the Central Bank***

If the SDIF's resources prove insufficient due to extraordinary circumstances, then the Central Bank will, on request, provide the SDIF with an advance. The terms, amounts, repayment conditions, interest rates and other conditions of the advance will be determined by the Central Bank upon consultation with the SDIF.

#### **(e) *Savings Deposits that are not subject to Insurance***

Deposits, participation accounts and other accounts held in a bank by controlling shareholders, the chairman and members of the board of directors or board of managers, general manager and assistant general managers and by the parents, spouses and children under custody of the above, and deposits, participation accounts and other accounts



within the scope of criminally-related assets generated through the offenses set forth in Article 282 of the Turkish Criminal Code and other deposits, participation accounts and accounts as determined by the board of the BRSA are not covered by the SDIF's insurance.

(f) *Premiums as an Expense Item*

Premiums paid by a bank into the SDIF are to be treated as an expense in the calculation of that bank's corporate tax.

(g) *Liquidation*

In the event of the bankruptcy of a bank, the SDIF is a privileged creditor and may liquidate the bank under the provisions of the Execution and Bankruptcy Law No. 2004, exercising the duties and powers of the bankruptcy office and creditors' meeting and the bankruptcy administration.

(h) *Claims*

In the event of the bankruptcy of a bank, holders of savings deposits will have a privileged claim in respect of the part of their deposit that is not covered by the SDIF's insurance.

Since 15 February 2013, up to TL 100,000 of the amounts of a depositor's deposit accounts benefit from the SDIF insurance guarantee.

The main powers and duties of the SDIF pursuant to the SDIF regulation published in the Official Gazette dated 25 March 2006 and numbered 26119, and as amended from time to time, are as follows:

- (i) ensuring the enforcement of the SDIF board's decisions,
- (ii) establishing the human resources policies of the SDIF,
- (iii) becoming members of international financial, economic and professional organisations in which domestic and foreign equivalent agencies participate, and signing memoranda of understanding with the authorised bodies of foreign countries regarding the matters that fall within the SDIF's span of duty,
- (iv) insuring the savings deposits and participation accounts in the credit institutions,
- (v) determining the scope and amount of the savings deposits and participation accounts that are subject to insurance with the opinion of the Central Bank, the BRSA and Treasury Undersecretaries, and the risk-based insurance premia timetable, collection time and form and other related issues in cooperation with the BRSA,
- (vi) paying (directly or through another bank) the insured deposits and participation accounts from its sources in the credit institutions whose operating permission has been revoked by the BRSA,
- (vii) fulfilling the necessary operations regarding the transfer, sale and merger of the banks whose shareholder rights (except dividends) and management and supervision have been transferred to the SDIF by the BRSA, with the condition that the losses of the shareholders are reduced from the capital,
- (viii) taking management and control of the banks whose operating permission has been revoked by the BRSA and fulfilling the necessary operations regarding the bankruptcy and liquidation of such banks,
- (ix) requesting from public institutions and agencies, real persons and legal entities all information, documents and records in a regular and timely fashion in the framework of Article 123 of the Banking Law,

- (x) issuing regulations and communiqués for the enforcement of the Banking Law with the SDIF's board's decision, and
- (xi) fulfilling the other duties that the Banking Law and other related legislation assign to it.

### **Cancellation of Banking Licence**

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 does not 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 a favourable result, then the BRSA 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 a favourable result, then the BRSA may require such bank to:

- (a) limit or cease its business or the business of the whole organization, 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 the relevant 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 more other interested 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 BRSA 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 revoke the licence of such bank to engage in banking operations and/or to accept deposits and 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 licence of a bank to engage in banking operations and/or to accept deposits is revoked, then that bank's management and audit will be taken over by the SDIF. Any and all execution and bankruptcy proceedings (including preliminary injunction) against such bank would be discontinued as from the date on which the BRSA's decision to revoke such bank's licence is published in the Official Gazette. From the date of revocation of such bank's license, the creditors of such bank may not assign their rights or take any action that could lead to assignment of their rights. The SDIF must take measures for the protection of the rights of depositors and other creditors of such bank. The SDIF is required to pay the insured deposits of such bank either by itself or through another bank it may designate. The SDIF is required to institute bankruptcy proceedings in the name of depositors against a bank whose operation permission is revoked.

## **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. Turkish listed companies must also comply with the Communiqué on Principles of Financial Reporting in Capital Markets issued by the CMB. 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 are required to include the following information: management and organisation structures, human resources, activities, financial situation, 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.

Pursuant to the Regulation on the Principles and Procedures Concerning the Preparation of Annual Reports by Banks published in the Official Gazette dated 1 November 2006 and numbered 26333, 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 BRSA regulations, the annual report is subject to the approval of the board of directors and must be submitted to shareholders at least 15 days before the annual general assembly of the bank. Banks also must 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.

Amendments to the Regulation on the Principles and Procedures Regarding the Preparation of Annual Reports by Banks, which entered into force on 31 March 2016, requires annual and interim financial statements of banks to include explanations regarding their risk management in line with the Regulation on Risk Management to be Disclosed to the Public.

### **Disclosure of Financial Statements**

The BRSA published amendments (which entered into force on 31 March 2016) to the Communiqué on Financial Statements to be Disclosed to the Public setting 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 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 amended in line with the amendments to the 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 2 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 processes.

### **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 the Corporate Governance Communiqué, which 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 Borsa İstanbul, whereas some others are applicable solely to companies whose shares are traded in certain markets of the Borsa İstanbul. The Corporate Governance Communiqué provides specific exemptions and/or rules applicable to banks that are traded on the Borsa İstanbul.

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. The Bank is required to state in its annual activity report whether it is in compliance with the principles applicable to it under the Corporate Governance Communiqué. In case of any non-compliance, explanations regarding such non-compliance are also required to be included in such report. Should the Bank fail to comply with any mandatory obligations, then it may be subject to sanctions from the CMB.

The Corporate Governance Communiqué contains principles relating to: (a) companies' shareholders and other stakeholders, (b) public disclosure and transparency and (c) boards 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 "1st Group and 2nd 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 Bank is classified as a "2nd 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, 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.

As of the date of this Base Prospectus, the Bank is in compliance with the mandatory principles under the Corporate Governance Communiqué, as well as with applicable requirements for having independent directors.

## **Anti-Money Laundering**

Turkey is a member country of the FATF and has enacted laws 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.

### **Consumer Loan, Provisioning and Credit Card Regulations**

On 8 October 2013, the BRSA published regulations that aim to limit the expansion of individual loans and payments, especially credit card instalments. The rules: (a) include overdrafts on deposit accounts and loans on credit cards in the category of consumer loans for purposes of provisioning requirements, (b) set a limit of TL 1,000 for credit cards issued to consumers who apply for a credit card for the first time if their income cannot be determined by the bank, (c) require credit card issuers to monitor cardholders' income levels before each limit increase of the credit card and (d) increase the minimum monthly payment required to be made by cardholders. Before increasing the limit of a credit card, a bank is required to monitor the income level of the consumer and it should not increase the credit card limit if the customer's aggregate credit card limit exceeds four times his or her monthly income. In addition, minimum payment ratios for credit cards may not be lower than 30%, 35% and 40% for credit cards with limits lower than TL 15,000, from TL 15,000 to but excluding TL 20,000 and from TL 20,000, respectively, or 40% for newly-issued credit cards for one year from the date of first use. On the other hand, the 2015 Capital Adequacy Regulation lowered the risk weight for instalment payments from a range of 100% to 250%, depending upon their outstanding tenor, to 75% irrespective of their tenor. These amendments to risk weighting had a positive impact on the Bank's capital levels.

In addition, amendments to the Regulation on Bank Cards and Credit Cards introduced some changes on the credit limits for credit cards and income verification so that: (a) the total credit card limit of a cardholder from all banks will not exceed four times his/her monthly income in the second and the following years (two times for the first year) and (b) banks will have to verify the monthly income of the cardholders in the limit increase procedures and will not be able to increase the limit if the total credit card limit of the cardholder from all banks exceeds four times his/her monthly income. The following additional changes regarding minimum payment amounts and credit card usage were included in the amended regulation: (i) minimum payment amounts differentiated: (A) among existing cardholders (based upon their credit card limits) and (B) between existing cardholders and new cardholders, (ii) if the cardholder does not pay at least three times the minimum payment amount on his/her credit card statement in a year, then his/her credit card cannot be used for cash advance and also will not allow limit upgrade until the total statement amount is paid, and (c) if the cardholder does not pay the minimum payment amount for three consecutive times, then his/her credit card cannot be used for cash advances or purchase of goods and services, and such card will not be available for a limit upgrade, until the total amount in the statements is paid.

The BRSA, by amending the Regulation on Bank Cards and Credit Cards, has adopted limitations on instalments of credit cards. Pursuant to such limitations, the instalment payment period for the purchase of goods and services and cash withdrawals is not permitted to exceed 12 months, whereas such limit is four months for jewellery expenditures, six months for electronic appliance and computer purchasing and nine months for expenditures relating to airlines, travel agencies, transportation, accommodation, health and social services and for purchases of health products, payments made to clubs and associations and tax payments). In addition, credit card instalment payments (except for corporate credit cards) are not allowed for telecommunication and related expenses, expenses related to direct marketing, expenditures made outside of Turkey and purchases of nutriment, liquor, fuels, cosmetics, office equipment, gift cards, gift checks and other similar intangible goods. With respect to corporate credit cards, the instalments for the purchase of goods and services and cash withdrawals are not permitted to exceed 12 months. Also, pursuant to the provisional article to the Regulation on Bank Cards and Credit Cards, the debt balance of a credit card calculated as of 27 September 2016 can be split into installments limited to 72 months upon the request of the relevant cardholder.

Furthermore, in 2013, the Law on the Protection of Consumers (Law No: 6502) imposed new rules applicable to Turkish banks, such as requiring banks to offer to its customers at least one credit card type for which no annual subscription fee (or other similar fee) is payable. Furthermore, while a bank is generally permitted to charge its customers fees for accounts held with it, no such fees may be payable on certain specific accounts (such as fixed term loan accounts and mortgage accounts).

In 2013, the BRSA published amendments to the Regulation on Provisions and Classification of Loans and Receivables, which reduced the general reserve requirements for cash and non-cash loans relating to transit trade, export sales, deliveries and services and activities resulting in gains of foreign currency. On 27 September 2016, the BRSA published further amendments to the Regulation on Provisions and Classification of Loans and Receivables, which removed the requirements for the consumer loan provisions calculated according to the ratio of consumer loans to total loans and the ratio of non-performing consumer loans to total consumer loans. In 2013, credit cards were included in the calculation of consumer loans by this regulation and on 27 September 2016, the consumer loan provision rate for credit cards in Group I (*Loans of a Standard Nature and Other Receivables*) and Group II (*Loans and Other Receivables under Close Monitoring*) were reduced from 4% and 8% to 1% and 2%, respectively. In November 2016, the Central Bank published the Regulation on Maximum Interest Rates to be Applied for Credit Card Transactions, replacing the existing regulation as of 1 January 2017. Under the new regulation, the Central Bank determined revised maximum contractual interest rates for Turkish Lira and foreign currency credit card transactions. The new monthly maximum contractual interest rates are (as of the date of this Base Prospectus) 1.84% and 1.47% for credit card transactions in Turkish Lira and foreign currency, respectively. The new monthly maximum default interest rates are (as of the date of this Base Prospectus) 2.34% and 1.97% for credit card transactions in Turkish Lira and foreign currency, respectively. The Central Bank announces maximum contractual and default interest rates for each January- March, April-June, July-September and October-December period.

On 31 December 2013, the BRSA adopted new rules on loan-to-value and instalments of certain types of loans and on 27 September 2016, the BRSA made certain amendments to such rules. Pursuant to these rules, the minimum loan-to-value requirement for housing loans extended to consumers, for loans (except auto loans) secured by houses is 80%. In addition, for auto loans extended to consumers, for loans secured by autos and for autos leased under financial lease transactions, the loan-to-value requirement is set at 70%; *provided* that in each case the sale price of the respective auto is not higher than TL 50,000; *however*, if the sale price of the respective auto is above this TL 50,000 threshold, then the minimum loan-to-value ratio for the portion of the loan below the threshold amount is 70% and the remainder is set at 50%. As for limitations regarding instalments (as amended by the BRSA from time to time), the maturity of consumer loans (other than loans to consumers for housing finance and complementary goods and services in relation to home renovation/improvement, the financial leases for homes leased to consumers, other loans for the purpose of purchasing real estate loans and any refinancing of the same) are not permitted to exceed 48 months. Also, pursuant to the provisional article of the Regulation on Loan Transactions of Banks, the debt balances of individual loans (which include loans provided for durable and semi-durable consumer goods, weddings, education and health) utilised before 27 September 2016 may be restructured upon the request of the borrower over a period of up to 72 months (or up to 48 months if an additional loan is provided to the customer within the scope of the restructuring).

### **Credit Guarantee Fund**

The KGF was established pursuant to Decree No. 93/4496 dated 14 July 1993 in order to provide guarantees for SMEs and other enterprises that are not able to obtain bank loans due to their insufficient collateral. In order to improve financing possibilities and contribute to the effective operation of the credit system, pursuant to provisional article 20 of the Law regarding the Regulation of Public Financing and Debt Management (Law No. 4749) dated 28 March 2002, resources up to TL 2 billion could be transferred by the Minister in charge of the Turkish Treasury to the credit guarantee institutions. Such amount has been increased to TL 25 billion in accordance with the Law No. 6670 dated 18 January 2017. In addition, pursuant to Decree No. 2016/9538 on Treasury Support to be provided to the Credit Guarantee Institutions (published in the Official Gazette No. 29896 and dated 22 November 2016) and Decree numbered 2017/9969 regarding amendments to the Decree on Treasury Support to be provided to the Credit Guarantee Institutions, the KGF guarantees are supported by the Turkish Treasury. The KGF can provide guarantees for up to 90% of the sum of interest, dividend and rent payments except for the default interest and principal balance on the date of loan payment for SMEs and up to 85% of such amounts for non-SMEs. If a loan is provided through Export Credit Bank of Turkey A.Ş. (*Türk Exim*) to an SME, or a non-SME engaged in foreign exchange earning activities, then these loans may be guaranteed up to 100%.



## BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Clearstream, Luxembourg or Euroclear (together, the “*Clearing Systems*”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Bank’s management believes to be reliable, but neither the Bank nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of such facilities.

The Communiqué on Debt Instruments requires the Notes to be issued in an electronically registered form in the CRA and the interests therein to be recorded in the CRA; *however*, upon the Issuer’s request, the CMB may resolve to exempt the Notes from this requirement if the Notes are to be issued outside Turkey or such requirement might cease to exist in the future. Further to the request of the Issuer, such exemption was granted by the CMB in the CMB Approval. As a result, this requirement will not be applicable to the Notes to be issued pursuant to the CMB Approval. Notwithstanding such exemption, the Issuer is required to notify the CRA within three İstanbul business days from the Issue Date of a Tranche of Notes of the amount, Issue Date, ISIN (if any), interest commencement date, maturity date, interest rate, name of the custodian and currency of such Notes and the country of issuance.

None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

### Book-entry Systems

#### *DTC*

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its direct participants (“*Direct Participants*”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“*Indirect Participants*” and, together with Direct Participants, “*Participants*”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “*DTC Rules*”), DTC makes book-entry transfers of notes among Direct Participants on whose behalf it acts with respect to notes accepted into DTC’s book-entry settlement system (“*DTC Notes*”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the SEC. Participants with which beneficial owners of DTC Notes (“*DTC Beneficial Owners*”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective DTC Beneficial Owners. Accordingly, although DTC Beneficial Owners who hold interests in DTC Notes through Participants will not possess notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest with respect to the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each DTC Beneficial Owner is in turn to be recorded on the relevant Direct Participant’s and Indirect Participant’s records. DTC Beneficial Owners will not receive written confirmation from DTC of their purchases, but DTC Beneficial Owners are expected to receive written confirmations providing details of each transaction, as well as periodic statements of their holdings, from the Participant through which the DTC Beneficial Owner holds its interest in the DTC Notes. Transfers of ownership interests in the DTC Notes are to be

accomplished by entries made on the books of Participants acting on behalf of DTC Beneficial Owners. DTC Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual DTC Beneficial Owners; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the DTC Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an omnibus proxy to the issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the DTC Notes will be made to DTC or its nominee. DTC's practice is to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC, subject to the receipt of funds and corresponding detail information from the Issuer or the relevant Paying Agent. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC or its nominee is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Direct Participants in accordance with their requests and proportionate entitlements and that will be legended as described under "Transfer and Selling Restrictions."

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any DTC Beneficial Owner desiring to pledge its interests in DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to effect such pledge through DTC and its Participants or, if not possible to so effect it, to withdraw its notes from DTC as described below.

The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer an interest in Notes represented by a Registered Global Note to such persons might depend upon the ability to exchange such interest for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such interests to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such interests for Notes in definitive form. The ability of any holder of an interest in Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such interests might be impaired if the proposed transferee of such interests is not eligible to hold such interests through a Participant.

### *Clearstream, Luxembourg*

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of a number of currencies, including U.S. Dollars and Turkish Lira. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in several countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the *Commission de Surveillance du Secteur Financier* and the *Banque Centrale du Luxembourg*, which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.

The ability of an owner of a beneficial interest in a Note held through Clearstream, Luxembourg to pledge such interest to persons or entities that do not participate in the Clearstream, Luxembourg system, or otherwise take action in respect of such interest, might be limited by the lack of a definitive note for such interest because Clearstream, Luxembourg can act only on behalf of Clearstream, Luxembourg's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such persons might be limited. In addition, beneficial owners of Notes held through the Clearstream, Luxembourg system will receive distributions of principal, interest, additional amounts (if any) and any other payments on the Notes only through Clearstream, Luxembourg accountholders.

Distributions with respect to interests in the Notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream, Luxembourg accountholders in accordance with its rules and procedures, to the extent received by Clearstream, Luxembourg.

### *Euroclear*

Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between its accountholders. Euroclear provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear also deals with domestic securities markets in several countries through established depository and custodial relationships. Euroclear customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear is available to other institutions that clear through or maintain a custodial relationship with accountholders in Euroclear.

The ability of an owner of a beneficial interest in a Note held through Euroclear to pledge such interest to persons or entities that do not participate in the Euroclear system, or otherwise take action in respect of such interest, might be limited by the lack of a definitive note for such interest because Euroclear can act only on behalf of Euroclear's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such persons might be limited. In addition, beneficial owners of Notes held through the Euroclear system will receive distributions of principal, interest, additional amounts (if any) and any other payments on the Notes only through Euroclear accountholders.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to cash accounts of Euroclear accountholders in accordance with its rules and procedures, to the extent received by Euroclear.

## **Book-entry ownership of and payments in respect of Global Notes**

The Issuer has applied to each of Euroclear and Clearstream, Luxembourg to have Global Note(s) accepted in its book-entry settlement system. Upon the issue of any such Global Note, Euroclear and/or Clearstream, Luxembourg, as applicable, will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Note to the accounts of persons who have accounts with Euroclear and/or Clearstream, Luxembourg, as applicable. Such accounts initially will be designated by or on behalf of the relevant Dealer or investor. Interests in such a Global Note through Euroclear and/or Clearstream, Luxembourg, as applicable, will be limited to accountholders of Euroclear and/or Clearstream, Luxembourg, as applicable. Interests in such a Global Note will be shown on, and the transfer of such interests will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg or its nominee (with respect to the interests of direct Euroclear and/or Clearstream, Luxembourg accountholders) and the records of direct Euroclear and/or Clearstream, Luxembourg accountholders (with respect to interests of indirect Euroclear and/or Clearstream, Luxembourg accountholders).

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer or investor. Ownership of beneficial interests in such a Registered Global Note will be limited to Participants, including, in the case of any Regulation S Registered Global Note, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants and Indirect Participants (with respect to interests of Indirect Participants).

Payments in U.S. Dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. Dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. Dollars and credited to the applicable Participants' account.

Payments in U.S. Dollars of principal and interest in respect of a Global Note will be made to DTC, Clearstream, Luxembourg, Euroclear or their respective nominee, as the case may be, as the registered holder of such Note. The Issuer expects DTC, Clearstream, Luxembourg and Euroclear to credit accounts of their respective direct accountholders on the applicable payment date. The Issuer also expects that payments by direct DTC, Clearstream, Luxembourg or Euroclear accountholders to indirect participants in such Clearing Systems will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers of such Clearing System, and will be the responsibility of such direct participant and not the responsibility of such Clearing System, the Fiscal Agent, any Paying Agent, the Registrar or the Bank. Payments of principal and interest on the Notes to a Clearing System (or its nominee) are the responsibility of the Issuer.

## **Transfers of Notes Represented by Registered Global Notes**

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Clearstream, Luxembourg or Euroclear, as applicable, will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "Transfer and Selling Restrictions," cross-market transfers between Participants in DTC, on the one hand, and Clearstream, Luxembourg and Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian ("Custodian") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Tranche, transfers of Notes of such Tranche between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Tranche between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC's Participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC's Participants cannot be made on a delivery-versus-payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear; however, they are under no obligation to perform or continue to perform such procedures, and such procedures might be discontinued or changed at any time. None of the Issuer, the Agents nor any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## TAXATION

### General

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 such laws, or the laws of other jurisdictions (such as the United Kingdom or the United States). While this summary is considered to be a correct interpretation of existing laws in force on the date of this Base 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 might be relevant to an investor in light of such investor's particular circumstances or to investors subject to special rules, such as regulated investment companies, certain financial institutions or insurance companies.

**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.**

### 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. References to "resident" in this section refer to tax residents of Turkey and references to "non-resident" in this section refer to persons who are not tax residents of Turkey.

The discussion is based upon current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of the Notes that may be relevant to a decision to make an investment in the Notes. Furthermore, the discussion only relates to the beneficial interest of a person in the Notes where the Notes will not be held in connection with the conduct of a trade or business through a permanent establishment in Turkey. Each investor should consult its own tax advisers concerning the tax considerations applicable to its particular situation. This discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Base Prospectus, all of which are subject to change, possibly with a retroactive effect. In addition, it does not describe any tax consequences: (a) arising under the laws of any taxing jurisdiction other than Turkey or (b) applicable to a resident of Turkey or a permanent establishment in Turkey resulting either from the existence of a fixed place of business or appointment of a permanent representative.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its worldwide income, whereas a non-resident legal entity is only liable for Turkish taxes on its trading income made through a permanent establishment or on income otherwise sourced in Turkey.

An individual is a resident of Turkey if such individual has established domicile in Turkey or stays in Turkey more than six months in a calendar year. On the other hand, foreign individuals who stay in Turkey for six months or more for a specific job or business or particular purposes that are specified in the Turkish Income Tax Law might not be treated as a resident of Turkey depending upon the characteristics of their stay. A resident individual is liable for Turkish taxes on his or her worldwide income, whereas a non-resident individual is only liable for Turkish taxes on income sourced in Turkey.

Income from capital investment is sourced in Turkey when the principal is invested in Turkey. Capital gain derived from trading income 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 a Turkish corporation 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% withholding tax for notes with an original maturity of less than one year,
- 7% withholding tax for notes with an original maturity of at least one year and less than three years,
- 3% withholding tax for notes with an original maturity of at least three years and less than five years, and
- 0% withholding tax for notes with an original maturity of five years and more.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Notes may be subject to declaration; *however*, pursuant to Provisional Article 67 of the Turkish Income Tax Law, as amended by the law numbered 6111, special or separate tax returns will not be submitted for capital gains from the notes of a Turkish corporation issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on non-resident persons in respect of capital gains from the Notes and no declaration is required.

A non-resident holder will not be liable for Turkish estate, inheritance or similar tax with respect to its investment in the Notes, nor will it be liable for any Turkish stamp issue, registration or similar tax or duty relating thereto.

#### *Reduced Withholding Tax Rates*

Under current Turkish laws and regulations, interest payments on notes issued abroad by a Turkish corporation to a non-resident holder will be subject to a withholding tax at a rate between 10% and 0% (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), which provides for the application of a lower withholding tax rate than the local rate to be applied by the corporation, then the lower rate may be applicable. For the application of withholding at a reduced rate that benefits from the provisions of a double tax treaty concluded between Turkey and the relevant jurisdiction where the investor is a resident, an original copy of the certificate of residence signed by the competent authority referred to in Article 3 of the Treaty is required, together with a translated copy translated by a translation office, to verify that the investor is subject to taxation over its worldwide gains in the relevant 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.

#### **FATCA**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“*foreign passthru payments*”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Turkey) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“*IGAs*”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may

be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

### **The Proposed Financial Transactions Tax**

On 14 February 2013, the European Commission published a proposal (the “*Commission's Proposal*”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “*participating Member States*”). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.



## CERTAIN CONSIDERATIONS FOR ERISA AND OTHER U.S. EMPLOYEE BENEFIT PLANS

Subject to the following discussion, the Notes should be eligible to be purchased by pension, profit-sharing or other employee benefit plans (as defined in Section 3(3) of ERISA), as well as individual retirement accounts, Keogh plans and other plans and retirement arrangements, and any entity deemed to hold “plan assets” of the foregoing plans or arrangements (each, a “Plan”). A regulation of the U.S. Department of Labor prohibits a Plan, subject to the provisions of part 4 of Subtitle B of Title I of ERISA, a Plan to which Section 4975 of the Code applies or any entity whose underlying assets are considered to include the assets of any of the foregoing Plans (each, a “Benefit Plan Investor”) from engaging in certain transactions with persons that are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to such Benefit Plan Investor, unless a statutory or administrative exemption is applicable to the transaction. A violation of these “prohibited transaction” rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of such Benefit Plan Investor. In addition, Title I of ERISA requires fiduciaries of a Benefit Plan Investor subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents. Plans, including U.S. governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA), are not subject to the fiduciary and prohibited transaction provisions of ERISA or Section 4975 of the Code, but might be subject to similar restrictions under applicable state, local, other federal or non-U.S. law (“*Similar Law*”).

An investment in the Notes by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if the Bank is a party in interest or a disqualified person with respect to such Benefit Plan Investor. Certain exemptions from the prohibited transaction rules could be applicable to an investment in the Notes by a Benefit Plan Investor depending upon the type and circumstances of the plan fiduciary making the decision to acquire such investment and the relationship of the party in interest to the Benefit Plan Investor. Included among these exemptions are: Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain transactions between a Benefit Plan Investor and non-fiduciary service providers to the Benefit Plan Investor; Prohibited Transaction Class Exemption (“PTCE”) 96-23, regarding transactions effected by “in-house asset managers;” PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions effected by “qualified professional asset managers.” Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts that might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the Notes, and prospective investors that are Benefit Plan Investors and other Plans should consult with their legal advisors regarding the applicability of any such exemption and other applicable legal requirements.

By acquiring a Note (or a beneficial interest therein), each purchaser and transferee (and if the purchaser or transferee is a Plan, then its fiduciary) is deemed to represent and warrant that either: (a) it is not, and for so long as it holds the Note (or a beneficial interest therein) will not be (and will not be acting on behalf of), a Benefit Plan Investor or a Plan that is subject to Similar Law, or (b) the acquisition, holding and disposition of the Note (or a beneficial interest therein) will not give constitute or rise to a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of a Plan subject to Similar Law, a non-exempt violation of Similar Law.

Prospective investors are advised to consult their advisers with respect to the consequences under ERISA, Section 4975 of the Code and Similar Laws of the acquisition, ownership or disposition of the Notes (or a beneficial interest therein).

## SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement (the “*Programme Agreement*”) dated 27 April 2017, agreed (or, when acceding thereto, will agree) with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes.” In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment, this update and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain losses, claims, costs, expenses, damages, demands or liabilities incurred by them in connection therewith.

In connection with any offering of Notes, one or more Dealer(s) might purchase and sell Notes (or beneficial interests therein) in the secondary market. These transactions might include over-allotment, syndicate covering transactions and stabilisation transactions. Over-allotment involves the sale of Notes (or beneficial interests therein) in excess of the principal amount of Notes to be purchased by the Dealer(s) in an offering, which creates a short position for the applicable Dealer(s). Covering transactions involve the purchase of the Notes (or beneficial interests therein) in the open market after the distribution has been completed in order to cover short positions. Stabilisation transactions consist of certain bids or purchases of Notes (or beneficial interests therein) made for the purpose of preventing or retarding a decline in the market price of the Notes (or beneficial interests therein) while the offering is in progress. Any of these activities might have the effect of preventing or retarding a decline in the market price of the Notes (or beneficial interests therein). They might also cause the price of the Notes (or beneficial interests therein) to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The applicable Dealer(s) might conduct these transactions in the over-the-counter market or otherwise. If a Dealer commences any of these transactions, it might discontinue them at any time. Under laws and regulations in the United Kingdom, stabilisation activities may only be carried on by the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

All or certain of the Dealers, the Arranger and their respective affiliates are full service financial institutions engaged in various activities, which might include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Dealers, the Arranger or their respective affiliates might 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 Dealers, the Arranger or their respective affiliates might, 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 Dealers, the Arranger 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 Dealers, the Arranger and their respective affiliates might 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 might at any time hold long and short positions in such securities and instruments. Such investment and securities activities might involve securities and instruments of the Bank. In addition, certain of the Dealers, the Arranger and/or their respective affiliates hedge their credit exposure to the Bank pursuant to their customary risk management policies. These hedging activities could have an adverse effect on the future trading prices of the Notes.

The Dealers, the Arranger and their respective affiliates might also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and might hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

## TRANSFER AND SELLING RESTRICTIONS

### *Transfer Restrictions*

Because the following restrictions will apply with respect to the Notes, investors in the Notes are advised to consult legal counsel prior to making an offer, resale, pledge or transfer of any of the Notes. References to Notes in this section should, as appropriate, be deemed to refer to the Notes themselves and/or beneficial interests therein.

Pursuant to the BRSA decision dated 6 May 2010 No. 3665, the BRSA decision dated 30 September 2010 No. 3875 and in accordance with Decree 32, residents of Turkey: (a) in the secondary markets only, 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, and (b) in both the primary and secondary markets, may purchase or sell Notes (or beneficial interests therein) denominated in Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis. Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes (or beneficial interests therein) in offshore transactions on an unsolicited (reverse inquiry) basis; *provided* that (for each of clauses (a) and (b)) such purchase or sale is made through licensed banks authorised by the BRSA or licensed brokerage institutions authorised pursuant to the CMB regulations and the purchase price is transferred through such licensed banks. As such, Turkish residents should use such licensed banks or licensed brokerage institutions while purchasing the Notes (or beneficial interests therein) and transfer the purchase price through such licensed banks.

The Bank has not registered the Notes under the Securities Act or under the securities laws of any state or other jurisdiction of the United States and, therefore, 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, U.S. Persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with all applicable securities laws of any State of the United States and any other jurisdiction. Accordingly, the Notes are being offered and sold only: (a) to persons reasonably believed to be QIBs in compliance with Rule 144A under the Securities Act, (b) to Institutional Accredited Investors who have delivered an IAI Investment Letter and (c) to persons who are not U.S. Persons in offshore transactions in compliance with Regulation S.

Each purchaser and transferee (and if the purchaser or transferee is a Plan, then its fiduciary) of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form (or *vice versa*) will be required to acknowledge, represent and agree, and each person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) Such investor understands and acknowledges that the Notes have not been registered under the Securities Act or any other applicable securities law and that the Notes are being offered in transactions not requiring registration under the Securities Act or any other securities law, including sales pursuant to Rule 144A under the Securities Act, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, or pursuant to an exemption from the registration requirements thereof or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (d) below.
- (b) Such investor is not an “affiliate” (as defined in Rule 144 under the Securities Act) of the Bank and is not acting on the Bank’s behalf, and such investor is either: (i) a QIB and is aware that any sale of Notes to it will be made in reliance upon Rule 144A and such acquisition will be for its own account or for the account of another QIB, (ii) an Institutional Accredited Investor that has delivered an IAI Investment Letter or (iii) not a “U.S. Person” or purchasing for the account or benefit of a U.S. Person (other than a distributor) and is purchasing Notes in an offshore transaction in accordance with Regulation S.
- (c) Such investor acknowledges that none of the Bank or the Dealers, or any person representing the Bank or the Dealers, has made any representation to it with respect to the Bank or the offer or sale of any of the Notes, other than

the information contained in this Base Prospectus or any applicable supplements hereto, which has been delivered to the investor and upon which such investor is relying in making its investment decision with respect to the Notes. Such investor acknowledges that the Dealers make no representation or warranty as to the accuracy or completeness of this Base Prospectus. Such investor has had access to such financial and other information concerning the Bank and the Notes as it has deemed necessary in connection with its decision to purchase the Notes, including an opportunity to ask questions of and request information from the Bank and the Dealers.

- (d) Such investor is investing in the Notes for its own account, or for one or more investor accounts for which such investor is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any other law. With respect to the Rule 144A Global Notes, each investor therein agrees (or will be deemed to agree) on its own behalf and on behalf of any investor account for which it is purchasing a Rule 144A Global Note (or a beneficial interest therein), and each subsequent investor in a Rule 144A Global Note by its acceptance thereof (or of a beneficial interest therein) will agree (or will be deemed to agree), to offer, sell or otherwise transfer such Notes prior to: (i) the date that is one year (or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereunder) after the later of the applicable Issue Date and the last date on which the Bank or any affiliate of the Bank was the owner of such Rule 144A Global Note (or any predecessor thereto), or (ii) such later date, if any, as may be required by applicable law (the “*Resale Restriction Termination Date*”), only: (A) to the Bank, (B) pursuant to a registration statement that has been declared effective under the Securities Act, (C) for so long as the Notes are eligible for resale pursuant to Rule 144A, to a person reasonably believed to be a QIB that purchases for its own account or for the account of another QIB to whom such investor gives notice that the transfer is being made in reliance upon Rule 144A, (D) in an offshore transaction complying with Rule 903 or 904 of Regulation S under the Securities Act or (E) pursuant to any other available exemption from the registration requirements of the Securities Act, and, in each case, in compliance with the relevant securities laws of any applicable jurisdiction. The foregoing restrictions on resale will not apply after the applicable Resale Restriction Termination Date; *however*, any resale of the Notes thereafter will continue to need to comply with all applicable laws. Such investor acknowledges that the Bank reserves the right prior to any offer, sale or other transfer of a Rule 144A Global Note pursuant to clause (D) or (E) above to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Bank.

With respect to the Regulation S Notes, each investor therein agrees (or will be deemed to agree) on its own behalf and on behalf of any investor account for which it is purchasing a Regulation S Note, that no offer, sale, pledge or other transfer made during the applicable Distribution Compliance Period (*i.e.*, prior to the date 40 days after the closing date of the applicable offering) shall be made to (or for the account or benefit of) a U.S. Person (other than a distributor).

“*Distribution Compliance Period*” means, with respect to a Tranche of Notes sold (or a portion of which was sold) in its initial distribution in reliance upon Regulation S, the period that ends 40 days after the completion of the distribution of such Tranche of Notes, as certified to the Issuer by the relevant Dealer(s).

- (e) Each Note issued pursuant to Rule 144A will contain a legend substantially in the following form (with, if in definitive form, appropriate revisions):

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “*SECURITIES ACT*”), OR ANY SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. NEITHER THIS SECURITY NOR ANY INTEREST HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF 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 EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF, THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION.

THE HOLDER OF THIS SECURITY (OR OF A BENEFICIAL INTEREST HEREIN) BY ITS ACCEPTANCE HEREOF (OR OF A BENEFICIAL INTEREST HEREIN): (a) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYER(S), (b) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) THAT IT WILL NOT PRIOR TO: (i) THE DATE THAT IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ISSUE DATE OR THE LAST DAY ON WHICH THE ISSUER OR ANY AFFILIATE (AS DEFINED IN RULE 144) OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY), OR (ii) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE “*RESALE RESTRICTION TERMINATION DATE*”), OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) EXCEPT: (A) TO THE ISSUER OR ANY AFFILIATE THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE UPON RULE 144A UNDER THE SECURITIES ACT, (D) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND, IN EACH CASE, IN COMPLIANCE WITH THE SECURITIES LAWS OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION; *PROVIDED* THAT THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) OR (E) ABOVE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER, AND (c) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THE SECURITY. THIS PARAGRAPH OF THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER HEREOF AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERM “OFFSHORE TRANSACTION” HAS THE MEANING GIVEN TO IT BY REGULATION S UNDER THE SECURITIES ACT.

EACH PURCHASER AND TRANSFEREE (AND IF THE PURCHASER OR TRANSFEREE IS A PLAN, THEN ITS FIDUCIARY) OF THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) WILL NOT BE (AND WILL NOT BE ACTING ON BEHALF OF) (i) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“*ERISA*”), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (ii) ANY “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “*CODE*”), (iii) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING OR (iv) A U.S. GOVERNMENTAL PLAN, CHURCH PLAN, NON-U.S. PLAN OR OTHER PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“*SIMILAR LAW*”), OR (b) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) WILL NOT CONSTITUTE OR GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR,

IN THE CASE OF A PLAN SUBJECT TO SIMILAR LAW, A NON-EXEMPT VIOLATION OF SIMILAR LAW.

Each IAI Registered Note will contain a legend substantially in the following form (with, if in definitive form, appropriate revisions):

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “*SECURITIES ACT*”), OR ANY SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR ANY OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF: (a) IN THE UNITED STATES IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (b) IN COMPLIANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION.

THE HOLDER OF THIS SECURITY (OR OF A BENEFICIAL INTEREST HEREIN) BY ITS ACCEPTANCE HEREOF (OR OF A BENEFICIAL INTEREST HEREIN): (a) REPRESENTS THAT IT IS AN “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) THAT IS AN INSTITUTION, (b) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) THAT IT WILL NOT PRIOR TO: (i) THE DATE THAT IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ISSUE DATE OR THE LAST DAY ON WHICH THE ISSUER OR ANY AFFILIATE (AS DEFINED IN RULE 144) OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY), OR (ii) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE “*RESALE RESTRICTION TERMINATION DATE*”), OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) EXCEPT: (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE UPON RULE 144A UNDER THE SECURITIES ACT, (D) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND, IN EACH CASE, IN COMPLIANCE WITH THE RELEVANT SECURITIES LAWS OF ANY APPLICABLE JURISDICTION; *PROVIDED* THAT THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) OR (E) ABOVE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER, AND (c) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE SECURITY. THIS PARAGRAPH OF THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER HEREOF AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERM “OFFSHORE TRANSACTION” HAS THE MEANING GIVEN TO IT BY REGULATION S UNDER THE SECURITIES ACT.

EACH PURCHASER AND TRANSFEREE (AND IF THE PURCHASER OR TRANSFEREE IS A PLAN, THEN ITS FIDUCIARY) OF THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO

REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS SECURITY (OR BENEFICIAL INTEREST HEREIN) WILL NOT BE (AND WILL NOT BE ACTING ON BEHALF OF) (i) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (ii) ANY “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), (iii) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING OR (iv) A U.S. GOVERNMENTAL PLAN, CHURCH PLAN, NON-US PLAN OR OTHER PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”), OR (b) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) WILL NOT CONSTITUTE OR GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF A PLAN SUBJECT TO SIMILAR LAW, A NON-EXEMPT VIOLATION OF SIMILAR LAW.

Each Regulation S Note will contain a legend substantially in the following form (with, if in definitive form, appropriate revisions):

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF: (a) IN THE UNITED STATES IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (b) IN COMPLIANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE HOLDER OF THIS SECURITY (OR OF A BENEFICIAL INTEREST HEREIN) BY ITS ACCEPTANCE HEREOF (OR OF A BENEFICIAL INTEREST HEREIN) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT IS PURCHASING THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) THAT NO OFFER, SALE, ASSIGNMENT, TRANSFER, PLEDGE, ENCUMBRANCE OR OTHER DISPOSITION MADE PRIOR TO THE DATE 40 DAYS AFTER THE ISSUE DATE SHALL BE MADE TO A U.S. PERSON AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OR FOR THE ACCOUNT OR BENEFIT OF SUCH A U.S. PERSON (OTHER THAN A DISTRIBUTOR).

EACH PURCHASER AND TRANSFEREE (AND IF THE PURCHASER OR TRANSFEREE IS A PLAN, THEN ITS FIDUCIARY) OF THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) WILL NOT BE (AND WILL NOT BE ACTING ON BEHALF OF) (i) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN s 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (ii) ANY “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), (iii) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING OR (iv) A U.S. GOVERNMENTAL PLAN, CHURCH PLAN, NON-US PLAN OR OTHER PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”), OR (b) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS SECURITY (OR A BENEFICIAL INTEREST HEREIN) WILL NOT CONSTITUTE OR GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF A PLAN SUBJECT TO SIMILAR LAW, A NON-EXEMPT VIOLATION OF SIMILAR LAW.

Each Note will contain a legend substantially in the following form (with, if in definitive form, appropriate

revisions):

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF THIS SECURITY SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY (OR OF BENEFICIAL INTERESTS HEREIN) TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY (OR OF A BENEFICIAL INTEREST HEREIN) SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF (OR OF A BENEFICIAL INTEREST HEREIN), TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING UPON THE HOLDER HEREOF (AND OF BENEFICIAL INTERESTS HEREIN) AND ALL FUTURE HOLDERS OF THIS SECURITY (AND BENEFICIAL INTERESTS HEREIN) AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION HEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

- (f) If such investor purchases a Global Note (or any beneficial interest therein), then it will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in such Global Note as well as to registered holder of such Global Note.
- (g) If such investor purchases a Registered Note (or any beneficial interest therein), then it will also be deemed to acknowledge that the Registrar will not be required to accept for registration of transfer any Notes acquired by it except upon presentation of evidence satisfactory to the Bank and the Registrar that the restrictions set forth herein have been complied with.
- (h) Such investor acknowledges that:
  - (i) the Bank, the Dealers and others will rely upon the truth and accuracy of such investor's acknowledgements, representations and agreements set forth herein and such investor agrees (or will be deemed to agree) that if any of its acknowledgements, representations or agreements herein cease to be accurate and complete, such investor will notify the Bank and the Dealers promptly in writing, and
  - (ii) if such investor is acquiring any Notes as fiduciary or agent for one or more investor accounts, then such investor represents with respect to each such account that:
    - (A) such investor has sole investment discretion, and
    - (B) such investor has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account and that each such investment account is eligible to purchase the Notes.
- (i) Such investor agrees that it will give to each person to whom it transfers a Note notice of any restrictions on the transfer of such Note set forth in clause (d) and in any applicable legend set forth in clause (e).
- (j) Such investor understands that no action has been taken in any jurisdiction (including the United States) by the Bank or the Dealers that would permit a public offering of the Notes or the possession, circulation or distribution of this Base Prospectus or any other material relating to the Bank or the Notes in any jurisdiction where action for that purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth under this "Subscription and Sale and Selling and Transfer Restrictions" section.
- (k) Each purchaser and transferee (and if the purchaser or transferee is a Plan, then its fiduciary) of a Note (or a beneficial interest therein) will be deemed to represent and warrant that either: (i) it is not and for so long as it holds



the Note (or a beneficial interest therein) will not be (and will not be acting on behalf) of a Benefit Plan Investor or a Plan that is subject to any Similar Law, or (ii) its acquisition, holding and disposition of such Note (or a beneficial interest therein) will not constitute or give rise to a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or, in the case of a Plan subject to Similar Law, a non-exempt violation of Similar Law. See “Certain Considerations for ERISA and Other U.S. Employee Benefit Plans.”

- (l) Institutional Accredited Investors who invest in Registered Notes (other than pursuant to Rule 144A or Regulation S) in their original issuance are required to execute and deliver to the Registrar an IAI Investment Letter. The IAI Investment Letter will state, among other things, the following:
  - (i) that the applicable Institutional Accredited Investor has received a copy of this Base Prospectus and such other information as it deems necessary in order to make its investment decision,
  - (ii) that such Institutional Accredited Investor understands that such Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that such Notes have not been and will not be registered under the Securities Act or any other applicable U.S. Federal or State securities laws and that any subsequent transfer of such Notes is subject to certain restrictions and conditions set forth in this Base Prospectus and such Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer such Notes except in compliance with such restrictions and conditions and the Securities Act,
  - (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes,
  - (iv) that it is an Institutional Accredited Investor and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts’ investment for an indefinite period of time,
  - (v) that such Institutional Accredited Investor is acquiring such Notes purchased for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of such Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control, and
  - (vi) that, in the event that such Institutional Accredited Investor purchases Notes (or beneficial interests therein), it will acquire Notes (or beneficial interests therein) having a minimum purchase price of at least US\$500,000 (or the approximate equivalent in another Specified Currency) (or such other amount set forth in the applicable Final Terms).
- (m) No sale of U.S. Notes (or beneficial interests therein) to any one purchaser will be for less than US\$200,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors pursuant to Section 4(a)(2) of the Securities Act, US\$500,000 (or its foreign currency equivalent) principal amount and no U.S. Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, then each person for whom it is acting must purchase at least US\$200,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors pursuant to Section 4(a)(2) of the Securities Act, US\$500,000 (or its foreign currency equivalent) principal amount of Registered Notes (in each case, or such other amount as may be set forth in the applicable Final Terms).

“*U.S. Note*” means Registered Notes (whether in definitive form or represented by a Registered Global Note) that, in their initial distribution, are: (i) issued by the Issuer directly to Institutional Accredited Investors in a transaction complying with Section 4(a)(2) of the Securities Act or (ii) sold by one or more Dealer(s) to QIBs in accordance with the requirements of Rule 144A.

## **Selling Restrictions**

## **Turkey**

The Issuer has obtained the Programme Approvals from the CMB and the BRSA required for the issuance of Notes under the Programme. The maximum debt instrument amount that the Bank may issue under the Programme Approvals is US\$2,000,000,000 (or its equivalent in other currencies) in aggregate; *provided* that the aggregate outstanding nominal amount of the debt instruments denominated in Turkish Lira issued by the Bank (whether under this approval or otherwise) may not exceed TL 5,000,000,000. Regardless of the outstanding Note amount, unless the Bank obtains new approvals from the BRSA and the CMB, the aggregate debt instrument amount to be issued under the Programme Approvals may not exceed US\$2,000,000,000 (or its equivalent in other currencies). Pursuant to the Programme Approvals, the offer, sale and issue of Notes under the Programme has been authorised and approved in accordance with Decree 32, the Banking Law and its related legislation, the Capital Markets Law and its related legislation and the Communiqué on Debt Instruments. In addition, Notes (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the Programme Approvals. The Notes issued under the Programme prior to the date of the CMB Approval were issued under previously existing CMB approvals.

Under the CMB Approval, the CMB has authorised the offering, sale and issue of any Notes within the scope of such CMB Approval on the condition that no 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: (a) in the secondary markets only, 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, and (b) both in the primary and secondary markets, may purchase or sell Notes (or beneficial interests therein) denominated in Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis.

Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes (or beneficial interests therein) in offshore transactions on an unsolicited (reverse inquiry) basis; *provided* that (for each of clauses (a) and (b)) such purchase or sale is made through licensed banks authorised by the BRSA or licensed brokerage institutions authorised pursuant to the CMB regulations and the purchase price is transferred through such licensed banks. As such, Turkish residents should use such licensed banks or licensed brokerage institutions while purchasing the Notes (or beneficial interests therein) and transfer the purchase price through such licensed banks.

To the extent required by applicable law or regulation, approval from the CMB in respect of each Tranche of Notes is required to be obtained by the Issuer prior to the issue date of each such Tranche of Notes. The Issuer shall maintain all authorisations and approvals of the CMB as necessary for the offer, sale and issue of Notes under the Programme.

Monies paid for purchases of Notes are not protected by the insurance coverage provided by the SDIF.

## **United States**

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

In connection with any Regulation S Note, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes: (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer(s) or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, other than in an offshore transaction and to, or for the account or benefit of, persons who are not U.S. Persons except in accordance with Regulation S of the Securities

Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the applicable Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes other than in offshore transactions to, or for the account or benefit of, persons who are not U.S. Persons. Terms used in this paragraph have the meanings given to them by Regulation S.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes other than in an offshore transaction to a person that is not a U.S. Person by any distributor (whether or not participating in the offering) might violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Registered Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying upon the exemption from the registration requirements of the Securities Act provided by Rule 144A. To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in the Deed Poll to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes of the applicable Series remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

#### ***Prohibition of Sales to EEA Retail Investors***

From 1 January 2018, unless the Final Terms in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “*retail investor*” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”); and
- (b) the expression an “*offer*” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Prior to 1 January 2018, and from that date if the Final Terms in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Relevant Member State, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “*Relevant Implementation Date*”) it has not made and will not make an offer of Notes that are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity that is a qualified investor as defined in the Prospectus Directive,
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer(s) nominated by the Issuer for any such offer, or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive;

*provided* that no such offer of Notes referred to in clauses (a) to (c) shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision: (a) the expression “*an offer of Notes to the public*” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and (b) the expression “*Prospectus Directive*” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a Relevant Member State.

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000, as amended (“*FSMA*”) by the Issuer,

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer, and

(c) 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.

### ***People’s Republic of China***

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that neither it nor any of its affiliates has offered, sold or delivered or will offer, sell or deliver any of the Notes (or beneficial interests therein) to any person for reoffering or resale or redelivery, in any such case directly or indirectly, in the PRC (excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan) in contravention of any applicable laws.

### ***Hong Kong***

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (or beneficial interests therein) other than: (i) to “professional investors” as defined in the Securities and Futures Ordinance

(Cap. 571) of Hong Kong and any rules made under that Ordinance or (ii) in other circumstances that do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or that do not constitute an offer to the public within the meaning of that Ordinance, and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes (or beneficial interests therein) that are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

### ***Switzerland***

In Switzerland, this Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in any Notes. Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into, or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations nor a simplified prospectus as such term is understood pursuant to Article 5 of the Swiss Collective Investment Scheme Act, and each Dealer has represented to and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, with the Issuer that neither this Base Prospectus nor any other offering or marketing material relating to the Notes may or will be publicly distributed or otherwise made publicly available by it in Switzerland.

Neither this Base Prospectus nor any other offering or marketing material relating to the offering of the Notes has been or will be filed with or approved by any Swiss regulatory authority. The Notes do not constitute a participation in a collective investment scheme in the meaning of the Swiss Collective Investment Schemes Act and are not subject to the approval of, or supervision by, any Swiss regulatory authority, such as the Swiss Financial Markets Supervisory Authority, and investors in the Notes will not benefit from protection or supervision by any Swiss regulatory authority.

### ***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended; the “FIEA”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes (or beneficial interests therein), directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Law No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Thailand***

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Base Prospectus has not been approved by or filed with the Securities and Exchange Commission or any other regulatory authority of the Kingdom of Thailand. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be offered or sold, or this Base Prospectus distributed, directly or indirectly, to any person in Thailand except under circumstances that will result in compliance with all applicable laws, regulations and guidelines promulgated by the Thai government and regulatory authorities in effect at the relevant time.

### ***Singapore***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of the Singapore Statutes (the “*Securities and*

*Futures Act*”). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that any Notes (or beneficial interests therein) may not be offered or sold or caused to be the subject of an invitation for subscription or purchase of any Notes (or beneficial interests therein) nor may this Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person or to any person pursuant to Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Notes (or beneficial interests therein) are subscribed or purchased in reliance of an exemption under Section 274 or 275 of the Securities and Futures Act, the Notes (or beneficial interests therein) shall not be sold within the period of six months from the date of the initial acquisition of the Notes (or beneficial interests therein), except to any of the following persons: (a) an institutional investor (as defined in Section 4A of the Securities and Futures Act), (b) a relevant person (as defined in Section 275(2) of the Securities and Futures Act) or (c) any person pursuant to an offer referred to in Section 275(1A) of the Securities and Futures Act, unless expressly specified otherwise in Section 276(7) of the Securities and Futures Act.

Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor, as defined in Section 4A of the Securities and Futures Act) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, or

(b) a trust (where the trustee is not an accredited investor) the sole purpose of which is to hold investments and each beneficiary of which is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust, as applicable, has acquired the Notes (or beneficial interests therein) pursuant to an offer under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act,

(ii) where no consideration is or will be given for the transfer,

(iii) where the transfer is by operation of law,

(iv) pursuant to Section 276(7) of the Securities and Futures Act, or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## **General**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

## **LEGAL MATTERS**

Certain matters relating to the issuance of Notes will be passed upon for the Bank by Allen & Overy LLP as to matters of United States law and by Gedik & Eraksoy Avukatlık Ortaklığı as to matters of Turkish law (other than with respect to tax-related matters). Certain matters of English and United States law will be passed upon for the Dealers by Herbert Smith Freehills LLP and certain matters of Turkish law will be passed upon for the Dealers by Paksoy Ortak Avukat Bürosu (which will also pass upon matters of Turkish tax law).



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

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

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

In connection with the issuance of Notes under the Programme, service of process may be made upon the Bank at Qatar National Bank (Q.P.S.C.), London Branch, 51 Grosvenor Street, London, W1K 3HH, United Kingdom, with respect to any proceedings in England.

## OTHER GENERAL INFORMATION

### Authorisation

The update of the Programme, the issue of Notes by the Bank and the delivery by the Bank of the documentation for the Programme have been duly authorised pursuant to the authority of the officers of the Bank under the resolutions of its Board of Directors dated 27 March 2017.

### Listing

This Base Prospectus has been approved by the Central Bank of Ireland as a base prospectus. It is expected that each Tranche of Notes that is to be admitted to the Official List and to trading on the Main Securities Market will be admitted separately as and when issued, subject only to the issue of one or more Notes initially representing the Notes of such Tranche; *however*, no assurance can be given that any such admission will occur. Application will be made to the Irish Stock Exchange for certain Notes issued within 12 months after the date of this Base Prospectus to be admitted to listing on the Official List and to have such Notes admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID. If a Tranche of Notes is to be listed on the Irish Stock Exchange or any other stock exchange, then the appropriate information will be specified in the applicable Final Terms.

### Listing Agent

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

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg, which are the entities in charge of keeping the records. The appropriate Common Code and ISIN (if any) for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers (if applicable) for each Tranche of such Notes, together with the relevant ISIN and (if applicable) Common Code, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system, then the appropriate information will be specified in the applicable Final Terms.

Through DTC's accounting and payment procedures, DTC will, in accordance with its customary procedures, credit interest payments received by DTC on any Interest Payment Date based upon DTC's Participants' holdings of the Notes on the close of business on the New York Business Day immediately preceding each such Interest Payment Date. A "*New York Business Day*" is a day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York are authorised or required by law or executive order to close.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

### Conditions for Determining Price

The price and amount of Notes to be issued in a Tranche will be determined by the Issuer and the relevant Dealer(s) or investor(s) at the time of issue in accordance with prevailing market conditions.

### Significant or Material Change

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

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

Except with respect to the fees to be paid to the Arranger and the Dealers, 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, material to the issue of the Notes. It should be noted that one of the Dealers (*i.e.*, QNB Capital LLC) is a subsidiary of QNB, which (as described in “Share Capital and Ownership – Contemplated Share Sale”) is expected to become the controlling shareholder of the Bank.

## **Independent Auditors**

The BRSA Financial Statements of the Bank and the Group as of and for the years ended 31 December 2014, 2015 and 2016 have been audited by Ernst & Young, all in accordance with the BRSA Accounting and Reporting Regulation. The audit reports on the BRSA Financial Statements as of and for the years ended 31 December 2014, 2015 and 2016 emphasise that: (a) the effect of the differences between the accounting principles summarised in Section 3 thereof and the accounting principles generally accepted in countries in which the financial statements are to be distributed and IFRS have not been quantified and reflected in the financial statements, (b) the accounting principles used in the preparation of the financial statements differ materially from IFRS and (c) accordingly, the financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS. See the auditors’ reports incorporated by reference into this Base Prospectus.

Ernst & Young is located at Maslak Mah. Eski Büyükdere Cad. No.27 Orjin Maslak Daire 54-57-59 Kat: 2-3-4, Sarıyer, İstanbul, 34398. Ernst & Young, an independent certified public accountant in Turkey, is an audit firm authorised by the BRSA to conduct independent audits of banks in Turkey.

## **Litigation**

Except as described in “Business of the Group – Legal Proceedings,” 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 Base Prospectus, a significant effect on the Issuer’s or the Group’s financial position or profitability.

## **Documents**

The Bank produces audited consolidated and unconsolidated annual and unaudited consolidated and unconsolidated quarterly interim financial statements. Copies of the latest audited annual and unaudited interim reports of the Bank (in English) delivered by the Bank pursuant to Condition 5.3 may be obtained, and copies (with certified English translations where the documents at issue are not in English) of the Bank’s articles of association and of its audited financial statements as of and for the years ended 31 December 2014, 2015 and 2016, and copies of the transaction documents referred to herein (including the forms of the Notes) will be available for inspection, at the offices of the Bank and the Fiscal Agent.

Copies of the documents referred to in the preceding paragraph and certain other documents (including this Base Prospectus, the constitutional documents of the Bank, the Group’s BRSA financial statements for the latest two years, the Bank’s BRSA financial statements for the latest two years, the Deed of Covenant and the Agency Agreement) will be available in physical form for inspection at the Bank’s headquarters at Esentepe Mahallesi, Büyükdere Cad., Kristal Kule Binası, No:215, Şişli, İstanbul, Turkey, with such financial statements also being available on the Bank’s website at [www.finansbank.com.tr/en/investor-relations/financial-information/Default.aspx](http://www.finansbank.com.tr/en/investor-relations/financial-information/Default.aspx). (such website does not, and should not be deemed to, constitute a part of, or be incorporated into, this Base Prospectus). Such documents will be so available through the final redemption of the Notes.

## **Material Contracts**

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.

## **Dealers and Arranger transacting with the Issuer**

Certain of the Dealers, the Arranger and their respective affiliates have engaged, and might in the future engage, in investment banking and/or commercial banking transactions with, and might perform services for, the Issuer and/or its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, certain of the Dealers, the Arranger and their respective affiliates might make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities might involve securities and/or instruments of the Issuer or its affiliates. Certain of the Dealers, the Arranger and their respective affiliates that have a credit relationship with the Issuer might from time to time hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers, the Arranger or their respective affiliates would hedge such exposure by entering into transactions that consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions might adversely affect future trading prices of Notes. Certain of the Dealers, the Arranger and their respective affiliates might also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and might hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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

The BRSA Financial Statements are presented in accordance with BRSA Principles. The BRSA Principles differ from IFRS in certain respects. Such differences primarily relate to format of presentation of financial statements, disclosure requirements (*e.g.*, IFRS 7) and certain accounting policies. BRSA format and disclosure requirements are prescribed by relevant regulations and do not always conform to IFRS or IAS 34 standards. Among the differences in accounting policies, some of the most important are:

- *Consolidation.* Under 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 sectoral distinctions.
- *Associates.* Under IFRS, an entity is considered an associate if the Group has significant influence, but not control, over the financial and operational policies of such entity. The same rule applies under BRSA Principles; *however*, according to BRSA Principles, an entity operating in the financial sector is consolidated as an associate if an employee representative of the Group is on the board of directors of such entity. Under IFRS, the existence of an employee representative of the Group on the board of directors of an entity is not sufficient to establish that the Group has a significant influence on such entity.
- *Provisioning for loan losses.* The BRSA provisioning for loan losses is different from IAS 39 and is based upon percentages relating to number of days overdue prescribed by relevant regulations, whereas the IFRS provisioning for loan losses is based upon the present value of scheduled future cash flows after considering the incurred probable losses and discounted at the original effective interest rate. Moreover, the BRSA provisioning for loan losses is based upon percentages defined in regulations for many asset items, not only for loans, which is not the case with IFRS.
- *General loan loss provisioning.* A general loan loss provision is required under BRSA Principles but prohibited under IFRS. Instead, IFRS require portfolio/collective provisioning for groups of loans and receivables sharing similar characteristics and not individually identified as impaired. The IFRS provision reflects probable incurred losses based upon historical experience, adjusted for recent events.
- *Deferred taxation.* Certain differences exist in the area of deferred taxation. Under the BRSA Principles no deferred tax is computed in relation to general loan loss provisions, whereas under IFRS it is computed over collective allowance for impairment.
- *Application period for hyperinflationary accounting.* Hyperinflationary accounting ceased to be applied as of 1 January 2005 under the BRSA Principles, whereas it ceased to be applied as of 1 January 2006 under IFRS.



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