

## BASE PROSPECTUS



**TÜRKİYE İŞ BANKASI A.Ş.**

**U.S.\$1,750,000,000**

### **Global Medium Term Note Program**

Under this U.S.\$1,750,000,000 Global Medium Term Note Program (the “*Program*”), Türkiye İş Bankası A.Ş., a Turkish banking institution organized as a public joint stock company registered with the Istanbul Trade Registry under number 431112 (the “*Bank*” or the “*Issuer*”), may from time to time issue notes (the “*Notes*”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively “*Bearer Notes*” and “*Registered Notes*”). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Program will not exceed U.S.\$1,750,000,000 (or its equivalent in other currencies calculated as described in the Program Agreement described herein), subject to increase as described herein.

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

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

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

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

Application has been made to the Capital Markets Board of Turkey (the “*CMB*”), in its capacity as competent authority under Law No. 6362 (the “*Capital Markets Law*”) of the Republic of Turkey (“*Turkey*”) relating to capital markets, for the issuance and sale of Notes by the Bank outside of Turkey. The Notes cannot be sold before the necessary approvals and the approved issuance certificate 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 March 19, 2013, and the approved issuance certificate will be obtained from the CMB before any sale and issuance of the Notes.

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

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

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

The Program is expected to be rated BBB/F3 by Fitch Ratings Ltd. (“*Fitch*”) and Baa2 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 Rating Agencies, as set out on page 145 of this Base Prospectus. Each of the Rating Agencies is established in the European Union 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 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 Program may be rated by either Fitch or Moody's or unrated. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Program by Fitch or Moody's, as the case may be. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

#### **Arrangers**

**J.P. Morgan**

**Standard Chartered Bank**

#### **Dealers**

**Barclays**

**BNP PARIBAS**

**Citigroup**

**Commerzbank**

**Deutsche Bank**

**HSBC**

**J.P. Morgan**

**Mitsubishi UFJ Securities**

**Morgan Stanley**

**National Bank of Abu Dhabi PJSC**

**Standard Chartered Bank**

The date of this Base Prospectus is July 19, 2013.

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

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

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

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

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

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

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

**The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer which is intended to permit a public offering of any**

Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither (i) this Base Prospectus nor (ii) any advertisement or other offering material, may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom), the Republic of Turkey, Switzerland, Japan and the People's Republic of China (the PRC), see "*Subscription and Sale and Transfer and Selling Restrictions*".

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

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

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

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

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where

the currency for principal or interest payments is different from the potential investor's currency;

- (d) understands thoroughly the terms of the Notes and is familiar with the behavior of financial markets; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

The Issuer has obtained the CMB approvals (dated March 19, 2013 No. 29833736-105.03.01-769 (2768) and dated May 29, 2013 No. 29833736-105.03.01-1751 (the “*CMB Approvals*”) and the Banking Regulatory and Supervisory Agency approval (the “*BRSA Approval*”) (dated 17 January 2013 and numbered 20008792.44.2-1497) required for the issuance of Notes under the Program. In addition to the CMB Approval, an issuance certificate in respect of each Tranche of Notes shall also be obtained by the Issuer prior to the issue date of such Tranche of Notes. The Issuer shall maintain all authorizations and approvals of the CMB necessary for the offer, sale and issue of Notes under the Program. Consequently, the scope of the above-mentioned CMB Approvals and the BRSA Approval may be amended and/or new approvals from the CMB and/or the BRSA may be obtained from time to time. Pursuant to the CMB Approvals and the BRSA Approval, the offer, sale and issue of Notes under the Program has been authorized and approved in accordance with Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, “*Decree 32*”), the Banking Law numbered 5411 and its related legislation, the Capital Markets Law numbered 6362 and Communiqué II-31.1 on Debt Instruments (the “*Communiqué on Debt Instruments*”) or its related regulation.

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

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be forward-looking statements. Forward-looking statements include statements concerning the Issuer's plans, objectives, goals,

strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this Base Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*", "*The Group and its Business*" 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 may differ materially from those expressed in these forward-looking statements.

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

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

There may be other risks, including some risks of which the 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 at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward-looking statement is based.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW**

**HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

#### **U.S. INFORMATION**

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

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

**The Notes may be offered or sold within the United States or to, or for the account or benefit of U.S. persons, as defined in Regulation S under the Securities Act ("*U.S. person*"), only to QIBs or to Institutional Accredited Investors, in either case in registered form and in transactions exempt from registration under the Securities Act in reliance on Rule 144A under the Securities Act ("*Rule 144A*") or any other applicable exemption. Each purchaser of Registered Notes that is a U.S. Person or is in the United States is hereby notified that the offer and sale of any Notes to it may be being made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.**

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

#### **CIRCULAR 230 DISCLOSURE**

**TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE U.S. INTERNAL REVENUE SERVICE, ANY TAX DISCUSSION HEREIN WAS NOT WRITTEN AND IS NOT INTENDED TO BE USED AND CANNOT BE USED BY ANY TAXPAYER FOR PURPOSES OF AVOIDING US FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER. ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES DESCRIBED HEREIN. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

## AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in a deed poll dated July 19, 2013 (the "*Deed Poll*") to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes to be transferred remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "*Exchange Act*") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### *Presentation of Financial Information*

The Bank maintains its books and prepares its statutory financial statements in Turkish Lira in accordance with the prevailing accounting principles and standards set out as per Articles 37 and 38 of the Banking Law No: 5411 and other regulations, circulars, communiqués and pronouncements in respect of accounting and financial reporting and pronouncements made by the Banking Regulation and Supervision Agency (the "*BRSA*") (collectively, the "*BRSA Principles*").

The Bank's consolidated and unconsolidated annual statutory financial statements as of and for the years ended December 31, 2010, 2011 and 2012 (the "*BRSA Annual Financial Statements*") and unaudited interim consolidated and unconsolidated financial statements for the three month period ended March 31, 2013 (the "*BRSA Interim Financial Statements*") and, together with the BRSA Annual Financial Statements, the "*BRSA Financial Statements*") have been prepared and presented in accordance with BRSA Principles. It is important to note that the consolidated BRSA Financial Statements are prepared with inclusion of only financial subsidiaries whereas other equity participations are included as noted in the following paragraph. The Bank's foreign affiliates maintain their books of account and prepare their financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries in which they operate.

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 the stock exchanges, which are, in each case, presented on a fair value basis if reliable measures are available, and (b) loans, investments categorized as held-to-maturity and other financial assets, which are, in each case, presented at amortized cost.

The BRSA Annual Financial Statements as of and for the years ended December 31, 2010, 2011 and 2012 have been audited in accordance with such regulation and the International Standards on Auditing by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International Cooperative, a Swiss entity) ("*KPMG*"). See KPMG's reports incorporated by reference into this Base Prospectus. According to BRSA regulations the Bank was required to rotate its external auditors. As a result, KPMG was appointed as the Bank's external auditors as of December 17, 2009 for three years (i.e., KPMG audited the financial statements of the Issuer for the years ended 2010, 2011 and 2012), and as of March 29, 2013 KPMG was appointed again for three years (i.e., for the financial years of 2013, 2014 and 2015). See "*Risk Factors – Risks Related to the Group and its Business – Audit Qualification*".

The BRSA Interim Financial Statements as of and for the three month period ended March 31, 2013 have been reviewed in accordance with the "Regulation on Authorization and Activities of Institutions to Perform External Audit in Banks" published in the Official Gazette no: 26333 on November 1, 2006 and the International Standards on Auditing by KPMG. See KPMG's report incorporated by reference into this Base Prospectus. With respect to the unaudited BRSA Interim Financial Statements as of and for the three month

period ended March 31, 2013 (with March 31, 2012 as the comparative period), KPMG has reported that they applied limited procedures in accordance with professional standards for a review of such information; *however*, their report states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. See “*Risk Factors – Risks Related to the Group and its Business – Audit Qualification*”.

Unless otherwise indicated, the financial information presented herein is based upon the BRSA Financial Statements incorporated by reference herein and have 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). The English language BRSA Financial Statements were not prepared for the purpose of their inclusion in this Base Prospectus.

While neither the Bank nor the Group is required by law to prepare its accounts under any accounting standards other than BRSA Principles, including under International Financial Reporting Standards (“*IFRS*”), the Bank’s management has elected to publish annual (consolidated and unconsolidated) and semi-annual (consolidated only) financial statements that have been prepared in accordance with IFRS, with the most recent such audited financial statements being the Group’s IFRS financial statements for the fiscal year ended December 31, 2012. IFRS financial statements are not used for any regulatory purposes and the Bank’s management uses the BRSA Financial Statements and related BRSA Principles for the management of the Bank and communications with investors. While the information in this Base Prospectus is based upon the BRSA Financial Statements, the Group’s IFRS audited financial statements as of and for the years ended December 31, 2010, 2011 and 2012 (the “*IFRS Financial Statements*”) have been incorporated herein by reference.

The Bank utilizes several internal definitions of small and medium-sized enterprise (“*SME*”) based upon criteria including annual turnover, credit limits and/or average assets under management, among others; *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 November 18, 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 (increased from TL 25 million as of November 4, 2012) and companies with less than 250 employees (the “*BRSA SME Definition*”); *it being understood* that all information herein referencing the BRSA SME Definition utilizes the earlier definition for information through November 4, 2012 and the current definition thereafter.

The Bank utilizes several internal definitions of corporate customers based upon criteria including annual sales and/or credit limits, among others; *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 US Dollar amounts have been rounded to the nearest million). Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Unless otherwise indicated, the sources for statements and data concerning the Bank and its business are based upon best estimates and assumptions of the Bank’s management. Management believes that these assumptions are reasonable and that its estimates have been prepared with due care. The data concerning the



Bank included herein, whether based upon external sources or based upon the Bank's internal research, constitute the best current estimates of the information described.

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

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

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

For the Group, these non-GAAP measures include (without limitation): net interest margin, adjusted net interest margin, net yield, adjusted net interest income as a percentage of average interest-earning assets, cost-to-income ratio, cost-to-income ratio if income were calculated without subtracting impairment losses, operating expenses as a percentage of total assets, liquid assets as a percentage of total deposits, free capital ratio, allowance for possible loan losses to non-performing loans, return on average total assets, return on average shareholders' equity, average spread, the amount of net allowances charged to operating expenses, the increase of operating expenses if impairment losses and foreign exchange losses are excluded, average total assets, average shareholders' equity, average shareholders' equity as a percentage of average total assets, and non-recurring items in income statement. Refer to the "*Overview of the Group and the Program - The Group*", "*Summary Financial and Other Data*" and "*Business of the Group*" sections of this Base Prospectus for an additional discussion of the specific adjustments applied in reconciliation to the directly comparable GAAP measures.

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

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

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

In this Base Prospectus, all references to:

- "*Turkish Lira*" and "*TL*" refer to the lawful currency for the time being of the Republic of Turkey;

- “euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;
- “U.S. Dollars”, “U.S.\$” and “\$” refer to United States dollars;
- “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 or Dollar amounts in this Base Prospectus could have been or could be converted into Dollars or Turkish Lira, as the case may be, at any particular rate or at all. For a discussion of the effects on the Group of fluctuating exchange rates, see “*Risk Factors – Risks Relating to the Group and its Business - Foreign Exchange and Currency Risk*”.

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

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

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

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

In this Base Prospectus, all average balance sheet amounts are 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 Centre (*Bankalararası Kart Merkezi*), and all data relating to the Turkish economy,

including statistical data, has been obtained from the website of the Turkish Statistical Institute (*Türkiye İstatistik Kurumu*) (“*TurkStat*”) at [www.turkstat.gov.tr](http://www.turkstat.gov.tr), the website of the Central Bank of Turkey (*Türkiye Cumhuriyet Merkez Bankası*) (the “*Central Bank*”) at [www.tcmb.gov.tr](http://www.tcmb.gov.tr), the Turkish Treasury's website at [www.hazine.gov.tr](http://www.hazine.gov.tr) or the European Banking Federation's website at [www.ebf.fbe.eu](http://www.ebf.fbe.eu). Such data has been extracted from such websites without material adjustment, but may not appear in the exact same form on such websites or elsewhere. Such websites do not, and should not be deemed to constitute a part of, or be incorporated into, this Base Prospectus.

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

Information regarding the Bank's shareholders (including ownership levels and agreements) in "*Overview of the Group and the Program – The Group*", "*Business of the Group*" and "*Ownership*" has been based upon public filings and announcements by such shareholders.

## TABLE OF CONTENTS

	Page
Risk Factors .....	13
Enforcement of Judgments and Service of Process .....	44
Documents Incorporated by Reference .....	45
Overview of the Group and the Program.....	46
Form of the Notes .....	56
Applicable Final Terms .....	61
Terms and Conditions of the Notes .....	72
Use of Proceeds .....	105
Summary Financial and Other Data .....	106
Capitalization of the Group .....	109
Business of the Group .....	110
Risk Management.....	146
Management .....	160
Ownership.....	170
Related Party Transactions .....	173
Turkish Banking System .....	174
Turkish Regulatory Environment .....	179
Book-Entry Clearance Systems .....	201
Taxation.....	206
Certain Considerations for ERISA and other US Employee Benefit Plans.....	210
Subscription and Sale and Transfer and Selling Restrictions .....	211
General Information .....	222

## Appendix

1.	Overview of significant differences between IFRS and BRSA Accounting Principles .....	226
----	---------------------------------------------------------------------------------------	-----

---

## STABILIZATION

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

## RISK FACTORS

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

*In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Program 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.*

### **Factors that may affect the Issuer's ability to fulfill its obligations under Notes issued under the Program**

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.

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

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

The Group operates predominantly in Turkey and derives the majority 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 in recent years that increased stability and led to economic growth, Turkey is still considered by international investors to be an emerging market. Emerging markets are subject to greater risks than more developed markets and financial turmoil in any emerging market (or global markets generally) could disproportionately disrupt business in such markets as well as causing the price of the Notes to suffer.

Turkey's economy remains vulnerable to external shocks, including the current global economic crisis. Although Turkey's growth dynamics are to some extent dependent upon domestic demand, Turkey is also dependent upon trade with Europe and 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. A decline in demand for imports from the EU could have a material adverse effect on Turkish exports and Turkey's economic growth.

Investors' interest in Turkey might be negatively affected by events in other emerging markets or the global economy in general (for example, the recent global market crisis or monetary policies in the United States). An increase in the perceived risks associated with investing in emerging economies could adversely affect the Turkish economy, and the Notes may be subject to fluctuations in price that may not necessarily be related to economic conditions in Turkey or the financial performance of the Group. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by

international investors, Turkey could be adversely affected by negative economic or financial developments in other emerging market countries. While the impact of the recent global financial crisis on Turkey has been relatively limited, Turkey has been adversely affected by such contagion effects on a number of occasions in the past, including following the financial crises in 1994 and 2000 to 2001. Similar developments can be expected to affect the Turkish economy in the future, which could, in turn, have an adverse impact on prices of obligations of Turkish capital markets issuances.

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

Negative changes in the government and political environment, including the failure of the government to devise or implement appropriate economic programs, may adversely affect the stability of the Turkish economy and, in turn, the Group’s business, financial condition and/or results of operations. Turkey has been a parliamentary democracy since 1923. Unstable coalition governments have been common, and in the 90 years since its formation, Turkey has had approximately 61 governments, with political disagreements frequently resulting in early elections. Furthermore, the Turkish military establishment has historically played a significant role in Turkish government and politics, intervening in the political process. While in recent years the Turkish military has shown limited intervention, today the role of Turkish military has been diminished compared to its political and social roles in the past.

Protests starting in May 2013 in Istanbul, and spreading to Ankara and other major cities in Turkey, against plans to replace Gezi Park, an urban park in Istanbul’s central Taksim Square, with a commercial development, and resulting confrontations among protestors and security forces, have partly contributed to the recent significant increase in the volatility of Turkish financial markets. While the Bank’s management does not believe that these conflicts will have a material long-term negative impact on Turkey’s economy or the Group’s business, financial condition or results of operation; it is possible that these (or other) protests and related circumstances could have such an impact and/or a negative impact on investors’ perception of Turkey and/or the value of the Notes issued under the Program.

While in recent years Turkey has undergone significant political and economic reform, which has sought to increase domestic political and economic stability and contributed to economic growth, Turkey is nonetheless considered by international investors to be an emerging market. In general, investing in the securities of issuers with substantial operations in emerging markets, like Turkey, involves a higher degree of risk than investing in the securities of issuers with substantial operations in the United States, the countries of the European Union or other similar jurisdictions. Accordingly, investors’ perception of Turkey as an emerging economy and actual or perceived political instability could have a material adverse effect on the Group’s business, financial condition and/or results of operations and on the value of the Notes.

*Turkish Economy – The Turkish economy is undergoing continued transformation to a free market system and is subject to significant macro-economic risks*

As of December 31, 2012, approximately 92% of the Group’s total assets were in Turkey and the majority of the Group’s operations are in Turkey. As a result, the Group’s business and results of operations are affected by general economic conditions in Turkey.

Since the early 1980s, the Turkish economy has undergone a transformation from a highly protected and regulated system to a free market system. Although the Turkish economy has responded positively to this transformation, it has experienced severe macro-economic imbalances, including significant current account deficits, and a considerable level of unemployment. While the Turkish economy has been significantly stabilized due, in part, to support from the International Monetary Fund (the “IMF”), Turkey may experience a further significant economic crisis in the future, which could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

Turkey's GDP grew by 8.4% in 2005, 6.9% in 2006, 4.7% in 2007 and 0.7% in 2008. Turkey's GDP contracted by 7.0% in the fourth quarter of 2008 and 4.8% in 2009, before growing in 2010 (9.2%), 2011 (8.8%) and 2012 (2.2%). The ratio of net public debt to GDP decreased from 41.7% in 2005 to 17.0% in 2012. The last stand-by arrangement with the IMF was completed in May 2008. In October 2011, the government announced a three year medium-term economic program from 2013 to 2015. Under this program, the government has set growth targets of 4.0% for 2013 and 5% for 2014, as well as a gradual decrease in the net public debt to GDP ratio, according to the Ministry of Development. Should Turkey's economy continue to experience macro-economic imbalances, it could have a material adverse impact on the Group's business, financial condition and/or results of operations. For more details on recent developments in Turkey's economy, see "*Global Financial Crisis and Eurozone Crisis*" below.

As noted above, the Bank's management does not believe that the Taksim Square protests will have a material long-term negative impact on Turkey's economy; *however*, it is possible that these (and other) protests and related circumstances could have such an impact and/or a negative impact on investors' perception of Turkey and/or the value of the Notes issued under the Program.

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

Political uncertainty within Turkey and in certain neighboring countries, such as Iran, Iraq, Georgia, Armenia and Syria, has historically been one of the potential risks associated with investment in Turkish companies. Political instability in the Middle East and elsewhere remains a concern, most recently exemplified by the internal conflict in Syria, tensions between Iran and Israel and an economic and currency crisis in Iran. Turkey has also experienced problems with domestic terrorist and ethnic separatist groups. For example, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly the 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). In early October 2012 Turkish territory was hit by shells launched from Syria, some of which killed Turkish civilians. On October 4, 2012, the Turkish Parliament authorized the government for one year to send and assign military forces in foreign countries should such action be considered appropriate by the government. On February 1, 2013, a suicide bomber attacked the U.S. Embassy in Ankara killing himself and others. On May 11, 2013, two car bombs exploded in the Reyhanlı district of the southern province of Hatay, resulting in the deaths of 52 people and significant additional casualties. The Taksim Square protests have also contributed to recent volatility in the Turkish financial markets. Such circumstances and domestic terrorist attacks have had and could continue to have a material adverse effect on the Turkish economy and the Group's business, financial condition and/or results of operations.

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

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

*Combating the Financing of Terrorism – The Financial Action Task Force may call upon its members to take measures against Turkey*

Although Turkey has a high-level political commitment to work with the Financial Action Task Force (the “FATF”) to seek to address Turkey’s deficiencies in combating the financing of terrorism, the FATF requested that Turkey make progress in implementing its action plan. In particular, Turkey: (a) is required to make sufficient progress in adequately criminalizing terrorist financing and (b) was required, before February 23, 2013, to implement an adequate legal framework for identifying and freezing terrorist assets. If sufficient progress is not realized, the FATF has advised that it might call upon its members to apply countermeasures proportionate to the risks associated with Turkey (for example, the FATF may require banks in member states to apply extra procedures on any transactions with banks in Turkey).

In an effort to ensure compliance with the FATF requirements, new measures against financing terrorist activities in Turkey were introduced with the entry into force of the Law No. 6415 on the Prevention of the Financing of Terrorism on February 16, 2013 (the “CFT Law”). In order to address shortcomings identified by the FATF and with a view to achieving compatibility with international standards as outlined under the International Convention for the Suppression of the Financing of Terrorism and annexes thereto, the CFT Law introduces an expanded scope to the financing of terrorism offense (as currently defined under Turkish anti-terrorism laws). The CFT Law also presents new principles and mechanisms for identifying and freezing terrorist assets and facilitates the implementation of United Nations Security Council decisions, in particular those relating to entities and/or individuals placed on sanction lists. On May 31, 2013, the Regulation on Procedures and Principles Regarding the Application of the Law on the Prevention of the Financing of Terrorism became effective, which regulation provides the procedures and principles for the decision-making, execution and termination of the freezing of assets as well as the management and supervision of the frozen assets. On February 22, 2013, due to the implementation of the CFT Law, the FATF decided not to recommend the application of the above-mentioned countermeasures; *however*, the FATF may further request that Turkey adopt additional measures and procedures to ensure full compliance with FATF requirements. In the event that the FATF finds the new measures introduced with the CFT Law to be insufficient, then FATF measures as described above may be imposed on Turkey and this could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

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

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

The Group maintains earthquake insurance but does not have, in addition, 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 could 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 could harm the Turkish economy in general, which could adversely affect the Group’s business, financial condition and/or results of operations.



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

The Turkish economy has experienced significant inflationary pressures in the past with year-over-year consumer price inflation rates as high as 69.7% in the early 2000s; *however*, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year consumer price index to decrease to 6.5% at the end of 2009, the lowest level in many years. Consumer price inflation was 6.4%, 10.4% and 6.2% in 2010, 2011 and 2012, respectively (7.3% as of March 31, 2013). Producer price inflation was 8.9%, 13.3% and 2.5% in 2010, 2011 and 2012, respectively (2.3% as of March 31, 2013). Significant global price increases in major commodities such as oil, cotton, corn and wheat are likely to increase supply side inflation pressures throughout the world. These inflationary pressures may result in Turkish inflation exceeding the Central Bank’s inflation target, which may cause the Central Bank to modify its monetary policy. Inflation-related measures that may be taken by the Turkish government in response to increases in inflation could have an adverse effect on the Turkish economy. If the level of inflation in Turkey were to fluctuate or increase significantly, then this could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

*High Current Account Deficit – Turkey’s higher than anticipated current account deficit may result in government policies that negatively affect the Group’s business*

In 2010, the Turkish current account deficit was US\$45.4 billion, which increased to US\$75.1 billion in 2011 before decreasing to US\$47.5 billion in 2012, according to the Central Bank. The decline in the growth of the current account deficit in 2012 was largely the result of coordinated measures initiated by the Central Bank, BRSA and the Turkish Ministry of Finance to lengthen the maturity of deposits, reduce short-term capital inflows and curb domestic demand. The main aim of these measures has been to slow growth in the current account deficit by controlling the rate of loan growth. Unless there is a decline in credit growth, government authorities have stated that bank-specific actions might be implemented. Although Turkey’s economic growth dynamics depend to some extent upon domestic demand, Turkey is also dependent upon trade with Europe. 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. While diversification in the export markets towards near and Middle East countries limited the negative impacts of external demand-related risks on domestic economic activity, the EU remains Turkey’s largest export market. 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.

In early 2011, the Turkish government declared its intention to take additional measures to decrease the current account deficit, and in this regard it identified the high growth rate of loans as one of the target areas. On June 18, 2011, the BRSA introduced new regulations to further control loan growth that will, among other things: (a) increase Turkish banks’ general provision requirements in the event such banks’: (i) total consumer loans to total loan amount exceed 20% or (ii) non-performing consumer loans (excluding auto and housing loans) to total consumer loans (excluding auto and housing loans) exceed 8%, and (b) increase the risk-weighting for certain consumer loans in calculating capital adequacy ratios. See “*Turkish Regulatory Environment*”. Further regulations may be introduced by the BRSA or the Central Bank with respect to loan growth ratios that could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

The decline in the current account deficit experienced in 2012 is expected by the Bank’s management to come to an end by early 2013 and be followed by a period of gradual increases. In parallel with the recovery in domestic demand, the annualized current account deficit increased to US\$51.3 billion as of April 2013. If the current account deficit widens more than anticipated, financial stability in Turkey might deteriorate. Financing the high current account deficit might be difficult in the event of a global liquidity crisis and/or declining interest of foreign investors in Turkey. Any such difficulties may lead the Turkish government to seek to raise additional revenue to finance the current account deficit or to seek to stabilize the Turkish

financial system, and any such measures might adversely affect the Group's business, financial condition and/or results of operations.

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

Exchange rates for the Turkish Lira have historically been, and continue to be, highly volatile. Since February 2001 the Central Bank has applied a floating exchange rate policy that has arguably resulted in increased volatility in the value of the Turkish Lira. In 2012, the Turkish PPI increased by 2.5% while during the same period the Turkish Lira appreciated (in nominal terms) against the US Dollar by 6.5%, according to the Central Bank. According to the Central Bank, the CPI-based real effective exchange rate increased from 109.52 as of December 31, 2011 to 118.17 as of December 31, 2012, indicating a 7.9% real appreciation.

As of May 31, 2013, in nominal terms the Turkish Lira had depreciated against the US Dollar by 4.7% compared to year-end 2012; *however*, on a real basis (based upon the consumer price index), there was a 1.5% real appreciation compared to year-end 2012. During June 2013, the value of the Turkish Lira has depreciated against major currencies due to the increased risk perception in global markets due to the market's expectation that the U.S. Federal Reserve might reduce its quantitative easing and the Taksim Square protests described above. Against these developments, the Central Bank implemented additional monetary tightening and held intra-day foreign exchange selling auctions in order to reduce the volatility of the Turkish Lira. These and other domestic and international circumstances might result in continued or increasing volatility in the value of the Turkish Lira.

Any significant depreciation of the Turkish Lira against the U.S. Dollar or other major currencies may adversely affect the financial condition of Turkey as a whole and may have a negative effect on the Group's business, financial condition and/or results of operations.

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

The Group has a significant exposure to Turkish governmental and state-controlled entities. As of December 31, 2012, 94.1% of the Group's total securities portfolio (21.0% of its total assets and equal to 169.5% of its shareholders' equity) was invested in securities issued by the Turkish government and 1.7% of the Group's total assets were used to make loans to Turkish governmental and state-controlled entities. 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 the 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 may have a material adverse effect on the Group's business, financial condition and/or results of operations.

**Risks Relating to the Group and its Business**

*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 continuing Eurozone crisis*

Since mid-2007, the global financial crisis has been the most significant factor affecting global economic conditions. It has 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 have 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 have reduced lending and, in some cases, ceased providing funding to borrowers, including other financial institutions, which has significantly reduced liquidity and the availability of credit in the global financial system.

In response to the global financial crisis, many governments implemented significant stabilization packages, which included (among other things) the recapitalization of banks, government guarantees of certain forms of debt, the purchase by government agencies of distressed assets and the provision by governments of guarantees of distressed assets held by banks and other financial institutions.

The global financial crisis and related economic slowdown has significantly impacted the Turkish economy and the principal external markets for Turkish goods and services. During the global financial crisis, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which led to an increase in unemployment. Turkey's GDP contracted by 7.0% in the fourth quarter of 2008 and declined 4.8% in 2009. Following the implementation of fiscal and monetary measures during 2009, the Turkish economy began to recover in the fourth quarter of 2009, resulting in Turkey's GDP growing by 9.2% in 2010, 8.8% in 2011 and 2.2% in 2012 and its unemployment rate decreasing from 16.1% in February 2009 to 9.2% at the end of 2012 (source: Turkstat). There can be no assurance that the unemployment rate will, in fact, continue to improve, or even that it will not increase in the future. Continuing high levels of unemployment may affect the Group's retail customers and business confidence, which could impair its business strategies and have a material adverse effect on its business, financial condition and/or results of operations.

Continuing concerns about a sovereign debt crisis in certain European countries, including Cyprus, Greece, Ireland, Italy, Portugal and Spain, have undermined investor confidence and resulted in a general deterioration of the financial markets since 2010. Although there have been indications of economic recovery, the recovery may not continue. Any deterioration in the condition of the global or Turkish economies, or continued uncertainty around the potential for such deterioration, could have a material adverse effect on the Group's business and customers in a number of ways, including, among others, the income, wealth, employment, liquidity, business, prospects or financial condition of the Group's customers, which, in turn, could further reduce the Group's asset quality and demand for the Group's products and services and negatively impact the Group's growth plans. The Group's business, financial condition and/or results of operations may also continue to be adversely affected by conditions in the global and Turkish financial markets as long as they remain volatile and subject to disruption and uncertainty.

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

The Group is subject to inherent risks concerning the credit quality of borrowers and other counterparties, which has affected and is expected to continue to affect the value of the Group's assets, particularly if economic conditions in Turkey deteriorate. A general assessment of risk by categories suggests that credit risk was the most significant risk to which the Group has been exposed in the last three years.

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, which negatively affect the Turkish banking sector, including the Group. According to BRSA statistics, the ratio of non-performing loans to total loans in the Turkish banking sector was 3.7% as of December 31, 2010, 2.7% as of December 31, 2011 and 2.9% as of December 31, 2012 (with respect to the Group, 3.4%, 2.1% and 1.8%, respectively). As of March 31, 2013, the ratio of non-performing loans to total loans increased to 3.0% in the Turkish banking sector (1.9% with respect to the Group).

Although the Group has put in place policies and procedures to monitor and assess credit risk, taking into account the payment ability and cash generating ability of the borrower in extending credit, the Group might not correctly assess the creditworthiness of its credit applicants. In addition, as the Group's loan portfolio has grown substantially, particularly since the instability caused by the global financial crisis has decreased, the Group has extended credit both to new customers, many of whom may have more limited credit histories, and existing customers. Although such new loans are subject to the Group's credit review and monitoring

practices, they may 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. See "Risk Management – Credit Risk." The Group's exposure to credit risk could lead to a material adverse effect on the Group's business, financial condition and/or results of operations.

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

The Turkish banking sector is highly competitive and dominated by a small number of banks. As of December 31, 2012, there were a total of 49 banks (excluding the Central Bank) licensed to operate in Turkey. As of such date, the top five banks in Turkey (one of which is a state-controlled bank) held 56.4% of the banking sector's total loan portfolio (excluding participation banks) and 59.8% of the total bank assets (excluding participation banks) in Turkey, according to the Turkish Banks Association. As of December 31, 2012, the Bank was the largest in the Turkish banking sector in terms of total assets, total loans and shareholders' equity and was also the largest among the private commercial banks in terms of total deposits, each as measured on a bank-only basis.

The Group also faces competition against the state-controlled financial institutions, such as T.C. Ziraat Bankası A.Ş. ("Ziraat"), Türkiye Vakıflar Bankası T.A.O. ("Vakıfbank") and Türkiye Halk Bankası A.Ş. ("Halkbank"). Such government-controlled financial institutions historically focused on government and government-related projects but are increasingly focusing on the private sector, leading to increased competition and pressure on margins. In particular, such government-controlled institutions may 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 ongoing competitive pressures from private financial institutions, are expected to put downward pressure on net interest margins in at least the short term.

Foreign financial institutions have shown a strong interest in competing in the banking sector in Turkey. HSBC Bank plc, UniCredito Italiano, BBVA, BNP Paribas, National Bank of Greece, Citigroup, ING, Sberbank, Bank Hapoalim, Bank Audi sal, Burgan Bank 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' presence in Turkey, in addition to direct investment, may lead to further competitive pressures. Foreign competitors may 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, the Group could lose customers, be forced to reduce its margins or be forced to look for more expensive funding sources, among other things. This, in turn, could negatively affect the Group's profitability. The Group might not be able to offset domestic and foreign competitive pressures in certain industry sectors.

To address this competition, the Bank plans to continue expanding its branch network (including opening new international branches in Dohuk and Baghdad in Iraq, Tbilisi in Georgia and Taşkınıköy in the Turkish Republic of Northern Cyprus) and operations and/or redistribute the distribution of its existing branches while continuing its focus on financial strength and performance. Risks associated with the implementation of such strategy may include higher than anticipated costs of opening new branches, an inability to deploy profitably assets acquired or developed through expansion, new business operations (including the deployment of new products) having less profit potential (or none at all) and demonstrating lower overall growth than the Bank anticipates, pressure on profits owing to the time lag between the incurrence of expansion costs and any related future increases in income, a likely increase in the Bank's cost base and a potential negative impact on its margins. The Bank opened 47 domestic branches in 2012, and the Bank is

currently planning on opening at least 45 to 50 domestic branches during 2013. Moreover, as competition in the Turkish banking sector continues to intensify, the Group may seek to further expand internationally through acquisitions or the establishment of branches, which may lead to additional risks and uncertainties relating to the geographic, political and economic environment into which the Group seeks to expand.

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 and banks have reacted by shifting funds towards higher-yielding assets, such as loans to customers. Increased competition for customers in these circumstances, *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 and/or results of operations.

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

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

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

The Group's profitability may be negatively affected in the short-term and possibly in future periods as a result of a number of factors that are generally impacting the Turkish banking sector, including a slowdown of economic growth in Turkey from the high levels of recent years and a low interest rate environment in Turkey in 2012 and 2013 (see "*Reduction in Earnings on Securities Portfolio*" and "*Interest Rate Risk*" elsewhere in this section), increased competition (particularly as it impacts net interest margins (see "*Competition in the Turkish Banking Sector*")) and Central Bank and BRSA regulatory actions that seek either: (a) to limit the growth of Turkish banks through various conventional and unconventional policy measures, including increased reserve requirements, increased general provisioning requirements and higher risk-weighting for general purpose loans, or (b) 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 "*High Current Account Deficit*"). For the three months ended March 31, 2013, the Bank's return on average assets of its banking business was 2.0% (compared to 2.0% for the sector) and the return on average equity of its banking business was 23.3% (compared to 16.3% for the sector).

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

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly US Dollars, Euro and Pounds Sterling. For example, the Group had loans denominated in currencies other than the Turkish Lira totaling the equivalent of TL 38,635 million and TL 42,073 million as of December 31, 2011 and 2012, respectively, representing 39.0% and 36.7%, respectively, of the Group's total loans at such dates. In preparing its BRSA Financial Statements, transactions in currencies other than Turkish Lira are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. As a result, the Group's reported income is affected by changes in the value of the Turkish Lira with respect to foreign currencies. The overall effect

of exchange rate movements on the Group's results of operations depends upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies.

In addition, 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 is unable to manage the gap between its foreign currency-denominated assets and liabilities, then material volatility in exchange rates could lead to operating losses, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Although the Group has adopted procedures and policies aimed at minimizing this risk (see "*Risk Management – Currency Risk*" for further information), these measures might not adequately protect the Group's business, financial condition and/or results of operations from the effect of exchange rate fluctuations or may limit any benefit that the Group might otherwise receive from favorable movements in exchange rates.

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

The Group's results of operations depend heavily upon the level of its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Net interest income contributed 49.8%, 48.4% and 50.2% of operating income for the years 2012, 2011 and 2010, respectively, and net interest margin as measured on a Bank-only basis was 4.2%, 3.7% and 4.3% over the same periods. Interest rates are highly sensitive to many factors beyond the Group's control, including monetary policies pursued by the Central Bank, domestic and international economic and political conditions and other factors. Income from financial operations is particularly vulnerable to interest rate volatility. In addition, as of March 31, 2013, 93.6% of the Group's securities portfolio consisted of Turkish government debt securities, which accounted for 19.7% of the Group's total assets. As a result, a large portion of the Group's total assets is exposed to interest rate risk.

Changes in market interest rates could affect the spread between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities and thereby affect the Group's results of operations. An increase in interest rates, for instance, could cause interest expense on deposits (which are typically short-term and reset frequently) to increase more significantly and quickly than interest income from loans (which are short-, medium- and long-term), resulting in a reduction in net interest income. In addition, 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, could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

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

Liquidity risk comprises uncertainties in relation to the Group's ability, under adverse conditions, to access funding necessary to cover obligations to customers, meet the maturity of liabilities and satisfy capital requirements. It includes the risk of lack of access to funding (other than from the reserves held with the Central Bank and limits granted to the Bank by the Central Bank both in Turkish Lira and foreign currency), the risk of unexpected increases in the cost of financing and the risk of not being able to structure the maturity dates of the Group's liabilities reasonably in line with its assets, as well as the risk of not being able

to meet payment obligations on time at a reasonable price due to liquidity pressures. The Group's inability to meet its net funding requirements due to inadequate liquidity could materially adversely affect its business, financial conditions and/or results of operations.

The Group relies primarily on short-term liabilities in the form of deposits (typically term deposits with terms of zero to 30 days) as its source of funding and has a mix of short-, medium- and long-term assets in the form of retail, consumer and corporate loans, mortgages and credit cards, which may result in asset-liability maturity gaps and ultimately liquidity problems. In addition, depositors might withdraw their funds at a rate faster than the rate at which borrowers repay. For example, the unemployment rate in Turkey was 10.1% as of March 31, 2013, according to TurkStat. If the Group's 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 or to access the markets from which it raises funds may put the Group's positions in liquid assets at risk and lead the Group to be unable to finance its operations and growth plans adequately. The Group might be unable to secure funding through sources such as its current syndicated loan facilities or future transactions in the international capital markets if conditions in these markets, or its credit ratings, were to deteriorate.

In addition to deposits, the Group also relies on non-deposit funding (which includes repos and money market, funds borrowed and marketable securities issued), which as of December 31, 2012 accounted for 21.2% of the Group's total liabilities compared to 24.5% as of December 31, 2011. The Group's cash loan-to-deposit ratio (the Group's total amount of cash loans excluding NPLs (as defined below), divided by total deposits) (the "*Cash Loan-to-Deposit Ratio*") was 108.2% as of December 31, 2012, increasing from 100.2% as of December 31, 2011 and 78.1% as of December 31, 2010. 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 could compound the risk of the Group not being able to access funds at favorable rates or at all. This and other factors could lead creditors to form a negative view of the Group's liquidity, which could result in lower credit ratings, higher borrowing costs and less access to funds. In addition, the Group's ability to raise or access funds may be impaired by factors that are not specific to its operations, such as general market conditions, severe disruption of the financial markets or negative views about the prospects of the sectors to which the Group lends. While the Group aims to maintain at any given time an adequate level of liquidity reserves, strains on liquidity caused by any of these factors or otherwise (including as a result of the requirement to repay any indebtedness, whether on a scheduled basis or as a result of an acceleration due to a default, change of control or other event) could adversely affect the Group's business, financial condition and/or results of operations. For example, in case of a liquidity crisis, wholesale funding would likely become more difficult to obtain, which may adversely affect borrowing using certain capital market instruments (such as "future flow" transactions and eurobonds). See also "*Foreign Currency Borrowing and Refinancing Risk*" below.

Similarly, if the credit rating of the Republic of Turkey is downgraded or put on negative watch, then the Group may experience higher levels of cost of funding and subsequently difficulty accessing certain sources of international or wholesale funding.

The Group might not be able to obtain additional funding on commercially reasonable terms as and when required, or at all. The Group's inability to refinance or replace deposits and devalued assets with alternative funding could result in its failure to service its debt, fulfill loan commitments or meet other on- or off-balance sheet payment obligations on specific dates, which could have a material adverse effect on the Group's business, financial condition and/or results of operations. For further information on the Group's liquidity risk management policy, see "*Risk Management – Liquidity Risk*."

*Foreign Currency Borrowing and Refinancing Risk – The Group relies to an extent on foreign currency-denominated borrowings, which may result in difficulty in refinancing or may increase its cost of funding, particularly if the Group suffers a ratings 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 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 December 31, 2012, the Group's total foreign currency-denominated borrowings constituted 12.1% of its consolidated assets. 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 materialize, these circumstances could have a material adverse effect on the Group's business, financial condition and/or results of operations.

A downward change in the ratings published by rating agencies of either Turkey or members of the Group may increase the costs of new indebtedness and/or the refinancing of the Group's existing indebtedness raised in the international financial markets, 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 (and, in the future, Basel III) and that provide credit to a bank (such as the Bank) are or may be required to apply a risk-weighting higher than that currently applied. In addition, the rules of Basel II require that claims on sovereign entities and their central banks be risk-weighted according to the credit assessment applied to such sovereigns. According to the national law regarding the implementation of Basel II principles in Turkey, all Turkish Lira-denominated claims on sovereign entities in Turkey are risk weighted as 0%. On the other hand, foreign exchange claims on sovereign entities of Turkey are risk weighted according to the credit assessment of Turkey (*i.e.*, 50% or 100% depending upon the selection of rating agency), excluding the claims on the Central Bank (reserve requirements, etc.), which have a 0% risk weight. While it is impossible to predict the impact of the implementation of such requirements by the Group's creditors, if banks subject to the Basel requirements are required to apply higher risk weightings to credits extended to the Group, then this may result in a reduction in funds available for borrowing by the Group and/or an increase in the costs of such borrowing.

These risks may increase as the Group seeks to increase 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 December 31, 2012, approximately 97.1% of the Group's foreign currency-denominated borrowing (excluding senior eurobonds but, as they are accounted for as loans, including subordinated eurobonds) was sourced from international banks, multilateral institutions and "future flow" transactions. Should the Group be unable to continue to borrow funds on acceptable terms, if at all, this could have a material adverse effect on the Group's business, financial condition and/or results of operations.



*SME/Retail Concentration Risk – A significant percentage of the Group’s loan portfolio consists of retail loans and loans to SMEs, and a negative impact on the financial condition of the Group’s retail or SME customers could have a material adverse effect on the Group’s business, financial condition and/or results of operations*

As of December 31, 2012, 56.7% of the Bank’s loan portfolio consisted of retail loans and loans to SMEs (as defined by the BRSA SME Definition), with retail loans accounting for 28.6% of the Bank’s total loan portfolio, and loans to SMEs (as defined by the BRSA SME Definition) accounting for 28.1%. 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. The Group’s NPL ratios for each of 2010, 2011 and 2012 were 3.4%, 2.1% and 1.8%, respectively. In each of the periods mentioned, non-performing loans to SMEs (as defined by the BRSA SME Definition) accounted for a significantly higher percentage of total non-performing loans (each an “NPL”) (6.2%, 3.8% and 2.7% as of December 31, 2010, 2011 and 2012, respectively). For retail loans, the Group’s NPL ratios were 4.7%, 2.5% and 2.2% as of December 31, 2010, 2011 and 2012, respectively. A negative impact on the financial condition of the Group’s retail or SME customers could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

The general macro-economic conditions in Turkey could have a material adverse effect on the Group’s retail and SME customers, both as borrowers and providers of deposits. For example, the unemployment rate in Turkey increased slightly in recent months due to an increasing labor participation rate. Should the unemployment rate increase, the ability of the Group’s 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 could impair the Group’s business strategies and have a material adverse effect on the Group’s business, financial condition and/or results of operations.

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

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

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

The Group might not be able to realize adequate proceeds from collateral disposals to cover loan losses, which could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

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

The Group has historically generated a significant portion of interest income from its securities portfolio, with interest income derived from the Group's securities portfolio in 2010, 2011 and 2012 accounting for 38.5%, 34.9% and 28.2%, respectively, of its total interest income (and 25.0%, 22.8% and 18.5%, respectively, of its gross operating income before deducting interest expense and fee and commission expense). The Bank also has obtained large realized gains from the sale of securities in the available-for-sale portfolio. The 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 may 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 may result in lower nominal earnings on the Group's holdings of securities. As such, high levels of earnings from the Group's securities portfolio might not be sustainable in future periods. If the Group is unable to sustain its high levels of earnings from its securities portfolio, then this could have a material adverse effect on its business, financial condition and/or results of operations. In addition, as the Group's investment portfolio is heavily concentrated in Turkish government securities, see also "Risks Related to Turkey - Government Default" below.

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

The exposure of the Group's business to a market downturn in Turkey or the other markets in which it operates, or any other risks, could 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 could rise sharply while the availability of such liquidity in the market could be impaired. In addition, in conjunction with a market downturn, the Group's customers could incur substantial losses of their own, thereby weakening their financial condition and increasing the credit risk of the Group's exposure to such customers. If this or any other combination of risks occurs, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

As banks are highly regulated entities, the Group is subject to a number of banking, consumer protection, competition, antitrust and other 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 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, which has been translated into national law in accordance with (where applicable) the capital requirements Directives of the European Community numbered 2006/48/EC and 2006/49/EC (the "CRD"), has been in effect in Turkey for standardized approaches since July 1, 2012.

In the future, Turkish banks' capital adequacy requirement will be further affected by Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are expected to be implemented between 2013 and 2019. At this stage, the BRSA has announced its intention to adopt the Basel III requirements and a draft Regulation on the Equities of Banks as well as a draft regulation amending the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks were made available by the BRSA for public review on February 1, 2013. In addition to these implementations, a draft Regulation on the Capital Maintenance and Cyclical Capital Buffer, which

regulates the procedures and principles regarding the calculation of additional core capital amount, was prepared and published on the BRSA's website. The three draft regulations imply a possible implementation of Basel III requirements within the second half of 2013. If these or any other capital adequacy-related revisions are adopted and the Bank or the Group is unable to maintain its capital adequacy ratios above the minimum levels required by the BRSA (whether due to its inability to obtain additional capital on acceptable economic terms, if at all, sell assets (including subsidiaries) at commercially reasonable prices, or at all, or for any other reason), then this could have a material adverse effect on the Group's business, financial condition and/or results of operations. Please see "*Turkish Regulatory Environment*" below for further discussion on Basel III.

As a result of the recent global financial crisis, policy makers in Turkey, the EU and other jurisdictions in which the Group operates have enacted or proposed various new laws and regulations, including those that limit the fees and commissions that banks may charge their customers, and there is still uncertainty as to what impact these changes may have. The BRSA or the government also might introduce certain new laws and regulations that impose limits with respect to fees and commissions charged to customers or, as to credit cards, the monthly minimum payments required to be paid by cardholders. For instance, the new Draft Law on the Protection of Consumers proposes significant new rules that would negatively affect Turkish banks, such as preventing banks from charging their customers an annual fee for accounts and credit cards.

In another example, effective as of June 18, 2011, the BRSA introduced new regulations to further affect loan growth through amending 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 November 1, 2006 and amended from time to time thereafter (the "*Regulation on Provisions and Classification of Loans and Receivables*"), which sets out the procedures for loan loss reserves for non-performing loans, and the Regulation on Measurement and Evaluation of Capital Adequacy of Banks, which sets out the procedures for capital adequacy requirements. Additionally, Turkish authorities have limited mortgage loan-to-value ratios to 75%, imposed a ceiling on mutual fund fees and decreased ceiling rates on credit cards. The Central Bank has also altered reserve requirements from time to time. 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 market (see "*Turkish Banking Sector — Competition*"). Accordingly, the Group might not be able to sustain its level of profitability in light of these regulatory changes and the Group's profitability is likely to be materially adversely impacted until such changes are incorporated into the Group's pricing.

Regulatory changes such as increased reserve requirements, the non-payment of interest on reserves and caps on interest rates charged on credit cards can have an adverse impact on the Bank's net interest income, thereby exerting downward pressure on the Bank's net interest margins. New laws and regulations may increase the Group's cost of doing business or limit its activities and might be adopted, enforced or interpreted in a manner that could have an adverse effect on the Group's business, financial condition, cash flows and/or results of operations. In addition, 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 was required to increase its capital reserves and may 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 guidelines could expose the Group to potential liabilities and fines and damage its reputation.

As applicable to all other enterprises in Turkey, the Bank is also subject to competition and antitrust laws. In November 2011 the Turkish Competition Board initiated an investigation against the Bank and 11 other banks operating in Turkey with respect to allegations of acting in concert regarding interest rates and fees on deposits, loans and credit card services. On March 8, 2013, the Competition Board ruled that the Bank was to be fined TL 147 million (other banks were also fined, ranging from TL 10 to TL 213 million, with fines generally based upon net income) in connection with this investigation. The Bank's management has

indicated that it intends to explore options to object to this decision through proceedings in the administrative courts. While there is no precedent Turkish court decision approving the legal validity of any such claims by customers and there are not any resolved cases opened by any customers against the Bank in this respect, under articles 57 and 58 of the Law on the Protection of Competition customers may be able to bring claims against the Bank seeking damages. See also “*Business of the Group – Legal Proceedings*”.

*International Operations – Adverse changes in the regulatory and economic environment in jurisdictions in which the Group operates could have a material adverse effect on the Group*

While a substantial majority of the Group’s operations are in Turkey, it also maintains operations in countries such as Russia, Germany, France, the Netherlands, Switzerland, Bulgaria, the United Kingdom, Bahrain, Iraq, Georgia, Kosovo and the Turkish Republic of Northern Cyprus. The Group’s operations outside of Turkey are subject to differing regulatory environments and domestic economic conditions and require the Group to engage in transactions in relevant local currencies such as the Euro, the Russian Ruble and the British Pound Sterling. Adverse changes in the regulatory environments, economic conditions, relevant exchange rates and/or other circumstances in the jurisdictions in which the Group operates could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

*Participations – The Bank is exposed to risks related to its equity investments*

The Bank maintains equity participations in companies in various sectors, including financial services, glass and telecommunications. While such investments have historically had an aggregate positive impact on the Group’s financial condition: (a) any particular existing or future investment, or such investments in the aggregate, and/or (b) the currently contemplated divestitures, might result in losses to the Group, which could be material. In addition, the level of dividends received by the Bank from such investments may vary from year to year, potentially significantly, and affect the Bank’s net income accordingly.

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

The Turkish Banking Law No. 5411 of 2005, as amended (the “*Banking Law*”), places limits on a Turkish bank’s exposure to related parties. The Group enters into banking transactions with its affiliates, including non-financial entities in which it 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 – Subsidiaries and Affiliates*.”

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

Although the Group has adopted various policies and procedures, and has put in place systems, including internal control, “know your customer” rules and transaction monitoring, aimed at preventing money laundering and terrorist financing, and seeks to adhere to all requirements under Turkish legislation and international standards aimed at preventing 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, its business, results of operations, financial condition and/or prospects could 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.

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

The Group’s risk management strategies and internal controls may leave it exposed to unidentified or unanticipated risks. The Group’s risk management and internal control policies and procedures might not adequately control, or protect the Group against, all credit, liquidity, market and other risks. In addition, certain risks may not be accurately quantified by the Group’s risk management systems. Some of the Group’s methods of managing risk are based upon the use of historical market data, which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures, which could be significantly greater than historical measures indicate.

Any material deficiency in the Group’s risk management or other internal control policies or procedures might expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Group’s business, results of operations, financial condition 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.

*Corporate Governance – Turkish corporate governance standards are in transition*

On December 30, 2011, the CMB issued the Communiqué on the Determination and Implementation of Corporate Governance Principles Series IV, No. 56 (as amended, the “*Corporate Governance Communiqué*”) providing certain mandatory and non-mandatory principles applicable to all companies incorporated in Turkey and listed on the Borsa İstanbul. The CMB has amended the Corporate Governance Communiqué to provide for specific exemptions and/or rules applicable to banks that are traded on the Borsa İstanbul. The intent of the Corporate Governance Communiqué is to enhance Turkish corporate governance standards in a number of ways, including requiring the establishment of a corporate governance committee. As the regulation (which entered into force on December 30, 2011) provided a one year exemption for listed banks, the Corporate Governance Communiqué became applicable to the Bank on December 30, 2012. Accordingly, the Bank established a Corporate Governance Committee at its board meeting on February 27, 2013, and is currently working toward taking the remaining necessary steps, and the General Assembly appointed an independent member of the Bank’s board of directors. According to the February 22, 2013 amendment to the Corporate Governance Communiqué, members of the Audit Committee automatically became independent board members; thus, as of the date hereof the Bank has three independent members of the board of directors. The Bank is subject to the Corporate Governance Principles stated in the banking regulations and the regulations for capital markets that are applicable to banks. Where the Bank does not comply with any of the non-mandatory principles applicable to it under the Corporate Governance Communiqué, it will describe any such non-compliance in its annual Corporate Governance Principles Compliance Report, which is published as part of the Bank’s annual report. Should the Bank fail to comply with any mandatory obligations, then it may be subject to fines or other penalties.

The new Capital Markets Law requires the CMB to replace all secondary legislation within one year from its date of publication in the Official Gazette (*i.e.*, before December 30, 2013), including the Corporate Governance Communiqué.

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

Historically, the reporting, accounting and financial practices applied by Turkish banks differ in certain respects from those applicable to similar banks in the European Union or in other similar economies. There is less publicly available information on businesses in Turkey than is regularly published by similar businesses in the EU or in other similar markets and any information that is published may only be presented in Turkish. The BRSA rules require Turkish banks to publish their financial reports on their websites and their annual financial reports in the official gazette in Turkey. Annual financial reports comprise audited financial statements and activity reports, and quarterly financial reports comprise reviewed financial

statements and interim management reports. In recent years, many Turkish banks (including the Bank) have also prepared financial statements using IFRS for certain reporting periods, with their financial statements being available first under BRSA Principles and only subsequently made available in IFRS 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 are also required to publish their financial statements on a quarterly basis and to disclose any significant development that is likely to have an impact on investors' decisions and/or that would be likely to have a significant effect on the price of the issuer's securities (both through the Turkish government's Public Disclosure Platform's website and the bank's own website). Investors might not have access to the same depth of disclosure relating to the Bank as they would for investments in banks in the United States, the United Kingdom and other more-developed markets.

The Group maintains its accounting systems and prepares its accounts and publishes quarterly financial results in accordance with the BRSA Principles. These accounts are not prepared on a basis consistent with IFRS as applied in preparing IFRS financial statements. The Bank only publishes annual (consolidated and unconsolidated) and half-yearly (consolidated only) financial statements that have been prepared in accordance with IFRS. There are differences between the BRSA Financial Statements and the IFRS Financial Statements. A summary of such differences as they apply to the Group has been included elsewhere in this Base Prospectus, including the differences described above and other potential differences that may materially affect the Group's results of operations and financial position (see Appendix 1 - "Overview of Significant Differences between IFRS and BRSA Accounting Principles"). Potential investors should rely upon their own examination of the Group, the terms of the Notes and the financial and other information contained in this Base Prospectus.

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

The Group's audit and review reports, as applicable, based upon BRSA Principles for 2010, 2011, 2012 and the first quarter of 2013 include a qualification about a free provision allocated by the Group for the purpose of the conservatism principle applied by the Group considering the possible result of negative circumstances that may arise from any changes in economy or market conditions. The Group may have similar qualifications in the future. The auditor's statements on such qualification can be found in its letters attached to each of such BRSA Financial Statements. The audit reports for the IFRS Financial Statements incorporated by reference herein also include a qualification about a free provision allocated by the Group for the same purposes.

The audit reports for both consolidated and unconsolidated financial statements prepared in accordance with BRSA Principles for 2010, 2011 and 2012 and the first quarter of 2013 include: (a) a qualification related to the free provision as of March 31, 2013 amounting to TL 1,100 million allocated by the Bank's management, TL 1,000 million of which had been recognized as an expense in prior periods with the balance being charged to the income statement as an expense in the current period, (b) a qualification related to the free provision as of December 31, 2012 amounting to TL 1,000 million allocated by the Bank's management, TL 950 million of which had been recognized as an expense in prior periods with the balance being charged to the income statement as an expense in that period, (c) a qualification related to the free provision as of December 31, 2011 amounting to TL 950 million allocated by the Bank's management, which had been recognized as an expense in the prior periods, and (d) a qualification related to the free provision as of December 31, 2010 amounting to TL 950 million allocated by the Bank's management, which had been recognized as an expense in the prior periods. *See also* the audit reports for the consolidated and unconsolidated BRSA Financial Statements for 2010, 2011 and 2012 and the first quarter of 2013 included in the BRSA Financial Statements incorporated by reference herein.

With respect to the 2012 BRSA Financial Statements, if the Group had not established such provisions, then its net profit before taxation would have been higher by TL 50 million for 2012 (for the first quarter of 2013, TL 100 million). In addition, such provisions might be reversed or re-allocated by the Group in future periods, which may cause the Group's net profit to be higher in future periods than it otherwise would be in

the absence of such reversal or re-allocation. These provisions do not impact the Group's level of tax or its capitalization ratios; *however*, according to BRSA rules, provisions for possible losses up to 25% of Tier I capital are included in the capital adequacy ratio calculation.

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

Similar to other financial institutions, the Group is susceptible to, among other things, fraud by employees or outsiders, unauthorized transactions by employees, lack or loss of skilled information technology (“IT”) employees and other operational errors (including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems). The Group is also subject to service interruptions from time to time for third party services such as telecommunications, and service interruptions due to natural disasters, which are beyond the Group's control. Such interruptions may result in interruption to services to the Group's branches and/or impact customer service. Given the Group's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult 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 could have a material adverse effect on the Group's business, financial condition and/or results of operations. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List.

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

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

In addition, most of the Group's servers are maintained in the Group's main data center located in İşkule, Turkey, and all of the Group's IT applications depend upon the proper functioning of the İşkule data center. In the event of a disaster, natural or otherwise, whereby the Group cannot operate its technology infrastructure, the Group has a contract with IBM to provide a recovery solution for the Group's critical systems at a center located in İzmir, Turkey; *however*, the recovery systems at the İzmir disaster recovery site might not be adequate to ensure connectivity with the Bank's branches and protect the Group's IT systems and operations in such an event. For further information on the Group's IT system, see “*Business of the Group – Information Technology*.”

The Group's expansion plans also depend to a large extent upon its ability to expand its IT capacity. Failure to put in place IT systems to support its expansion could materially adversely affect the Group's growth strategy.

*Absence of Governmental Support – The Group’s non-deposit obligations are not guaranteed by the Turkish or any other government and there may 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, and strained, in other countries during the recent global financial crisis), this may not be the case for Turkey in general or any particular bank in Turkey. 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 SDIF*” for information on the limited government support available for the Bank’s deposit obligations.

*Leverage Risk – The Group may 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 may be unable to satisfy its obligations in times of financial stress, and such failure could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

*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 may not continue with the Group. In addition, the Group’s continuing success depends, in part, upon its ability to attract, retain and motivate qualified and experienced banking and management personnel. The Group’s failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

*Labor Disputes – The Group’s operations may be subject to work stoppages or other labor disputes*

As of March 31, 2013, the Bank had 24,300 employees. Almost all of the Bank’s Turkish employees are members of the Turkish union for the banking and insurance industries, Banka ve Sigorta İşçileri Sendikası (“*Basisen*”). Basisen and the Bank are parties to a collective bargaining agreement that terminates in 2014. While the Bank’s management believes that the Bank’s relationships with its employees and Basisen are satisfactory, the existing collective bargaining agreement with Basisen might not be extended or renewed at current terms or the Group might not be able to renegotiate this collective bargaining agreement in a favorable and timely manner. In addition, although Turkish Law No. 6356 renders strikes and lockouts in the banking sector illegal and the Bank has not experienced any work stoppages or labor disputes in recent years, the regulation in force might change or work stoppages or labor disputes might occur in the future. If a material disagreement between the Bank and Basisen arises, or if employees engage in a prolonged work



stoppage or strike, the Group's business, financial condition and/or results of operations could be negatively affected.

*Turkish Banking System – The Turkish banking sector has experienced significant volatility in the past and may experience significant volatility in the future*

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

If the general macro-economic conditions in Turkey, and the Turkish banking sector in particular, were to suffer another period of volatility, there can be no assurance that this would not result in further bank failures, reduced liquidity and weaker public confidence in the Turkish banking system.

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

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

*Large Shareholders – The Bank is largely controlled by the İşbank Personnel Supplementary Pension Fund and the CHP, whose interests may not be aligned with the interests of the investors in the Notes*

The Bank is largely controlled by the İşbank Personnel Supplementary Pension Fund and the CHP, which together held 67.82% of the Bank's outstanding share capital according to Central Registry Agency data as of March 31, 2013. As a result, these two shareholders have the power to elect a majority of the Bank's Board of Directors and to determine the outcome of almost all matters to be decided by a vote of the Bank's shareholders. See "Ownership." The interests of these large shareholders may not coincide with those of the investor in the Notes and they may cause the Bank to take or refrain from taking certain actions (*e.g.*, declaring dividends or entering into corporate transactions) that may adversely affect the Noteholders' investment in the Notes.

## **Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Program**

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

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

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

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

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

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

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

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

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

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

Under Condition 7.8, if the Fiscal Agent receives cleared funds in respect of Turkish Lira denominated Notes held other than through DTC from the Bank after the relevant time on the Relevant Payment Date, then the Fiscal Agent will use reasonable efforts to pay any U.S. Dollar amounts Noteholders have elected to receive in respect of such funds as soon as reasonably practicable thereafter. If it is not possible for the Fiscal Agent to purchase U.S. Dollars with any Turkish Lira funds received, the relevant payments in respect of the Notes will be made in Turkish Lira.

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

Noteholders will have no recourse to the 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 may result in a Noteholder receiving an amount that is less than the amount that such Noteholder might have obtained had it received the payment in the Specified Currency and converted such payment in an alternative manner or if payment had been made in accordance with the relevant currency election.

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

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

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

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

*Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC which may adversely affect the liquidity of Renminbi Notes*

Renminbi is not freely convertible at present. The government of the PRC (the “*PRC Government*”) continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction over the years by the PRC Government of control over routine foreign exchange transactions under current accounts. Currently, participating banks in Singapore, Hong Kong and Taiwan have been permitted to engage in the settlement of Renminbi trade transactions. This represents a current account activity.

On October 12, 2011, the Ministry of Commerce of the PRC (“*MOFCOM*”) promulgated the “Circular on Certain Issues Concerning Direct Investment Involving Cross-border Renminbi” (the “*MOFCOM Circular*”). Pursuant to the MOFCOM Circular, prior written consent from the appropriate office of MOFCOM and/or its local counterparts is required for Renminbi foreign direct investment (“*FDI*”) in accordance with existing PRC laws and regulations regarding foreign investment, with certain exceptions which require the preliminary approval by the provincial counterpart of MOFCOM and the consent of MOFCOM. The MOFCOM Circular also states that the proceeds of FDI may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in domestic companies listed in the PRC through private placements or share transfers by agreement under the PRC strategic regime.

On October 13, 2011, the People's Bank of China (the “*PBoC*”) promulgated the “Administrative Measures on Renminbi Settlement of Foreign Direct Investment” (the “*PBoC FDI Measures*”) as part of the

implementation of the PBoC's detailed FDI accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. On June 14, 2012, the PBoC further issued the implementing rules for the PBoC FDI Measures. Under the PBoC FDI Measures, special approval for FDI and shareholder loans from the PBoC, which was previously required, is no longer necessary. In some cases however, post-event filing with the PBoC is still necessary.

As the MOFCOM Circular and the PBoC FDI Measures are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in the PRC.

There is no assurance that the PRC Government will continue to gradually liberalize control over cross-border remittance of Renminbi in the future or that new regulations in the PRC will not be promulgated in the future which 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 may 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.

*There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the Issuer's ability to source Renminbi outside the PRC to service such Renminbi Notes*

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Currently, licensed banks in Singapore and Hong Kong may offer limited Renminbi denominated banking services to Singapore residents, Hong Kong residents and specified business customers. The PBoC has also established a Renminbi clearing and settlement mechanism for participating banks in Singapore, Hong Kong and Taiwan. Each of Industrial and Commercial Bank of China, Singapore Branch, Bank of China (Hong Kong) Limited and Bank of China, Taipei Branch (each an "RMB Clearing Bank") has entered into settlement agreements with the PBoC to act as the RMB clearing bank in Singapore, Hong Kong and Taiwan respectively.

However, the current size of Renminbi denominated financial assets outside the PRC is limited. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBoC. They are only allowed to square their open positions with the relevant RMB Clearing Bank after consolidating the Renminbi trade position of banks outside Singapore, Hong Kong and Taiwan that are in the same bank group of the participating banks concerned with their own trade position, and the relevant RMB Clearing Bank only has access to onshore liquidity support from the PBoC only for the purpose of squaring open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement. 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 in the future which 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 the Renminbi Notes. To the extent 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 such Renminbi on satisfactory terms, if at all.

If the Issuer is unable to source such Renminbi, the Issuer's obligation to make a payment in Renminbi under the terms of the Renminbi Notes may be replaced by an obligation to pay such amount in U.S. dollars, converted at the spot rate, if RMB Currency Event is specified in the applicable Final Terms.

*An investment in Renminbi Notes is subject to exchange rate risks*

The value of 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. All payments of interest and principal will be made with respect to Renminbi Notes in Renminbi unless 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 may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of a Noteholder's investment in U.S. dollar or other applicable foreign currency terms will decline.

*An investment in Renminbi Notes is subject to interest rate risks*

The PRC Government has gradually liberalized the regulation of interest rates in recent years. Further liberalization may increase interest rate volatility. The Renminbi Notes may carry a fixed interest rate. Consequently, the trading price of such Renminbi Notes will vary with fluctuations in interest rates. If a holder of Renminbi Notes tries to sell any Renminbi Notes before their maturity, they may receive an offer that is less than the amount invested.

*Where RMB Currency Event is specified in the applicable Final Terms, if the Renminbi is not available in certain circumstances as described in the Renminbi Notes, the Issuer may make payments under the Renminbi Notes in U.S. dollars*

There can be no assurance that access to Renminbi for the purposes of making payments under the Renminbi Notes by the Issuer or generally will remain or that new PRC regulations will not be promulgated which have the effect of restricting availability of Renminbi outside of the PRC.

Although the Issuer's primary obligation is to make all payments with respect to Renminbi Notes in Renminbi, where 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 the Renminbi Notes 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 may vary with the prevailing exchange rates in the market place.

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

Investors may be required to provide certification and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong or such other RMB Settlement Centre(s) as may be specified in the applicable Final Terms. 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 or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, 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 (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).

*Gains on the transfer of Renminbi Notes may become subject to income taxes under PRC tax laws*

Under the New Enterprise Income Tax Law and its implementation rules, any gains realized on the transfer of the Renminbi Notes by holders who are deemed under the New Enterprise Income Tax Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. However, there remains uncertainty as to whether the gain realized from the transfer of the Notes would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the New Enterprise Income Tax Law and its implementation rules.

Therefore, if non-resident enterprise Holders are required to pay PRC income tax on gains on the transfer of the Notes (such enterprise income tax is currently levied at the rate of 10 per cent. of the gross proceeds, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-resident enterprise holders of Notes reside that reduces or exempts the relevant tax), the value of their investment in the Notes may be materially and adversely affected.

**Risks related to Notes generally**

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

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

While the Notes will rank equally with all of the Bank's other unsecured and unsubordinated indebtedness, this will be subject to certain preferential obligations under Turkish law (including, 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 may have against the Bank and claims that the Central Bank may have against the Bank with respect to certain loans made by it to the Bank). Any such preferential claims may reduce the amount recoverable by the Noteholders on any dissolution, winding up or liquidation of the Bank and may result in an investor in the Notes losing all or some of its investment.

*Redemption for Taxation Reasons – The Bank will have the right to redeem the Notes upon the occurrence of certain changes requiring it to pay withholding taxes in excess of current levels, if any, applicable 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 January 12, 2009 which has been amended by Decree No. 2010/1182 dated December 20, 2010 and Decree No. 2011/1854 dated April 26, 2011 (together, the “Tax Decrees”). Pursuant to the Tax Decrees: (a) with respect to bonds with a maturity of less than one year, the withholding tax rate on interest is 10 per cent., (b) with respect to bonds with a maturity of at least one and less than three years, the withholding tax rate on interest is 7 per cent., (c) with respect to bonds with a maturity of at least three and less than five years, the withholding tax rate on interest is 3 per cent., and (d) with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0 per cent. The Bank will have the right to redeem the Notes at any time (including in the case of Floating Rate Notes) prior to their maturity date if, upon the occurrence: (i) of a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9.1) or (ii) any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after the date on which agreement is reached to issue the first Tranche of the relevant Series of Notes, on the next Interest Payment Date the Bank would be required: (A) to pay additional amounts in respect of such Series of Notes as provided or referred to in Condition 9 on account of any Taxes (as defined in Condition 9.1) and (B) to make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a

rate in excess of the prevailing applicable rates on the date on which agreement is reached to issue the first Tranche of the relevant Series of Notes, and such requirement cannot be avoided by the Bank taking reasonable measures available to it. Upon such a redemption, investors in such Series of Notes might not be able to reinvest the amounts received at a rate that will provide the same rate of return as their investment in the Notes and, in the case of any Floating Rate Notes, the redemption could take place on any relevant date during an Interest Period.

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

*The conditions of the Notes contain provisions which may permit their modification without the consent of all investors*

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

*Transfer Restrictions – Transfers of Notes will be subject to certain restrictions and interests in Global Notes can only be held through Euroclear, Clearstream, Luxembourg and/or DTC*

Although the Notes have been authorized by the CMB pursuant to Decree 32 regarding the Protection of the Value of the Turkish Currency and the Capital Markets Law and its related legislation as debt securities to be offered outside of Turkey, the Notes have not been and are not expected to be registered: (a) under the Securities Act or any applicable state's or other jurisdiction's securities laws or (b) with the SEC or any other applicable state's or other jurisdiction's regulatory authorities. The offering of the Notes (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 "*Subscription and Sale and Transfer and Selling Restrictions*".

Further to the Communiqué on Debt Instruments, the Notes are required under Turkish law to be issued in an electronically registered form in the Central Registry Agency (*Merkezi Kayıt Kuruluşu*) (the "CRA") and the interests therein recorded in the CRA. However, upon the Issuer's request, the CMB may resolve to exempt the Notes from this requirement if the Notes are to be issued outside Turkey. The Bank submitted an exemption request through its letter to the CMB dated July 1, 2013 numbered 1754. As of the date of this Base Prospectus, an exemption from the registration requirement has not been obtained from the CMB and no Notes will be issued under the Program until such exemption is obtained or Notes may otherwise be issued under the Program in accordance with the applicable provisions of the Communiqué on Debt Instruments.

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

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

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

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

*EU Savings Directive – The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories (including Switzerland) have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

#### *U.S. Foreign Account Tax Compliance Withholding*

The U.S. Foreign Account Tax Compliance Act ("FATCA") imposes a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to: (a) certain payments from sources within the United States, (b) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime and (c) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. The Bank may be classified as a financial institution for these purposes. If an amount in respect of such withholding tax were to be deducted or withheld from interest, principal or other payments made in respect of the Notes, then neither the Bank nor any paying agent nor any other person would, pursuant to the



conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected. Prospective investors should refer to the section "*Taxation – U.S. Foreign Account Tax Compliance Act.*"

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

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

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

In relation to any issue of Notes in bearer form which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in bearer form in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

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

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

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

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

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

*OFAC Sanction Targets – U.S. Persons investing in the Notes might have indirect contact with countries sanctioned by the Office of Foreign Assets Control of the U.S. Department of Treasury 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 (together “Sanction Targets”). As the Bank is not a Sanction Target, OFAC regulations do not prohibit U.S. persons from investing in, or otherwise engaging in business with, the Bank; *however*, to the extent that the Bank invests in, or otherwise engages in business with, Sanction Targets directly or indirectly, U.S. persons investing in the Bank may incur the risk of indirect contact with Sanction Targets. See *"Business of the Group - Compliance with OFAC Rules"*. Although the Bank's current policy is not to engage in any business with Sanction Targets, there can be no assurance that current counterparties will not become Sanction Targets in the future. Non U.S. persons from jurisdictions with similar sanctions may similarly incur the risk of indirect contacts with Sanction Targets.

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

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

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

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

*Market price volatility – The market price of the Notes may be subject to a high degree of volatility*

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

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

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

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the “Investor's Currency”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (a) the Investor's Currency-equivalent yield on the Notes, (b) the Investor's Currency-equivalent value of the principal payable on the Notes and (c) the Investor's Currency-equivalent market value of the Notes.

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

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

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

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

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

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

## ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

The 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 may 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 - 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 US 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:

- (i) the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed,
- (ii) the judgment in question was rendered with respect to a matter within the exclusive jurisdiction of the courts of Turkey,
- (iii) 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,
- (iv) the judgment is not of a civil nature,
- (v) the judgment is clearly against public policy rules of Turkey,
- (vi) 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
- (vii) the judgment was rendered by a foreign court that has deemed itself competent even though it has no actual relationship with the parties or the subject matter at hand.

Process may be served on the Bank at its London Branch (8 Princes Street, London EC2R 8HL) in relation to any proceedings in England in connection with any Notes issued under the Program.

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the independent auditors' audit reports and audited consolidated BRSA Financial Statements of the Group for the years ended December 31, 2012, 2011 and 2010;
- (b) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Bank for the years ended December 31, 2012, 2011 and 2010;
- (c) the independent auditors' audit reports and audited consolidated IFRS Financial Statements of the Group for the years ended December 31, 2012, 2011 and 2010;
- (d) the independent auditors' review report and unaudited interim consolidated BRSA Financial Statements of the Group for the three month period ended March 31, 2013 (with March 31, 2012 comparatives); and
- (e) the independent auditors' review report and unaudited interim unconsolidated BRSA Financial Statements of the Bank for the three month period ended March 31, 2013 (with March 31, 2012 comparatives).

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

Copies of documents incorporated by reference in this Base Prospectus are available on the Bank's website at [http://www.isbank.com.tr/English/content/EN/Investor\\_Relations/Publications\\_and\\_Results/Financial\\_Statements/TAS\\_consolidated-407-401.aspx](http://www.isbank.com.tr/English/content/EN/Investor_Relations/Publications_and_Results/Financial_Statements/TAS_consolidated-407-401.aspx) (with respect to the consolidated BRSA Financial Statements), [http://www.isbank.com.tr/English/content/EN/Investor\\_Relations/Publications\\_and\\_Results/Financial\\_Statements/TAS\\_bank-only-406-401.aspx](http://www.isbank.com.tr/English/content/EN/Investor_Relations/Publications_and_Results/Financial_Statements/TAS_bank-only-406-401.aspx) (with respect to the unconsolidated BRSA Financial Statements) and [http://www.isbank.com.tr/English/content/EN/Investor\\_Relations/Publications\\_and\\_Results/Financial\\_Statements/IFRS\\_fully\\_consolidated-405-401.aspx](http://www.isbank.com.tr/English/content/EN/Investor_Relations/Publications_and_Results/Financial_Statements/IFRS_fully_consolidated-405-401.aspx) (with respect to the consolidated IFRS Financial Statements).

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes in accordance with Article 16 of the Prospectus Directive.

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

## OVERVIEW OF THE GROUP AND THE PROGRAM

### The Group

*The following text should be read in conjunction with, and is qualified in its entirety by, the detailed information and the financial statements (including the notes thereto) appearing elsewhere in (or incorporated by reference into) this Base Prospectus.*

The Bank was established under the laws of the Republic of Turkey in 1924 at the initiative of Mustafa Kemal Atatürk as the first national bank of the Republic of Turkey and began operating with two branches and 37 staff members. Unlike many of its competitors, the Bank is neither a family-run enterprise nor a state bank. In May 1998, 12.3% of the Bank's total shares previously held by the Turkish Treasury were sold to national and international investors in a public offering.

Since its establishment, the Bank has played an important role not only in the Turkish financial sector but also in certain industrial sectors in Turkey. The Bank has pioneered the development of a number of new areas of business through investments and equity participations in the industrial and financial services sectors. Since its establishment, the Bank has invested in the equity of almost 300 companies and, over time, has divested shares in all but a few of these companies. As of March 31, 2013, the Bank's direct equity interests were in companies operating in finance, glass, telecommunications and other industrial and services sectors. As of March 31, 2013, the total book value of the Bank's equity participations was TL 8,218 million.

As of March 31, 2013, the Bank was the largest bank in Turkey in terms of total assets, total loans, Turkish Lira-denominated loans, foreign currency-denominated loans, foreign currency-denominated deposits and total shareholders' equity and had the largest market shares of total deposits, Turkish Lira-denominated deposits, demand deposits, number of debit cards and volume of debit cards transactions among private sector banks (sources: BRSA and Interbank Card Center). The Group had approximately 12.9 million retail customers, nearly 6,000 corporate customers and almost 1,038,000 commercial customers as of March 31, 2013. The Bank had the largest deposit base among private sector banks with TL 105,889 million in deposits as of March 31, 2013 (Source: BRSA). Unlike most of its competitors, in addition to the branches in large cities, the Bank also has branches in rural districts. In particular, in 75 out of the 81 cities of Turkey, the Bank has the largest number of branches among private sector banks according to the Turkish Banks Association. The Group's relationships with its customers have also typically been long-standing; for example, as of March 31, 2013, the Bank's customers have held deposit accounts with the Bank for an average of 9.1 years. The Bank provides a full range of banking services, including but not limited to the following five sectors:

- *corporate banking activities:* commercial loans, non-cash loans (including letters of guarantee, guarantees and acceptances), foreign trade operations, project finance, merger and acquisition finance, hedging and cash management solutions,
- *commercial banking activities:* commercial deposit taking, business credit cards, commercial loans, small business loans, flexible business loans, overdraft commercial accounts, point of sales-based loans, commercial housing loans, commercial auto loans, tractor and agricultural equipment loans, small business export and investment loans, letters of credit, letters of guarantee, point-of-sales agreements, automatic payment instructions, tax collection, internet banking, foreign trade operations, sector-specific packages, cash management and payment system facilities,
- *retail banking activities:* deposit accounts, credit cards, debit cards, prepaid cards, housing loans, general purpose loans, auto loans, overdraft accounts, merchant agreements, payroll accounts, automatic payment instructions, social security premium collection, tax collection, tuition fee collection, investment products, insurance products and HGS-OGS (Turkey's highway toll collection system),

- *private banking activities:* in addition to retail banking products and services, Privia-branded products (including credit cards, Privia consumer loans, Privia mutual funds and Privia individual pension accounts) and structured products, each tailored to the needs of specific private banking customers, and
- *capital market operations activities:* investment account system, mutual funds, equity brokerage, odd-lot transactions, fixed income business (bond trading), gold trading, futures and options brokerage, repo and custody services.

The Bank has long been an innovator in the banking sector, including being the first bank in Turkey to introduce ATMs (in 1982), electronic banking (in 1983), interactive telephone banking (in 1991), interactive banking (in 1996) and internet banking (in 1997). The Bank's ATM name "Bankamatik" has become the generic name for all ATMs in Turkey. The Bank continued to innovate the development of alternative delivery channels in the Turkish banking industry in 2007 with the launch of "İşCep", which was the first Java-based mobile banking application in Turkey. Since 2012, the Bank's delivery channels have been combined under the umbrella "Instant Banking" (*Anında Bankacılık*), with all channels utilizing similar login procedures and providing a consistent customer experience. In 2012, approximately 78% of the Bank's total consumer banking transactions took place via this "Instant Banking" platform. The Bank's management believes that the Bank offers a wider range of banking services through its ATM network and online/mobile banking channels than any of its competitors.

As of March 31, 2013, the Group's capital adequacy ratio was 16.1% (13.4% when calculated using Tier I capital only) calculated in accordance with the Basel II rules that came into effect on July 1, 2012. As of the same date, the Group's shareholders' equity was TL 25,171 million, its liquid asset ratio (being the total amount of cash and balances with banks, money market placements, trading securities and available-for-sale securities *divided* by the Group's total assets) was 27.4% and its Cash Loan-to-Deposit ratio was 111.1%. The Group's net operating income was TL 3,916 million in 2010, TL 3,088 million in 2011, TL 4,661 million in 2012 and TL 1,333 million for the three months ended March 31, 2013, while its net period profit from continuing operations was TL 3,232 million in 2010, TL 2,389 million in 2011, TL 3,715 million in 2012 and TL 1,109 million for the three months ended March 31, 2013.

As of March 31, 2013, the Group had total assets of TL 207,018 million, total deposits of TL 106,776 million and a loan portfolio of TL 118,618 million.

The Bank's registered office is İş Kuleleri, 34330 Levent, Beşiktaş, İstanbul, telephone number +90 212 316 0000. Its registration number is 431112.

### ***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:

- the Bank is a market leader in the Turkish banking sector in both size and scope of operations, which enables it to benefit significantly from economies of scale, capitalizing on the overall strong growth in the Turkish economy despite difficult economic conditions since 2009 due to the global financial crisis,
- the Bank's strong liquidity and capital structure, combined with its conservative funding policy, supports its ability to attract a strong deposit base (including benefitting from a "flight to quality" during difficult market conditions),
- the Bank is a recognized and trusted banking brand in Turkey, which facilitates the Group's ability to be a Turkish market leader and trusted banking partner for customers,

- the Bank's large customer base compared to its private sector banking competitors and its understanding of its customers as a result of the long-standing relationships with its customers provides the Bank with an important competitive advantage due to the relatively high cost of attracting new customers as compared to maintaining existing customers,
- the Bank's diversified loan portfolio helps the Bank avoid overexposure to any industry, product, region or customer,
- the Bank's prudent risk management enables the Group to maintain the high quality of its loan portfolio, particularly as the Group seeks to continue to grow its business,
- the Bank's strong focus on employee training and development and its highly-skilled workforce support the Bank's focus on customer service and provides the Group with a competitive advantage over its competitors,
- the Bank maintains high standards of corporate governance and business ethics, which both improve management's efficiency and protects the interests of the Group's stakeholders, and
- the Bank's strong record of innovation supports its customer loyalty and the Bank's relative strengths in the competitive Turkish banking sector.

Prospective investors in the Notes should refer to "Business of the Group-Key Strengths" for more detail on the key strengths outlined above.

### ***Strategy***

The Bank's strategic vision is to become the preferred bank in Turkey for its customers, shareholders and employees, including being the "customer champion." The main objectives of the strategy are achieving profitable and sustainable growth via increasing customer satisfaction, improving employee performance, reducing the cost base and increasing productivity and effectiveness. The Bank plans to reach these targets by maintaining market shares in the primary banking services and leveraging new growth opportunities with a cost effectiveness perspective, continuously improving its asset quality, focusing on sustainable non-interest income generation and price optimization for all financial products and services, while operating within a risk-based capital management framework. The key elements of the Group's strategy are set out below:

- capitalize on expected growth of Turkish economy and banking sector through expansion of its distribution channels and introduction of new products and services,
- defend and selectively grow market share across key markets through superior customer service,
- reduce its cost-base and increase productivity and commercial effectiveness,
- continue to focus on recruitment and development, and
- international expansion.

Prospective investors in the Notes should refer to "Business of the Group-Strategy" for more detail on the key strategies outlined above.

### ***Risk Factors***

Investing in the Notes entails certain risks. Before investing in the Notes, investors should carefully review "Risk Factors" above, which sets out certain risks relating to political, economic and legal circumstances, the



Turkish banking industry, the Group and its business, the Group's relationship with the Bank's principal shareholders and the Notes themselves. Potential investors should not consider the factors discussed under "Risk Factors" to be a complete set of all potential risks or uncertainties of investing in the Notes.

## The Program

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.*

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

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

Issuer:	Türkiye İş Bankası A.Ş.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfill its obligations under Notes issued under the Program. These are set out under " <i>Risk Factors</i> " and include risks relating to the Group and its business, the Group's relationship with the Issuer's principal shareholders, Turkey and the Turkish banking industry. In addition, there are certain factors which are material for the purpose of assessing the risks associated with Notes issued under the Program. These are set out under " <i>Risk Factors</i> " and include certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	Global Medium Term Note Program
Arrangers:	J.P. Morgan Securities plc Standard Chartered Bank
Dealers:	Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Commerzbank Aktiengesellschaft Deutsche Bank AG, London Branch HSBC Bank plc J.P. Morgan Securities plc Mitsubishi UFJ Securities International plc Morgan Stanley & Co International plc National Bank of Abu Dhabi PJSC Standard Chartered Bank  and any other Dealers appointed in accordance with the Program Agreement.
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 which comply with such laws, guidelines, regulations, restrictions or reporting

requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*") including the following restrictions applicable at the date of this Base Prospectus.

Fiscal Agent:	The Bank of New York Mellon, London Branch
Program Size:	Up to U.S.\$1,750,000,000 (or its equivalent in other currencies calculated as described in the Program Agreement) outstanding at any time. The Issuer may increase the amount of the Program in accordance with the terms of the Program 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:	<p>Notes may be denominated and payments in respect of the Notes may be made in euro, Renminbi, Sterling, U.S. Dollars, Turkish Lira or, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer, and as set out in the conditions and specified in the applicable Final Terms.</p> <p>Each payment in respect of Notes denominated in Turkish Lira and held other than through DTC may be made in U.S. dollars under Condition 7.10 if an irrevocable election to receive such payment in U.S. dollars is made. See "<i>Terms and Conditions of the Notes – Condition 7.10</i>".</p> <p>In the case of Notes held through DTC and denominated in a Specified Currency other than U.S. dollars, payments will be made in U.S. dollars unless the participant in DTC with an interest in such Notes has elected to receive any part of such payment in that Specified Currency. See "<i>Terms and Conditions of the Notes – Condition 7.11</i>".</p> <p>Payment in respect of Notes denominated in Renminbi may be made in U.S. dollars if RMB Currency Event is specified in the applicable Final Terms and a RMB Currency Event occurs. See "<i>Terms and Conditions of the Notes – Condition 7.9</i>".</p>
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued at an issue price which is at par or at

a discount to, or premium over, par.

Form of Notes:

The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa.

Fixed Rate Notes:

Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and, on redemption, will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Notes:

Floating Rate Notes will bear interest at a rate determined:

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

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

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

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

Zero Coupon Notes:

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

Redemption:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon

giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

Denomination of Notes:

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

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

Taxation:

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

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

Negative Pledge:

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

Certain Covenants:	The Issuer will agree to certain covenants, including covenants limiting transactions with affiliates.
Events of Default:	The Notes will be subject to certain events of default, including (among others) non-payment, breach of obligations, cross-acceleration and certain bankruptcy and insolvency events. See " <i>Terms and Conditions of the Notes – Condition 11</i> ".
Status of the Notes:	The Notes will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as provided above) will rank <i>pari passu</i> without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.
Rating:	The Program is expected to be rated BBB/F3 by Fitch and Baa2 by Moody's. Series of Notes issued under the Program may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to the Program by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
ERISA:	Subject to certain conditions, the Notes may be invested in 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 (" <i>ERISA</i> "), a "plan" as defined in and subject to Section 4975 of the Code, or any entity whose underlying assets include "plan assets" of any of the foregoing. See " <i>Certain Considerations for ERISA and other US Employee Benefit Plans</i> ".
Listing and admission to trading:	<p>Application has been made to the Irish Stock Exchange for certain Notes issued under the Program to be admitted to the Official List and to trading on the Main Securities Market, <i>however</i>, no assurance can be given that such application will be accepted.</p> <p>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading</p>

and, if so, on which stock exchanges and/or markets.

Governing Law:

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

Selling Restrictions:

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

United States Selling Restrictions:

Regulation S (Category 2), Rule 144A and Section 4(a)(2). Bearer Notes will be issued in compliance with rules identical to those provided in: (a) U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) ("*TEFRA D*") or (b) U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) ("*TEFRA C*") 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 Bearer Notes.

## FORM OF THE NOTES

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

### **Bearer Notes**

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

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

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

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

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



amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

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

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

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

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

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

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

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

## Registered Notes

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

The Registered Notes (or beneficial interests therein) of each Tranche offered and sold in the United States or to, or for the account or benefit of, U.S. persons may only be offered and sold in private transactions (i) to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("*QIBs*") or (ii) to "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ("*Institutional Accredited Investors*") and who execute and deliver an IAI Investment Letter in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs pursuant to Rule 144A will be represented by a global note in registered form (a "*Rule 144A Global Note*").

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

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

The Registered Notes of each Tranche sold to Institutional Accredited Investors in reliance on Section 4(a)(2) of the Securities Act will be in definitive form, registered in the name of the holder thereof ("*Definitive IAI Registered Notes*") or, if so specified in the applicable Final Terms, by a global note in registered form (an "*IAI Global Note*" and, together with a Rule 144A Global Note and a Regulation S Global Note, each a "*Registered Global Note*"). Interest in an IAI Global Note sold to Institutional Accredited Investors will, for so long as such remain restricted securities within the meaning of Rule 144(a)(3) under the Securities Act, only be transferable to QIBs or to non-U.S. persons in offshore transactions, in accordance with the legends regarding restrictions on transfer set out under "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise set forth in the applicable Final Terms, Definitive IAI Registered Notes will be issued, and interests in an IAI Global Note may be purchased, only in minimum denominations of at least U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes and interests in Global Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under "*Subscription and Sale and Transfer and Selling Restrictions*".

Institutional Accredited Investors that hold Definitive IAI Registered Notes may not elect to hold such Notes through DTC, Euroclear or Clearstream, Luxembourg.

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

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

### **Transfer of Interests**

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

### **General**

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

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on the day immediately following the applicable due date. At the same time holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and DTC on and subject to the terms of a deed of covenant (the “*Deed of Covenant*”) dated 19, 2013 and executed by the Issuer.

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

## APPLICABLE FINAL TERMS

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

[Date]

### TÜRKİYE İŞ BANKASI A.Ş.

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] (the Notes)  
under the U.S.\$1,750,000,000  
Global Medium Term Note Program**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated July 19, 2013 [and the supplement[s] to it dated [date] [and [date]] [which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “*Base Prospectus*”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus]<sup>1</sup>. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Issuer's website ([http://www.isbank.com.tr/English/content/EN/Offering\\_Circular.aspx](http://www.isbank.com.tr/English/content/EN/Offering_Circular.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 subparagraphs. Italics denote directions for completing the Final Terms.]*

- |    |                                                                            |                                                                                                                                                                                                                                                                                                               |
|----|----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Issuer:                                                                    | Türkiye İş Bankası 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 [ <i>identify earlier Tranches</i> ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [●] below, which is expected to occur on or about [date]][Not Applicable] |
| 3. | Specified Currency or Currencies:                                          | [ ]                                                                                                                                                                                                                                                                                                           |
| 4. | Aggregate Nominal Amount:                                                  |                                                                                                                                                                                                                                                                                                               |
|    | (a) Series:                                                                | [ ]                                                                                                                                                                                                                                                                                                           |
|    | (b) Tranche:                                                               | [ ]                                                                                                                                                                                                                                                                                                           |
| 5. | Issue Price:                                                               | [ ] per cent. of the Aggregate Nominal Amount                                                                                                                                                                                                                                                                 |

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

- [plus accrued interest from [insert date] (if applicable)]
6. (a) Specified Denominations: [ ]
- (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: [Fixed rate - specify date/Floating rate - Interest Payment Date falling in or nearest to [specify month]]
9. Interest Basis: [ ] per cent. Fixed Rate]
- [ ] month [LIBOR/EURIBOR/TRYIBOR]] +/-
- [ ] per cent. Floating Rate]
- [Zero coupon]
- (see paragraph [14]/[15]/[16] below)*
10. Redemption[/Payment] Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount
11. Change of Interest Basis: [For the period from (and including) the Interest Commencement Date, up to (but excluding) [●], paragraph [14/15] below applies, and, for the period from (and including) [●] up to (and including) the

- Maturity Date, paragraph [14/15] below applies]/[Not Applicable][ ● ]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[Not Applicable]  
[(see paragraph [18]/[19]/[ 20] below) ]
13. (a) Status of the Notes: Senior
- (b) Date Board approval for issuance of Notes obtained: [ ] [Not Applicable] (N.B. Only relevant where Board (or similar) authorization is required for the particular tranche of Notes)

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

14. Fixed Rate Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [ ] per cent. per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date  
(Amend appropriately in the case of irregular coupons)
- (c) Fixed Coupon Amount(s): [[ ] per Calculation Amount] [Not Applicable]  
(Applicable to Notes in definitive form)
- (d) Broken Amount(s): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]  
(Applicable to Notes in definitive form)
- (e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (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)
15. Floating Rate Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)

- (a) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention]
- (c) Additional Business Centre(s): [ ]
- (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): [ ]
- (f) Screen Rate Determination:
- Reference Rate, Relevant Time and Relevant Financial Centre: Reference Rate: [ ] month [[currency]][LIBOR/EURIBOR/TRYIBOR].  
Relevant Time: [ ]  
(11.00 a.m in the case of LIBOR and EURIBOR, and 11.30 a.m in the case of TRYIBOR)  
Relevant Financial Centre: [London] [Brussels] [Istanbul]
  - 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 and the second Istanbul business day prior to the start of each Interest Period if TRYIBOR)
  - Relevant Screen Page: [ ]  
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- 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) Margin(s): [ +/- ] [ ] per cent. per annum

(i) Minimum Rate of Interest: [ ] per cent. per annum

(j) Maximum Rate of Interest: [ ] per cent. per annum

(k) Day Count Fraction: [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)]  
*(See Condition 6 for alternatives)*

16. Zero Coupon Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs 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 subparagraphs of this paragraph)*

(a) Optional Redemption Date(s): [ ]

(b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [ ] per Calculation Amount

*[Set out appropriate variable details in this pro forma, for example reference obligation]*

(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 require a minimum of 5 business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

19. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs 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 require a minimum of 15 business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

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 Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]  
  
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]

[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 December 14, 2005, or (ii) in the United States of America.]

*(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 7 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)*

[Registered Notes:

[Regulation S 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][at any time at the request of the Issuer]]

[Rule 144A 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][at any time at the request of the Issuer]]

[Definitive Regulation S Registered Note]

[Definitive IAI Registered Notes]

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

*(N.B. In the case of an issue with more than one Global Note or a combination of one or more Bearer Global Notes 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. Additional Financial Centre(s): [Not Applicable/give details]  
*(Note that this paragraph relates to the place of payment and not Interest Period end dates to which paragraph 16(b) relates)*

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 RMB NOTES**

25. RMB Currency Event: [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs 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 which would render the reproduced information inaccurate or misleading.

Signed on behalf of **TÜRKİYE İŞ BANKASI A.Ş.**

By: .....

By: .....

*Duly authorized*

*Duly authorized*

## 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.]
- (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 Program generally]:

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

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

*[Insert legal name of credit rating agency]* is established in the EU 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 EU but the rating it has given to the Notes is endorsed by *[insert legal name of credit rating agency]*, which is established in the EU and registered under Regulation (EC) No 1060/2009 (the “CRA Regulation”).]

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

*[Insert legal name of credit rating agency]* is not established in the EU 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 EU and registered under the CRA Regulation.]

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

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

[Save for any fees payable to the [Managers /Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their 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: [ ]

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 [LIBOR/EURIBOR] rates can be obtained from [Reuters].

### 6. OPERATIONAL INFORMATION

(a) ISIN Code: [ ]

(b) Common Code: [ ]

(c) CUSIP: [ ]

Any clearing system(s) other than DTC Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [ ]

Deemed delivery of clearing system notices for the purposes of Condition 15: Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.

Intended to be held in a manner which 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 does not necessarily mean that the Notes will be recognized 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. Note that this does not necessarily mean that the Notes will then be recognized as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## 7. DISTRIBUTION

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

## TERMS AND CONDITIONS OF THE NOTES

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

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

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

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

The Notes and the Coupons (as defined below) have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the "Agency Agreement") dated July 19, 2013 and made between 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 (Luxembourg) S.A. as registrar (the "Registrar", which expression shall include any successor registrar).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note, which supplement these Terms and Conditions (the "Conditions"). References to the "applicable Final Terms" are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

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

Any reference to "Noteholders" or "holders" in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes



are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “*Couponholders*” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

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

The Noteholders and the Couponholders are entitled to the benefit of a deed of covenant (such deed of covenant as modified and/or supplemented and/or restated from time to time, the “*Deed of Covenant*”) dated July 19, 2013 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 July 19, 2013 and made by the Issuer and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Fiscal Agent, the Registrar and the other Paying Agents, the Exchange Agent and the other Transfer Agents (such agents and the Registrar being together referred to as the “*Agents*”). If the Notes are to be admitted to trading on the regulated market of the Irish Stock Exchange, the applicable Final Terms will be published on the Issuer's website ([http://www.isbank.com.tr/English/content/EN/Offering\\_Circular.aspx](http://www.isbank.com.tr/English/content/EN/Offering_Circular.aspx)). If this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (Directive 2003/71/EC), the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

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

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

### **1.1 Form and denomination**

The Notes are in bearer form or in registered form as specified in the applicable Final Terms and serially numbered in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*. The Notes are issued pursuant to the Turkish Commercial Code (Law No. 6102), the Capital Markets Law (Law No. 6362) of Turkey and its related legislation.

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

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

## **1.2 Title**

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

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

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

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

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

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

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a

beneficial interest in another Registered Global Note only in the Specified Denomination(s) (and provided that the aggregate nominal amount of any balance of such beneficial interest of the transferor not so transferred is an amount of at least the Specified Denomination) and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

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

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

## **2.3 Costs of registration**

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

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

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

## **4. NEGATIVE PLEDGE**

### **4.1 Negative Pledge**

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

- (a) all amounts payable by it under the Notes are secured by the Security Interest equally and rateably with the Relevant Indebtedness;
- (b) such Security Interest is terminated; or
- (c) such other Security Interest is provided as is approved by an Extraordinary Resolution of the Noteholders.

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

### **4.2 Interpretation**

For the purposes of these Conditions:

“*Direct Recourse Securities*” means securities (other than Covered Bonds) issued in connection with any securitization 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;

“*IFRS*” means the requirements of International Financial Reporting Standards (formerly International Accounting 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); and

“*Relevant Indebtedness*” means: (a) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being quoted, listed or ordinarily dealt in

on any stock exchange, over-the-counter or other organized securities market and having a maturity in excess of 365 days or any loan disbursed to the Issuer as a borrower under a loan participation note or similar transaction and (b) any guarantee or indemnity of any such indebtedness.

## **5. COVENANTS**

### **5.1 Maintenance of Authorizations**

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

### **5.2 Transactions with Affiliates**

So long as any of the Notes remains outstanding, the Issuer shall not, and shall not permit any of its Material Subsidiaries to, in any 12 month period: (a) make any payment to, (b) sell, lease, transfer or otherwise dispose of any of its properties, revenues or assets to, (c) purchase any properties, revenues or assets from or (d) enter into or make or amend any transaction, contract, agreement, understanding, loan, advance, indemnity or guarantee (whether related or not) with or for the benefit of, any Affiliate (each, an “*Affiliate Transaction*”) which Affiliate Transaction has (or, when taken together with any other Affiliate Transactions during such 12 month period, in the aggregate have) a value in excess of US\$50,000,000 (or its equivalent in any other currency) unless such Affiliate Transaction (and each such other aggregated Affiliate Transaction) is on terms that are no less favorable to the Issuer or the relevant Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or such Subsidiary with an unrelated Person.

### **5.3 Financial Reporting**

So long as any of the Notes remains outstanding, the Issuer shall deliver to the Fiscal Agent:

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

## 5.4 Interpretation

For the purposes of these Conditions:

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

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

- (a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited IFRS 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 IFRS financial statements of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated IFRS 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 IFRS 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 IFRS financial statements of the Issuer and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole (calculated as set out in sub-paragraph (a) above); provided that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer, its assets represent (or, in the case aforesaid, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole (all as calculated as set out in sub-paragraph (a) above), and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this sub-paragraph (c) on the date of the publication of the Issuer’s next audited consolidated IFRS financial statements, save that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the

provisions of sub-paragraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

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

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

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

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

## **6. INTEREST**

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

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

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, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed 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.

As used in the Conditions, “*Fixed Interest Period*” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, 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.

“*Day Count Fraction*” means, in respect of the calculation of an amount of interest, in accordance with this Condition 6.1:

- (a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
  - (i) 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
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) 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
    - (B) 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; and
- (b) if "30/360" is specified in the applicable Final Terms, the number of days in 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 (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

“*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); 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.



## 6.2 Interest on Floating Rate Notes

This Condition 6.2 applies to Floating Rate Notes only. The applicable Final Terms contain provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 6.2 for full information on the manner in which interest is calculated on Floating Rate Notes. In particular, the applicable Final Terms will identify any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Additional 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 and the Day Count Fraction. Where ISDA Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date. Where Screen Rate Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Reference Rate, Relevant Financial Centre, Interest Determination Date(s) and Relevant Screen Page.

### (a) Interest Payment Dates

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

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

Such interest will be payable in respect of each Interest Period. In the Conditions, “*Interest Period*” means the period from (and including) an Interest Payment Date (or, for the First Interest Period, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

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:

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

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

In these Conditions, “*Business Day*” means a day which is both:

- I. 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 London and each Additional Business Centre specified in the applicable Final Terms; and
- II. either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System (the “*TARGET 2 System*”) is open.

(b) **Rate of Interest**

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

(i) **ISDA Determination for Floating Rate Notes**

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

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and

- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

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

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

- (ii) Screen Rate Determination for Floating Rate Notes

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

- (A) the offered quotation; or

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

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

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

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

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

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

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

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

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

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

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

“*Day Count Fraction*” means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

- (A) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (E) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“ $Y_1$ ” is the year, expressed as a number, in which the first day of the Interest Period falls;

“ $Y_2$ ” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“ $M_1$ ” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“ $M_2$ ” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“ $D_1$ ” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case  $D_1$  will be 30; and

“ $D_2$ ” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and  $D_1$  is greater than 29, in which case  $D_2$  will be 30;

- (F) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“ $Y_1$ ” is the year, expressed as a number, in which the first day of the Interest Period falls;

“ $Y_2$ ” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“ $M_1$ ” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“ $M_2$ ” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“ $D_1$ ” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case  $D_1$  will be 30; and

“ $D_2$ ” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case  $D_2$  will be 30;

- (G) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

“ $Y_1$ ” is the year, expressed as a number, in which the first day of the Interest Period falls;

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

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

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

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest 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 D<sub>2</sub> will be 30.

(e) **Notification of Rate of Interest and Interest Amounts**

The Fiscal Agent will cause the Rate of Interest and 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 Floating Rate 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 Floating Rate 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.

(f) **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 6.2 and Condition 7.9 whether by the Fiscal Agent or, if applicable, the Calculation Agent, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders and Couponholders and (in the absence of willful default or bad faith) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Fiscal Agent or, if applicable, the Calculation Agent in connection with the exercise or non exercise by it of its powers, duties and discretions pursuant to such provisions.

### **6.3 Accrual of interest**

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

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

## **7. PAYMENTS**

### **7.1 Method of payment**

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

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

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

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

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

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

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

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

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

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

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

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

Payments of interest in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the relevant Record Date at the address of such holder shown in the Register on such Record Date and at that holder's risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in



respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.

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

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

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

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

## **7.6 Payment Day**

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “*Payment Day*” means any day which (subject to Condition 10) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) Istanbul;
  - (ii) in the case of Notes in definitive form only, the relevant place of presentation; and
  - (iii) each Additional Financial Centre specified in the applicable Final Terms;
- (b) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency, or (2) in relation to any sum payable in euro, a day on which the TARGET 2 System is open; and
- (c) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which a participant in DTC (with an interest in such Registered Global Note) has elected in accordance with Condition 7.11 to receive any part of such payment in that Specified Currency, a day on which commercial banks are not authorized or required by law or regulation to be closed in New York City.

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

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

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

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

## 7.8 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).

## 7.9 RMB Currency Event

If RMB Currency Event is specified 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 6.2(f)):

**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 which is two Rate Calculation Business Days before the due date of the relevant payment under the Notes;

**RMB Currency Events** 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 Renminbi 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 which 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 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, a Noteholder as of the applicable Record Date may, not more than 10 and not less than five Business Days before the due date (the “*Relevant Payment Date*”) for the next payment of interest and/or principal on a Note (such period, the “*USD Election Period*”), give an irrevocable election to any Agent to receive such payment in US Dollars instead of Turkish Lira (each, a “*USD Payment Election*”). Each Agent to which such an election is given shall notify the Fiscal Agent on the Business Day following each USD Election Period of the USD Payment Elections made by the Noteholders during such USD Election Period and upon its receipt of such notification the Fiscal Agent shall notify the Exchange Agent of the total amount of Turkish Lira (the “*Lira Amount*”) to be paid by the Issuer in respect of the Notes the subject of such USD Payment Elections and which is to be converted into US 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 procedures, which conversion shall be conducted in a commercially reasonable manner and on a similar basis to that which the Exchange Agent would use to effect such conversion for its customers (such rate, taking into account any spread, fees, commission or charges on foreign exchange transactions customarily charged by it in connection with such conversions, the “*Applicable Exchange Rate*”). In no event shall any Agent be liable to any Noteholder, the Issuer or any third party for the conversion rate so used.

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

- (c) Following conversion of the Lira Amount into U.S. Dollars in accordance with this Condition 7.10 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 US 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 US 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 US Dollars with the Lira Amount, then the Exchange Agent will promptly notify the Fiscal Agent, which shall, as soon as practicable upon receipt of such notification from the Exchange Agent, promptly notify the Noteholders of such event in accordance with Condition 15 and all payments on the Notes on the Relevant Payment Date will be made in Turkish Lira in accordance with this Condition 7, irrespective of any USD Payment Election made.
- (e) To give a USD Payment Election:
  - (i) in the case of Notes in definitive form, a Noteholder must deliver at the specified office of any Agent, on any Business Day falling within the USD Election Period, a duly signed and completed USD Payment Election in the form (for the time being current) obtainable from any specified office of any Agent and in which the holder must specify a USD bank account to which payment is to be made under this Condition 7.8 accompanied by the relevant Notes or evidence satisfactory to the Agent concerned that such Notes will, following the delivery of the USD Payment Election, be held to the Agent's order or under its control until the applicable US 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 and (iii) the Issuer shall not have any liability or other obligation to any Noteholder with respect to the conversion into U.S. Dollars of any amount paid by it to the Fiscal Agent in Turkish Lira or the payment of any U.S. Dollar amount to the applicable Noteholders.

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

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

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

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

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

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

If:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after the date on which agreement is reached to issue the 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 prevailing applicable 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 appropriate) with interest accrued to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent: (i) a certificate signed by two Directors of the Issuer stating that the requirement referred to in sub-paragraph (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion of independent legal advisers of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

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

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

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

In the case of a partial redemption of Notes under this Condition 8.3, the Notes to be redeemed (“*Redeemed Notes*”) will be selected (a) individually by lot, in the case of Redeemed Notes represented by definitive Notes, and (b) 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 a Global Note, in each case, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “*Selection Date*”). 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. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

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

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

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

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

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

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

## **8.5 Early Redemption Amounts**

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

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, 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 “*Amortized Face Amount*”) calculated in accordance with the following formula:

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

where:

“RP” means the Reference Price;

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

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

## **8.6 Purchases**

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

## **8.7 Cancellation**

All Notes which are redeemed will forthwith be cancelled (together, in the case of definitive Bearer Notes, with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 8.6 above (together 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 this Condition 8 or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, 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 which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

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

## **9. TAXATION**

### **9.1 Payment without Withholding**

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

- (a) presented for payment by or on behalf of a holder who is liable for Taxes in respect of the Note or Coupon by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) presented for payment in the Republic of Turkey; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Payment Day (as defined in Condition 7.6).

Notwithstanding any other provision of these Conditions, in no event will the Issuer be required to pay any additional amounts in respect of the Notes for, or on account of, any withholding or deduction required pursuant to FATCA (including pursuant to any agreement described in Section 1471(b) of the Code) or any law implementing an intergovernmental approach to FATCA.

In these Conditions:

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

becomes subject in respect of payments made by it of principal and interest on the Notes or Coupons.

## **9.2 Additional Amounts**

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

## **10. PRESCRIPTION**

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

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

## **11. EVENTS OF DEFAULT**

### **11.1 Events of Default**

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

- (a) if default is made by the Issuer in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 14 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or
- (c) if (i) any Indebtedness for Borrowed Money of the Issuer or any of its Material Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Material Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment, subject to any originally applicable grace period; (iii) any security given by the Issuer or any of its Material Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer or any of its Material Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person, subject to any applicable grace period; *provided that* the aggregate principal amount of such: (A) Indebtedness for Borrowed Money of the Issuer or such Material Subsidiary in the case of sub-paragraphs (i), (ii) and/or (iii) above, and/or (B) Indebtedness for Borrowed Money in relation to which such guarantee and/or indemnity of the Issuer or such Material Subsidiary has been given in the case of sub-paragraph (iv) above, exceeds US\$50,000,000 (or its equivalent in other currencies); or

- (d) if:
- (i) any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of its Material Subsidiaries; or
  - (ii) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganization 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 to be (or becomes) bankrupt or insolvent; or
  - (iii) the Issuer or any of its Material Subsidiaries commences negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of all or a substantial part of its indebtedness; or
  - (iv) the Issuer or any of its Material Subsidiaries: (A) takes any corporate action or other steps are taken or legal proceedings are started: (x) for its winding-up, dissolution, administration, bankruptcy or re-organization (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-organization of any Material Subsidiary in connection with any combination with, or transfer of all or any part of its business and/or assets to, the Issuer or another Subsidiary of the Issuer; or
- (e) if the banking license 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 (Events of Default):

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

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

## 12. REPLACEMENT OF NOTES, COUPONS AND TALONS

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent (in the case of Bearer Notes or Coupons) or the

Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to (a) evidence of such loss, theft, mutilation, defacement or destruction and (b) indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

### **13. AGENTS**

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

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

- (a) there will at all times be a Fiscal Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be, in the case of Bearer Notes a Paying Agent (which may be the Fiscal Agent) and, in the case of Registered Notes, a Transfer Agent (which may be the Registrar) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City;
- (d) there will at all times be a Paying Agent that is not located in a Member State of the European Union (if any) that will oblige that Paying Agent to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (e) there will at all times be a Paying Agent in a jurisdiction other than the jurisdiction in which the Issuer is incorporated.

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

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

### **14. EXCHANGE OF TALONS**

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

## **15. NOTICES**

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

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

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

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

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

### **16.1 Meetings of Noteholders**

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

respect of the Notes, altering the currency of payment of the Notes or the Coupons or amending the Deed of Covenant in certain respects), the quorum shall be one or more persons 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 persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

## **16.2 Modification**

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

## **17. FURTHER ISSUES**

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

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

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

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

### **19.1 Governing law**

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

### **19.2 Submission to jurisdiction**

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

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders and the Couponholders may take any suit,

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

### **19.3 Consent to Enforcement**

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

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

Service of process may be made upon the Issuer in respect of any Proceedings in England at the registered office for the time being of its London branch and the Issuer undertakes that in the event of it 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 courts of England and appointed an agent in England for service of process, in terms substantially similar to those set out above.



## **USE OF PROCEEDS**

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

## SUMMARY FINANCIAL AND OTHER DATA

The following tables set forth, for the periods indicated, selected historical consolidated financial and other information about the Group. The following selected consolidated financial and other information should be read in conjunction with, and is qualified in its entirety by reference to, the BRSA Financial Statements, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other relevant information included elsewhere in this Base Prospectus. The BRSA Financial Statements are presented in Turkish Lira and have been prepared in accordance with BRSA Principles described in more detail in the accounting principles included in the notes to the BRSA Financial Statements included in this Base Prospectus and in “Presentation of Financial and Other Information.”

The BRSA Financial Statements: (a) as of and for the years ended December 31, 2010, 2011 and 2012 have been audited and (b) as of and for the three-month periods ended March 31, 2013 have been reviewed by KPMG.

	As of December 31,			As of March 31
	2010	2011	2012	2013
<b>Balance Sheet Data:</b>	(TL thousands)			
Cash and balances with the Central Bank.....	8,595,906	13,886,577	16,111,127	19,095,831
Financial assets at fair value through profit or loss (net) .....	1,837,110	2,418,121	2,202,641	2,236,580
Banks .....	6,375,798	4,747,906	4,551,893	4,418,506
Money Market Placements .....	10,194	171,613	81,675	221,430
Financial Assets Available For Sale (Net).....	36,181,207	33,557,066	32,173,825	31,378,582
Loans .....	69,077,804	99,028,122	115,218,483	119,176,734
Factoring Receivables .....	331,320	404,653	1,014,940	1,036,593
Held To Maturity Investments (Net) .....	14,070,629	13,707,432	11,048,779	10,607,683
Investments In Associates (Net) .....	794,592	776,951	778,281	781,648
Investments In Subsidiaries (Net).....	2,746,829	3,202,087	3,620,153	3,701,695
Lease Receivables .....	963,265	1,376,390	1,384,455	1,397,626
Tangible Assets (Net) .....	1,999,633	2,166,852	2,139,784	2,137,841
Intangible Assets (Net) .....	56,114	120,352	189,627	254,985
Investment Property (Net) .....	1,242,157	1,037,294	1,108,704	1,119,032
Tax Assets .....	836,057	655,919	738,397	783,146
Assets Held For Sale And Discontinued Operations (Net) .....	54,233	60,256	73,295	69,079
Other assets .....	5,637,888	6,618,239	8,638,680	8,600,863
<b>Total Assets .....</b>	<b>150,810,736</b>	<b>183,935,830</b>	<b>201,074,739</b>	<b>207,017,854</b>
Deposits from the Bank’s Risk Group.....	2,287,626	2,133,162	2,291,383	2,305,612
Other deposits.....	86,188,993	96,698,834	103,719,477	104,470,420
Derivative Financial Liabilities Held for Trading.....	731,310	916,086	760,440	561,881
Funds Borrowed .....	14,282,865	18,779,275	19,072,787	20,114,044
Money Market Funds .....	12,969,586	22,472,982	17,030,831	20,438,091
Marketable Securities Issued (Net).....	195,954	3,765,876	6,476,363	6,636,753
Funds .....	—	7,894	9,745	2,764
Sundry creditors .....	5,946,252	7,161,721	9,184,478	10,653,576
Other liabilities .....	1,181,867	2,442,482	4,884,994	3,831,805
Provisions .....	7,560,506	8,713,868	10,260,057	10,367,785
Tax liabilities .....	401,175	438,081	631,853	517,565
Subordinated Loans .....	77,947	95,000	1,893,576	1,946,116
<b>Total Liabilities .....</b>	<b>131,824,081</b>	<b>163,625,261</b>	<b>176,215,984</b>	<b>181,846,412</b>

Paid-in Capital.....	4,500,000	4,500,000	4,500,000	4,500,000
Share Premium .....	33,937	33,937	33,940	33,940
Marketable Securities Revaluation Reserve .....	1,241,479	1,159,906	2,613,053	2,479,450
Bonus Shares obtained from Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures).....	(1,179)	(1,179)	(1,179)	(1,179)
Other Capital Reserves .....	1,615,938	1,615,938	1,615,938	1,615,938
Profit Reserves .....	5,918,120	8,352,002	10,402,674	13,165,079
Profit or Loss .....	3,028,597	2,179,515	2,802,512	422,049
Minority Shares .....	2,649,763	2,470,450	2,891,817	2,956,165
<b>Total Equity .....</b>	<b>18,986,655</b>	<b>20,310,569</b>	<b>24,858,755</b>	<b>25,171,442</b>
<b>Total Liabilities and Equity .....</b>	<b>150,810,736</b>	<b>183,935,830</b>	<b>201,074,739</b>	<b>207,017,854</b>

	For the three month period ended March 31,				
	2010	2011	2012	2012	2013
<b>Income Statement Data:</b>			(TL thousands)		
Net Interest Income.....	5,410,570	5,416,996	6,842,265	1,513,358	1,965,259
Interest Income .....	10,850,750	12,081,352	14,676,856	3,590,552	3,554,750
Interest Expense.....	(5,440,180)	(6,664,356)	(7,834,591)	(2,077,194)	(1,589,491)
Net Fees and Commissions Income .....	997,891	1,102,726	1,258,319	275,343	358,397
Dividend Income .....	45,785	171,477	205,032	40,587	102,974
Trading Income (net) .....	292,912	446,913	871,070	181,995	208,380
Other Operating Income .....	4,026,561	4,060,685	4,559,561	1,037,278	1,178,262
<b>Total Operating Income .....</b>	<b>10,773,719</b>	<b>11,198,797</b>	<b>13,736,247</b>	<b>3,048,561</b>	<b>3,813,272</b>
Provision for Loans and Other Receivables .....	(1,185,911)	(1,494,935)	(1,291,545)	(372,030)	(528,983)
Other Operating Expenses .....	(5,671,987)	(6,615,795)	(7,783,373)	(1,606,378)	(1,951,400)
<b>Net Operating Income .....</b>	<b>3,915,821</b>	<b>3,088,067</b>	<b>4,661,329</b>	<b>1,070,153</b>	<b>1,332,889</b>
Profit/Loss from Associates Accounted for using the Equity Method.....	4,806	9,842	12,317	4,755	3,067
<b>Profit/Loss on Continuing Operations before Tax .....</b>	<b>3,920,627</b>	<b>3,097,909</b>	<b>4,673,646</b>	<b>1,074,908</b>	<b>1,335,956</b>
Tax Provision for Continuing Operations .....	(688,933)	(708,541)	(958,912)	(228,828)	(227,395)
<b>Net Period Profit/Loss .....</b>	<b>3,231,694</b>	<b>2,389,368</b>	<b>3,714,734</b>	<b>846,080</b>	<b>1,108,561</b>

	As of (or for the year ended) December 31,			As of (or for the three-month period ended) March 31,
	2010	2011	2012	2013
<b>Key Ratios:</b>				
Return on average shareholders' equity excluding minority interest <sup>(1)(9)</sup> .....	20.2%	13.2%	17.5%	16.5%
Net interest margin <sup>(1)(2)</sup> .....	4.3%	3.7%	4.2%	4.7%
Cost-to-income ratio <sup>(3)</sup> .....	42.0%	48.5%	47.1%	42.4%
Free capital ratio <sup>(4)</sup> .....	8.0%	7.0%	8.2%	8.0%
NPL ratio .....	3.4%	2.1%	1.8%	1.9%
Cost to average total assets <sup>(1)(5)</sup> .....	2.7%	2.6%	2.8%	2.7 %
<i>Capital Adequacy:</i>				
Tier I ratio <sup>(6)</sup> .....	16.3%	13.2%	13.5%	13.4%
Capital adequacy ratio <sup>(6)</sup> .....	17.6%	14.1%	16.3%	16.1%
<b>Other Information:</b>				
Average employees during the period.....	23,443	24,622	24,622	24,333
Branches at period end.....	1,142	1,201	1,250	1,265
<b>Inflation rate/GDP %:</b>				
Producer price index inflation <sup>(7)</sup> .....	8.9%	13.3%	2.5%	2.3%
Gross Domestic Product (% change) <sup>(8)</sup> .....	9.2%	8.8%	2.2%	3.0%

(1) Calculated on quarterly averages.

(2) Bank-only net interest income divided by Bank-only average interest-earning assets. Reserves held at the Central Bank have been excluded from interest-earning assets. Net interest income does not include interest income from the Central Bank.

(3) "Cost" includes total operating expenses excluding impairment losses, net, and foreign exchange and trading losses net. "Income" includes operating income minus foreign exchange and trading losses net. Total operating income is net of insurance expense and total operating expense does not include insurance expense.

(4) Total shareholders' equity excluding fixed assets, investment property, investments in equity participations and net NPLs, divided by total assets.

(5) Total operating expense does not include insurance expense. Expense items as of and for the three months ended March 31, 2013 are annualized.

(6) Calculated in accordance with BRSA regulations.

(7) Base year –2003.

(8) As published by TurkStat.

(9) Net income for the period as a percentage of average shareholders' equity.

## CAPITALIZATION OF THE GROUP

The following table sets forth the total capitalization of the Group as of December 31, 2010, 2011 and 2012 and March 31, 2013. 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).

	As of December 31,			As of
	2010	2011	2012	March 31,
	(TL thousands)			2013
Capital stock; legal reserves, retained earnings and other equity accounts.....	13,397,736	15,568,580	18,554,916	21,184,932
Current period net income attributable to equity holders of the Bank .....	2,939,156	2,271,539	3,412,022	1,030,345
<b>Total shareholders' equity .....</b>	<b>16,336,892</b>	<b>17,840,119</b>	<b>21,966,938</b>	<b>22,215,277</b>
Long-term debt <sup>(1)</sup> .....	8,571,789	13,720,792	16,188,221	16,673,841
<b>Total capitalization .....</b>	<b>24,908,681</b>	<b>31,560,911</b>	<b>38,155,159</b>	<b>38,889,118</b>

(1) Long-term debt includes the funds borrowed (including subordinated loans and debt securities in issue) with an original maturity over one year.

## BUSINESS OF THE GROUP

Türkiye İş Bankası A.Ş. is a Turkish banking institution organized as a joint stock company under the Turkish Commercial Code (No. 6102).

As of March 31, 2013, the Bank was the largest bank in Turkey in terms of total assets, total loans, Turkish Lira-denominated loans, foreign currency-denominated loans, foreign currency-denominated deposits and total shareholders' equity and had the largest market shares of total deposits, Turkish Lira-denominated deposits, demand deposits, number of debit cards and volume of debit cards transactions among private sector banks (sources: BRSA and Interbank Card Center). The Bank was the market leader in mutual funds in terms of assets under management as of such date (source: Rasyonet). The Bank operates in six main business segments: (a) Corporate Banking, (b) Commercial Banking, (c) Retail Banking, (d) Private Banking, (e) Capital Market Operations and (f) Other Banking Services.

As of March 31, 2013, the Group had total assets of TL 207,018 million, an increase of 3.0% from TL 201,075 million as of December 31, 2012, itself an increase of 9.3% from TL 183,936 million as of December 31, 2011, which was a 22.0% increase from TL 150,811 million as of December 31, 2010. As of March 31, 2013, the Group had total deposits of TL 106,776 million, an increase of 0.7% from TL 106,011 million as of December 31, 2012, itself an increase of 7.3% from TL 98,832 million as of December 31, 2011, which was an 11.7% increase from TL 88,477 million as of December 31, 2010.

As of March 31, 2013, the Group had total shareholders' equity of TL 25,171 million, an increase of 1.3% from TL 24,859 million as of December 31, 2012, itself an increase of 22.4% from TL 20,311 million as of December 31, 2011, which increased 7.0% from TL 18,987 million as of December 31, 2010.

For the three months ended March 31, 2013, the Group's net profit was TL 1,109 million, an increase of 31.0% from TL 846 million for the three months ended March 31, 2012. In 2012, the Group's net profit was TL 3,715 million, an increase of 55.5% compared to TL 2,389 million for 2011, a decrease of 26.1% from TL 3,232 million in 2010. For the three months ended March 31, 2013, the Group's net interest income was TL 1,965 million, an increase of 29.9% from TL 1,513 million for the three months ended March 31, 2012. In 2012, the Group's net interest income was TL 6,842 million an increase of 26.3% compared to TL 5,417 million for 2011, an increase of 0.1% from TL 5,411 million in 2010.

As of the date of this Base Prospectus, the Bank's shares are quoted on the İstanbul Exchange (which replaced the former İstanbul Stock Exchange and Gold Exchange) operating as the stock exchange as well as the gold exchange in Turkey (the "*Borsa İstanbul*") and also are traded by qualified institutional buyers on over the counter markets in the form of American Depositary Receipts and at the London Stock Exchange in the form of Global Depositary Receipts. As of March 31, 2013, 39.73% of the Bank's shares were held by the Bank's own employee pension fund and 28.09% (Atatürk's shares) were owned by the Republican People's Party (the "*CHP*"). The remaining 32.18% was traded publicly on the Borsa İstanbul and the London Stock Exchange.

As of March 31, 2013, the Bank had the largest network of branches among private sector banks in Turkey, with 1,246 domestic branches covering every city (source: Turkish Banks Association). The Bank also has an international presence through its own London, Arbil (Iraq), Bahrain, Batumi (Georgia) and Pristina (Kosovo) branches; through İşbank AG, a wholly-owned subsidiary with 13 branches in Germany and one branch in each of The Netherlands, France, Switzerland and Bulgaria; and through Moscow based CJSC İşbank, a wholly-owned subsidiary with 12 branches in Russia. Besides these, as of such date the Bank had 14 branches in the Turkish Republic of Northern Cyprus and a representative office in each of the People's Republic of China and in Egypt.

Part of the Bank's original mandate and strategy was to support the growth and development of the Turkish economy. As part of this strategy, the Bank acquired numerous equity participations in other companies over

time and has taken part in the establishment of companies in a range of industries, in a number of cases being the first Turkish company to be active in such industries. The Bank has disposed of many of these equity participations over the years. As of March 31, 2013, the Bank had a direct equity interest in 25 companies, five of which are classified under available-for-sale securities. These companies are active in a wide range of sectors including finance, glass, telecommunications and other industrial and service sectors.

## **Strengths**

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

### *Market Leader in Turkish Banking Sector in Size and Scope of Operations*

As noted above, as of March 31, 2013, the Bank was the largest bank in Turkey in terms of its balance sheet and, among private sector banks in Turkey, the largest in terms of its branch network (source: Turkish Banks Association) and the market leader among private sector banks in the Turkish banking sector in many categories. The Bank was the market leader in mutual funds as of such date, with TL 6.8 billion under management (source: Rasyonet). As of March 31, 2013, the Bank supported its market-leading position by having the largest nationwide branch and ATM network among private sector banks in Turkey, with 1,246 domestic branches, 19 international branches and 4,889 domestic ATMs (sources: Turkish Banks Association and Interbank Card Center). The Bank's management believes that the expansion of the Bank's branch network helps to support the growth of the Bank's assets and liabilities. The Bank opened 47 domestic branches in 2012 and 15 domestic branches during the first three months of 2013, and the Bank is currently planning on opening additional domestic branches during 2013 and 2014.

The Bank's management believes that the Group's market leadership position and broad distribution network has supported its strong growth across both its asset and liability portfolios and enabled it to benefit significantly from economies of scale, capitalizing on the overall strong growth in the Turkish economy despite difficult economic conditions since 2009 due to the global financial crisis. The Bank's loan portfolio grew from TL 64,232 million as of December 31, 2010 to TL 91,621 million as of December 31, 2011, TL 106,716 million as of December 31, 2012 and TL 110,494 million as of March 31, 2013, a compound annual growth rate of 27.3% as compared to the Turkish banking sector's total loan portfolio compound annual growth rate during that period of 22.5% (source: BRSA). The Bank's total deposits grew from TL 88,260 million as of December 31, 2010 to TL 98,313 million as of December 31, 2011, TL 105,383 million as of December 31, 2012 and TL 105,889 million as of March 31, 2013, resulting in a compound annual growth rate of 8.4% while the growth in the Turkish banking sector for the same period was 12.0% (source: BRSA).

### *Strong Liquidity and Capital Structure with Conservative Funding Policy*

The Group has a strong capital structure, with shareholders' equity of TL 25.2 billion and a capital adequacy ratio of 16.1% as of March 31, 2013 (under BRSA) (13.4% calculated using Tier I capital only). In line with its capital strength, the Group maintains strong liquidity, with a liquid asset ratio (being the total amount of cash and banks, money market placements, trading securities and available-for-sale securities *divided by* the Group's total assets) of 27.4% and Cash Loan-to-Deposit ratio of 111.1% as of March 31, 2013 (108.2% as of December 31, 2012). Although a large portion of the Bank's deposits are, similar to the Turkish banking sector, short-term (with durations of less than 90 days), the majority of the Bank's deposits have historically been reinvested (with accounts having on average been open for 9.1 years as of March 31, 2013).

The Group has an immaterial exposure to sovereign debt, other than that of Turkey, as most of its investment securities are composed of Turkish government T-bills and bonds. As a result, the Group was less affected than many other global financial institutions from the reduction of liquidity and increased cost of funding that occurred during the recent global financial crisis. Accordingly, the Bank's management believes that the Group's strong balance sheet has supported its ability to attract a strong deposit base and that the Group has

benefitted from a “flight to quality” during difficult market conditions, with deposits having increased by 48.2% from TL 72 billion as of December 31, 2009 to TL 107 billion as of March 31, 2013. Overall, the Bank’s total assets grew from TL 113,223 million as of December 31, 2009 to TL 131,796 million as of December 31, 2010, TL 161,669 million as of December 31, 2011, TL 175,444 million as of December 31, 2012 and TL 181,064 million as of March 31, 2013, resulting in a compound annual growth rate of 15.5%. The Bank’s return on average assets of its banking business\* was 2.2% in 2010, 1.5% in 2011, 1.8% in 2012 and 2.0% in the three months ended March 31, 2013 and the return on average equity of its banking business\*\* was 28.6%, 20.3%, 22.9% and 23.3% over the same periods.

#### *Recognized and Trusted Banking Brand in Turkey*

The Bank’s management believes that the Bank is one of the most widely recognized, respected and trusted banks in Turkey; it has been in business since 1924, weathering Turkey’s often turbulent financial markets and establishing a long-standing focus on prudent risk management and a record of financial stability. The Bank was established under the laws of the Republic of Turkey at the initiative of Mustafa Kemal Atatürk as the first national bank of the Republic of Turkey. The strength of the Bank’s brand, together with its branch network and customer base, have enabled the Group to become a Turkish market leader as well as a trusted banking partner for customers. As of March 31, 2013, 93.0% of the Group’s assets were in Turkey as the Group has focused most of its business in a market it believes it understands well and in which it enjoys a competitive advantage.

#### *Large Customer Base in Turkey*

The Group had approximately 12.9 million retail customers, nearly 6,000 corporate customers and almost 1,038,000 commercial customers as of March 31, 2013. The Bank had the largest deposit base among private sector banks with TL 105,889 million in deposits as of March 31, 2013 (Source: BRSA). The Bank’s broad network of branches and alternative distribution channels provides the Group with presence, access and crucial local knowledge of retail and corporate/commercial customers in every city in Turkey. Unlike most of its competitors, in addition to the branches in large cities, the Bank also has branches in rural districts. In particular, in 75 out of the 81 cities of Turkey, the Bank has the largest number of branches among private sector banks according to the Turkish Banks Association. The Group’s relationships with its customers have also typically been long-standing; for example, as of March 31, 2013, the Bank’s customers have held deposit accounts with the Bank for an average of 9.1 years.

The Bank’s management believes that the relatively large size of the Group’s existing customer base compared to its private sector banking competitors provides an important competitive advantage in the highly competitive Turkish banking market given the relatively high cost of attracting new customers as compared to maintaining existing customers and focusing on cross-selling. Accordingly, the Group seeks to ensure that it has in-depth knowledge of its customers and the ability to maximize the value of its existing customer relationships.

In terms of its retail customer base, the Group uses several key models that it can deploy across its large retail customer base to continue to improve its customer knowledge and relationships. The Group measures customer value with “lifetime value” models and loyalty with “customer-churn” models. The Group also uses other analytical models, such as its “next best product” model, to enhance its ability to cross-sell products and services. Moreover, the Bank’s large deposit base provides it with a comparatively low-cost and relatively stable funding source for its lending activities.

---

\* Calculated as (Net Income– Dividend Income)/Average (Total Assets–Equity Participations–Dividend Income). Averages are based upon year-end and period-end figures.

\*\*Calculated as (Net Income– Dividend Income)/Average (Shareholders’ Equity–Equity Participations–Dividend Income). Averages are based upon year-end and period-end figures.



In terms of corporate and commercial banking, the Bank segments its customers, supporting better understanding of customers, sustainable customer relationships and targeted services through a network of specialized corporate branches (nine as of March 31, 2013), one specialized branch for multinationals operating in Turkey and specialized commercial branches (39 as of March 31, 2013). The Bank has developed numerous targeted products and services, ranging from tailor-made solutions for large corporations to sector-specific service packages, such as for export support, the plastics industry, logistics, machinery, automotive by-products and tourism.

Overall, the Bank's management believes that the Group's extensive and broad customer base and understanding of its customers through long-standing relationships provide it with an important competitive advantage in maintaining and growing its business.

#### *Diversified Loan Portfolio*

By focusing on building a diversified portfolio of loans by types of loans, industry sector and borrower concentration, the Group has historically generated strong returns. The Bank increased its loan portfolio from December 31, 2009 to March 31, 2013 at a compound annual growth rate of 29.0%. The Group's strong credit and risk management know-how have supported the growth of its loan portfolio and, in the Bank's management's opinion, contributed to the healthy diversification of the portfolio.

The Bank's loan portfolio is diversified in terms of loan type. As of March 31, 2013, 43.8% of the Bank's total loan portfolio was comprised of loans to corporate (as defined by the Corporate Definition) customers, with 27.7%, 7.6% and 20.8% comprised of loans to SMEs (as defined by the BRSA SME Definition), retail credit cards and consumer loans, respectively. The Bank's consumer loans are further broken down into general purpose consumer loans (including overdraft accounts), housing loans and auto loans, comprising 50.3%, 44.1% and 5.6% of total consumer loans, respectively, as of March 31, 2013. The Bank's loan portfolio is also diversified among sectors, with the largest share (in energy) representing no more than 7.8% of the Bank's loan portfolio as of March 31, 2013. In addition, the Bank has sought to limit exposure to any single borrower and no exposure to a single borrower was greater than 1.6% of its loan portfolio as of such date. The share of the Bank's receivables from the top 100 cash loan customers in the overall cash loan portfolio was 7.1% as of March 31, 2013. Moreover, as of March 31, 2013, 51.6% of the Bank's loan portfolio had a term of less than six months until the next re-pricing. The Bank's commercial loan contracts generally contain clauses permitting the Bank to make adjustments in the applicable interest rates from time to time, subject to the applicable laws and regulations, thereby further limiting interest rate risk.

#### *Prudent Risk Management*

Complementing the Bank's diversified loan portfolio, the Bank's management believes it has instilled a prudent and effective risk management culture at all levels of the Group, beginning with careful customer selection to support a quality asset base. The Bank monitors credit quality on an ongoing basis. As the global financial crisis impacted Turkey and the Group's customers, the Group introduced new risk management tools starting from 2008 such as "application scoring models" for retail and SME portfolios and "behavioral scoring models" for corporate, SME and retail portfolios. The Bank also introduced new risk management tools such as applying credit limits to certain industry sectors that have been highly affected by global turmoil, researching potential customers' relationships and credit histories with other banks and becoming more selective in extending new credit lines. During 2012, the Bank grew its loan portfolio by 16.5% (increasing a further 3.5% in the first quarter of 2013) and maintained NPL ratios of 2.0%, 1.9%, 2.1% and 3.6% as of March 31, 2013 and December 31, 2012, 2011 and 2010, respectively, in line with the Turkish banking sector's NPL ratios of 3.0%, 2.9%, 2.7% and 3.7% (source: BRSA).

The Bank's management believes that the Group's focus on enhanced internal controls and risk management systems, as well as its ability to maintain a diverse loan portfolio, will enable the Group to maintain the high quality of its loan portfolio in the future as the Group seeks to continue to grow its business.

### *Strong Focus on Employee Training and Development; Highly-Skilled Workforce*

The Bank's management believes that a key element of the Group's success has been its emphasis on the quality, training and development of its employees. The Bank's turnover rate (*i.e.*, employee resignations excluding retirees) is very low (for example, it had a rate of 3.45% during 2012). The Group's dedicated and well-trained employees form a cornerstone of its focus on superior customer service and long-standing customer relationships and also provides the Group with a competitive advantage over its competitors, particularly in a growing market where there is a high demand for skilled personnel. Historically, the Group has sought to maximize the opportunity for career development for its employees, with all positions typically filled through internal promotions and appointments.

### *Maintain High Standards of Corporate Governance and Business Ethics*

The Bank's management believes that the Group's internal corporate governance structure reflects the best market practices of the Turkish and international banking sectors. The Group established these corporate governance practices to improve management's efficiency and to further protect the interests of the Group's stakeholders, including its customers and shareholders. The Bank prepares a "Corporate Governance Principles Compliance Report" each year, which is a report by the Bank's Board of Directors about the compliance of the Bank's corporate governance practices to the corporate governance principles of the CMB.

### *Strong Record of Innovation*

The Bank's management believes that the Group is an innovator and market leader in the Turkish banking sector, having distinguished itself through a number of innovations in Turkey, including initiating the practice of providing checking services, launching Turkey's first interactive telephone and internet banking service and establishing the first mutual funds in Turkey, including the first mutual fund with a focus on environmental and social responsibility. The Bank was the first bank in Turkey to establish overseas branches when it opened its branches in Hamburg, Germany and Alexandria, Egypt in 1932. The Bank also introduced electronic banking to Turkey with its brand name, "Bankamatik" ATMs. These ATMs became so popular that ATMs are now generally referred to as "Bankamatiks" even if they are not the Bank's ATMs. In July 2010, the Bank integrated a biometric device to its ATMs and commenced a new system called as "Biyokimlik" (Bio-ID) that allows customers to access their accounts by using just their PIN number or card their fingervein-ID, which is a form of secure biometric data. In addition, in November 2012, the Bank integrated its mobile banking platform with its ATMs, enabling customers to withdraw cash through İşCep by scanning a code on an ATM's screen. Moreover, the Bank was the first bank in Turkey to start mobile banking by using WAP, followed in 2007 by the Bank's introduction of "İşCep," which it believes was the first java-based mobile application in Turkey. As of the date hereof, İşCep supports numerous operating systems, including iOS, Android, Samsung, Bada, Windows Phone, Symbian, Blackberry 10 and iPhone 7 and works on more than 1,600 telephone models. In 2010, the Bank introduced a new banking application for tablet devices named "İşPad," which was originally designed to work on iPad units and now is also compatible with tablets running the Android, Blackberry Playbook and Mac operating systems. A recent innovation of the Bank is "Parakod," which is a code technology on İşCep used as a payment system that enables customers to make payment with their mobile phones without using their credit cards.

For additional information on the Group's technological innovations, see "*Channel Management*" and "*Information Technology*."

## **Strategy**

The Bank's strategic vision is to become the preferred bank in Turkey for its customers, shareholders and employees. The main objectives of the strategy are achieving profitable and sustainable growth via increasing customer satisfaction, improving employee performance, reducing the cost base and increasing productivity and effectiveness. The Bank plans to reach these targets by maintaining market shares in the primary banking services and leveraging new growth opportunities with a cost effectiveness perspective,

continuously improving its asset quality, focusing on sustainable non-interest income generation and price optimization for all financial products and services, while operating within a risk-based capital management framework. The key elements of the Group's strategy to achieve these goals are set out below.

*Capitalize on Expected Growth of the Turkish Economy and Banking Sector through Expansion of its Distribution Channels and Introduction of New Products and Services*

The Group is continuing to focus on leveraging its existing market leadership position and strong national brand by growing its branch network, alternative distribution channels and product and service offerings to capitalize on the expected growth and development of Turkey's economy and resulting growth in demand for banking services. The Bank opened 63 new branches across Turkey in 2011 (six branches were consolidated with other branches in 2011), 47 in 2012 (no branches were consolidated with other branches in 2012) and 15 in the first quarter of 2013, and is continuing to seek opportunities to deploy new branches and ATMs. To date, Turkey has been significantly under-banked compared to the EU, with a total loans-to-GDP ratio in 2011 of 53% compared to the EU-27 average of 194%, total assets-to-GDP ratio of 94% compared to the EU-27 average of 367% and 14 branches per 100,000 persons compared to the EU-27 average of 45 (source: Eurostat, European Banking Federation, TurkStat, BRSA.). Accordingly, there is significant scope for additional growth in the Turkish banking sector.

In addition, the Group is continuing to develop new products and services across each of its businesses. In retail, the Bank has introduced a range of new products, such as a "Maximum account" (which includes both an automatic payment function as well as automatic investment in mutual funds of any balances that exceed a set limit) or the prepaid card "MaxiPara" (which has the widest product mix among the competitor products). "ÜstüKalsın" (Keep the Change) is an innovative application that is available to all of the Bank's customers who have both credit card and investment accounts with the Bank – with "ÜstüKalsın," the balance due shown in the account statement is rounded up according to the customer's instructions and the difference between the two amounts is added to their investment account. The advantage of "ÜstüKalsın" is that it encourages customers to save without changing their spending habits. In its SME business, the Bank offers over 100 products, including a specialized website (İŞ'TE KOBİ) that includes current news, articles and industry-specific and economic reports for SMEs and the SUNUMATİK application that allows non-English speaking users to produce professional presentations.

*Defend and Selectively Grow Market Share across Key Markets through Superior Customer Service*

In order to maintain and grow its market-leading position, the Bank intends to strengthen customer relationships by utilizing the Bank's experienced, dedicated and highly trained employees, extensive distribution network and wide range of products and services to improve customer satisfaction by maximizing its presence, accessibility and innovation. The Bank launched its "Customer-Centric Transformation Program" ("CCT") in 2006 to target specific improvements in its customer service regime, operational efficiency and commercial productivity. Since 2011, the Bank has achieved all of its CCT targets, including the introduction of advanced customer segmentation and marketing models and centralization of many branch operations. Furthermore, the Bank has initiated several additional employee training programs (such as sales academy training courses) to further enhance the quality of service being delivered to its customers.

To further support its customer-centric focus, the Bank seeks to maximize customer value by, among other things, increasing cross-selling, re-activating inactive customers, building relationships with customers that have the potential to use multiple banking services and focusing on high growth products such as housing loans, insurance and pension products. In particular, the Bank is focusing on selectively growing retail and SME clients, which offer superior potential for growth given Turkey's developing economy.

### *Reduce its Cost-Base and Increase Productivity and Commercial Effectiveness*

The Group plans to continue to focus on operational efficiencies through economies of scale, improving cost controls and identifying other cost reduction and efficiency measures. The Group intends to achieve this through several approaches such as centralization of branch operations, target-based sales management, increased operational productivity via technological improvements and sales-oriented restructuring of its branch organization. The Bank plans to use technology and centralized operation centers whenever possible to increase efficiency, and has made significant investment in information technologies such as deployment of Gişematik (teller cash recyclers) and multifunctional ATMs.

The Group also intends to focus on improving its operational efficiency by migrating its customers to alternative delivery channels (such as internet, mobile banking and ATMs) and is enhancing the range of available delivery channels and alternative products available in order to drive more and more banking transactions out of traditional branches. As of March 31, 2013, approximately 8.1 million customers were actively using the Bank's alternative delivery channels, accounting for approximately 80% of the Bank's total consumer banking transactions during the three months ended March 31, 2013.

### *Continue to Focus on Recruitment and Development*

The quality of the Group's employees and their commitment to the Group's performance are key factors in ensuring the Group's future success. The Group seeks to attract the most promising and talented employees and to retain and develop them throughout their careers. Targeting the best universities is the starting point for the new graduate recruitment process, followed by aptitude and personality tests and competency-based interviews. The Group also offers programs and training opportunities intended to foster the personal and professional development of its employees, and to support and reward loyalty, responsibility and creativity. The Group strives to design and implement a fair and effective hiring, appraisal and advancement system based upon competence and performance. Succession planning for the top management and programs designed to meet the specific development needs of high potential managers are the key retention programs for top personnel, as well as the leadership mentoring program applied within the Group.

### *International Expansion*

The Bank is a major participant and a strong brand in the Turkish market. Having (as of March 31, 2013) the largest domestic distribution network among private sector banks in Turkey, the Bank also intends to expand its growth momentum internationally. The Bank's strategy is to follow its customers and meet their banking needs in international markets having close economic, commercial and cultural ties with Turkey. The Bank's main criteria of expansion are the volume of foreign trade, Turkish-originated foreign investments in the target country and economic stability and growth potential.

In this context, the Bank shapes its international presence in line with the globalization of the Turkish economy and seeks to become a regional bank first and then to become an international bank through the expansion of its overseas network. The Bank's management believes that the Bank, with its high level of banking experience, has the ability to make significant contributions to the economic prosperity of the target markets. In any such expansion, the Bank's aim is to maintain sustainable growth in profitability, as well as to increase the revenues generated by its existing overseas network. The Bank has various ongoing overseas expansion activities, including (as of March 31, 2013) being in the process of opening branches in Baghdad and Duhok (Iraq), Tbilisi (Georgia) and Taşkinköy (Turkish Republic of Northern Cyprus)).

## **History and Development**

The Bank was established under the laws of the Republic of Turkey in 1924 at the initiative of Mustafa Kemal Atatürk as the first national bank of the Republic of Turkey and began operating with two branches and 37 staff members. Unlike many of its competitors, the Bank is neither a family-run enterprise nor a state bank. In May 1998, 12.3% of the Bank's total shares previously held by the Turkish Treasury were sold to

national and international investors in an initial public offering. The Bank is headquartered in İstanbul and (with its Group) provides a full range of banking services, including corporate banking, commercial banking, retail banking, private banking and capital markets operations. The Bank's articles of incorporation provide for the following activities:

- effecting all kinds of banking transactions,
- setting up or participating in all types of ventures concerning agriculture, industry, mining, the production and distribution of power, public works, transportation, insurance, tourism and exports,
- founding companies for the production, manufacture and procurement of all types of goods or supplies, or to participate in enterprises engaged therein, and
- undertaking and carrying out all types of industrial and commercial transactions in its own name and for its own account as well as jointly with domestic and foreign institutions or in the name and for the account of such institutions.

The Bank was established in Ankara on August 26, 1924 with the Cabinet Decision dated August 20, 1924. The Bank was later registered with the İstanbul Chamber of Commerce on December 29, 1999 under registration number 431112 when its registered office was moved to its current location at İş Kuleleri, 34330 Levent, İstanbul. The Bank is a bank under the Banking Law and is duly organized and incorporated and validly existing as a joint stock company (*anonim şirket*) under the Turkish Commercial Code (No. 6102). The duration of operation of the Bank as a joint stock company is unlimited.

### **Business Activities**

The Bank provides a full range of banking services, including in the following five sectors:

- *corporate banking activities:* commercial loans, non-cash loans (including letters of guarantee, guarantees and acceptances), foreign trade operations, project finance, merger and acquisition finance, hedging and cash management solutions,
- *commercial banking activities:* commercial deposit taking, business credit cards, commercial loans, small business loans, flexible business loans, overdraft commercial accounts, point of sales-based loans, commercial housing loans, commercial auto loans, tractor and agricultural equipment loans, small business export and investment loans, letters of credit, letters of guarantee, point-of-sales agreements, automatic payment instructions, tax collection, internet banking, foreign trade operations, sector-specific packages, cash management and payment system facilities,
- *retail banking activities:* deposit accounts, credit cards, debit cards, prepaid cards, housing loans, general purpose loans, auto loans, overdraft accounts, merchant agreements, payroll accounts, automatic payment instructions, social security premium collection, tax collection, tuition fee collection, investment products, insurance products and HGS-OGS (Turkey's highway toll collection system),
- *private banking activities:* in addition to retail banking products and services, Privia-branded products (including credit cards, Privia consumer loans, Privia mutual funds and Privia individual pension accounts) and structured products, each tailored to the needs of specific private banking customers, and
- *capital market operations activities:* investment account system, mutual funds, equity brokerage, odd-lot transactions, fixed income business (bond trading), gold trading, futures and options brokerage, repo and custody services.

The Bank presents its group structure under three principal business lines: Banking Services, Financial Participations and Non-Financial Participations. These business lines are further divided into various sub-business lines based upon business activities as indicated in the table below. The business activities presented under Financial Participations and Non-Financial Participations are executed by separate legal entities referred to as “participations,” in which the Bank (directly or indirectly) holds shares. For a list of the Group’s shareholdings in these participations, see “*Business of the Group – Subsidiaries and Affiliates – Financial Participations*” and “*Non-Financial Participations*.” While the Bank (directly or indirectly) holds a controlling interest in each of these participations and appoints some of their board members, in practice the participations operate with a certain level of autonomy on a day-to-day basis.

For accounting purposes, the Bank reports its business in its BRSA consolidated financial statements under six segments: Corporate, Commercial, Retail, Private, Treasury/Investment and Unallocated. The first five of these segments largely correspond to the five sectors noted above. The Bank’s results make up the large majority of the results for these five segments, with the remainder being contributed by separate legal entities within the “Financial Participations” sector. For a list of the activities undertaken in its Financial Participations sector, see “*Subsidiaries and Affiliates – Financial Participations*” below.

The Bank does not consolidate the results of its non-financial participations (principally its glass and telecommunications businesses) in its BRSA consolidated financial statements on a line-by-line basis and so these results do not appear in the segmental data included therein. The non-financial participations are reflected in the Bank’s BRSA consolidated financial statements under the “Investments in associates” and “Investments in subsidiaries” items at their book values. For a list of the “non-financial participations, see “*Subsidiaries and Affiliates – Non-Financial Participations*.”

As of the date hereof, the Bank’s business units are as follows:

<b>Banking Services</b>	<b>Financial Participations</b>	<b>Non-Financial Participations</b>
Corporate Banking	Insurance	Glass
Commercial Banking	Private Pension	Telecommunications
Retail Banking	Reinsurance	Others
Private Banking	Banking	
Capital Market Operations	Investment Banking	
Other Banking Services	Real Estate Investment Trust	
	Brokerage and Custody	
	Leasing and Factoring	
	Asset Management	
	Venture Capital	

## **Banking Units**

### ***Corporate Banking***

The Bank established its Corporate Banking business unit in 2003 to provide services to large domestic and multinational companies. The Corporate Banking business unit provides a full range of corporate banking products and services including, but not limited to, commercial loans, non-cash loans (including letters of guarantee, guarantees, and acceptances), foreign trade operations, project finance, merger and acquisition finance, risk management products and cash management services.

As of March 31, 2013, the Corporate Banking business unit accounted for TL 43.6 billion (36.6% of the Group’s total loans) and TL 21.7 billion (20.3% of the Group’s total deposits). As of March 31, 2013, the Corporate Banking business unit operated through 10 specialized branches, four corporate branches and one “multinationals’ branch” in İstanbul and one corporate branch in each of Kocaeli, Ankara, İzmir, Antalya and Bursa. By establishing these corporate branches, the Bank aims to increase its market share of credit,

investment and foreign trade transactions among customers with high creditworthiness, to reach new customers and to benefit from cross-selling opportunities.

With its “Multinationals’ Branch” in İstanbul, the Bank provides services for multinational companies that invest in (or are interested in investing in) Turkey. The Multinationals’ Branch is supported by a dedicated unit at the Bank’s head office. The branch and head office unit offer companies consulting services, such as with respect to finance and taxation-related laws and regulations, as well as information on the day-to-day management of their business in Turkey. Corporate Banking branches are dedicated solely to working with corporate customers assigned by the Bank’s head office in İstanbul. In the Corporate Banking branch model, the Bank maintains a clear distinction between “sales” and “operations” functions, enabling relationship managers to focus on sales activities while ensuring expertise and efficiency in operations.

The Bank (as of the date hereof) classifies customers with annual net sales of at least US\$30 million and/or a credit limit of at least US\$10 million as “corporate customers;” *however*, it is also possible to evaluate customers on a case-by-case basis in determining whether or not the customer should be included as a corporate customer. Depending upon the nature of services and products used, a customer may be designated as a commercial client even if it meets the sales and credit limit requirements of the corporate segment. As of March 31, 2013, the Bank had approximately 6,000 corporate customers.

The Corporate Banking business unit’s long-term strategy is to enhance its customer franchise and to broaden its product portfolio in order to diversify revenue sources and to contribute to the Group’s sustainable and profitable growth.

*Loan Products.* A significant portion of the Corporate Banking business involves extending loans to corporate customers. The Bank primarily offers the following types of loans to its corporate customers: revolving loans, overdraft loans, discount loans, foreign currency-indexed loans, foreign currency-denominated loans, letters of guarantee, spot loans, investment and project finance loans and commercial loans with monthly installment repayments.

*Trade Finance.* The Bank’s Corporate Banking unit also offers trade finance products. The Bank provides a variety of support services and payment management mechanisms to customers engaging in international trade transactions. The Bank offers mainly the following types of trade finance products: export loans, letters of credit, acceptance credit, pre-finance loans, confirmation loans, forfeiting and Turkish Exim Bank export loans (pre-shipment).

*Project Finance.* A significant portion of the Bank’s corporate loan portfolio relates to its project finance activities. The Bank has played a key role in a number of major project finance deals throughout the country, including the financing of mergers and acquisitions and privatizations of publicly owned energy, steel and refinery plants and public utilities, port and airport concessions, real estate development projects, energy deals and industrial plants in various sectors such as mining and metals, cement, food products and electromechanical equipment. The Bank also finances a number of Turkish Treasury and municipality-backed infrastructure projects.

The Bank selectively extends financing for high-volume private sector investments, privatizations and merger and acquisition projects, while remaining committed to its risk-sensitive approach. In recent years, the Bank has also acted as underwriter on several large syndicated loans. The Bank granted loans related to financing 17 projects with an estimated total loan value of US\$1.4 billion in 2012 and loans related to financing 41 projects with an estimated total loan value of US\$3.6 billion in 2011.

The Bank provides project finance with full recourse to project assets and limited or full recourse to the sponsors. Only selected transactions adhering to international standards that have very limited bankability concerns may be financed on a pure non-recourse basis.

The Bank's project finance activities have received the following awards from the publication Euromoney: "European Hydro Power Deal of the Year" in 2010 for the Boyabat Hydroelectric Power Plant Project, "European Utilities Deal of the Year" in 2010 for the privatization of UEDAŞ and ÇEDAŞ electric distribution companies, "European Transport Privatization Deal of the Year" in 2011 for the privatization of İstanbul Ferries (*İstanbul Deniz Otobüsleri* – İDO), "European Power Deal of the Year" and Project Finance International's "Turkish Deal of the Year" in 2011 for the Gebze Combined Cycle Gas Tribune Plant and "Turkish Infra Deal of the Year" in 2012 for operation and transfer of the Istanbul strait road tube crossing project (the Eurasia Tunnel Project).

The Bank's project finance activities also provide the Group with cross-selling opportunities for its derivative products and other banking services. These activities provide a significant contribution to the Group's business volumes.

*Certified Check:* Certified Check is a unique and innovative product designed to solve concerns in Turkey that checks might not be cashed due to insufficient funds in the issuer's account. In this program, the customer applies for a certified check guarantee limit and, if the limit is approved by the Bank, the customer uses this limit for issuing checks. After a certified check is issued, the recipient of such check can obtain information about the level of the guarantee of such check via SMS, mobile applications and branches and thereby take confidence that the check will be cashed. If the customer's account balance is not sufficient at the time a check is presented for payment, then any shortfall is paid from the Bank's guarantee limit.

*Risk Management.* The Bank provides tailored products that are designed to offset customers' exposures to interest, maturity and currency risks. These products include customized investment vehicles, forward and futures contracts, swaps and options. These products take into account a number of factors including the goals, risk tolerance levels and cash flows of the customers.

*Cash Management Services.* The Bank's cash management services include the following:

- *Direct Debiting.* The direct debit system is an electronic debt collection system that permits customers to collect receivables from third parties and transfers collected amounts to the relevant customer account through the settlement service provided by the Bank. Direct debiting also provides payment guarantees for suppliers' sales to dealers.
- *Dealership Card.* The Dealership Card is an alternative to traditional payment systems, such as checks and promissory notes, that the Bank provides to its commercial customers. This product provides payment guarantees for suppliers in relation to their installment sales, as well as offering the convenience of a credit card. The Dealership Card differs from a regular credit card, however, in that it does not generate financing cost for the Bank.
- *Other Electronic Systems.* The "Electronic Collection of Checks and Notes System" is designed to enhance the processing of large numbers of checks and notes delivered to the Bank's branches for collection or as collateral. The "Automatic Money Transfer System" provides for automatic money transfers where transfer information is received in electronic format, while the "Electronic Account Statement System" allows companies to access detailed statements of their accounts electronically, relieving an administrative burden on the Bank's branches.

### **Commercial Banking**

The Bank has focused on supporting commercial customers, especially SMEs in Turkey, since it was founded in 1924. The Bank provides commercial banking services through its Commercial Banking business unit, which is comprised of marketing, sales and product divisions. The Bank's management believes that in recent years SMEs have gained increasing importance and weight within Turkey's economic development.



The Bank (as of the date hereof) generally classifies customers with net sales of less than US\$30 million and/or a credit limit of less than US\$10 million as commercial banking clients. As of March 31, 2013, the Bank had nearly 1,038,000 commercial banking customers.

As of March 31, 2013, the Commercial Banking business unit accounted for TL 45.3 billion (or 38.0%) of the Group's total loans and TL 20.9 billion (or 19.6%) of the Group's total deposits.

The Bank offers an extensive range of products and services to meet the full range of its customers' financial needs, including commercial housing loans, commercial overdrafts, installment-based commercial loans, commercial auto loans and specialized packages of banking services and support solutions for SMEs' information needs.

The Bank has designed its commercial marketing activities to take into consideration seasonality and sectoral differences as well as its customers' needs and attitudes, which the Bank assesses using new analytical models introduced as part of the Bank's CCT program.

While providing SMEs with investment financing and operating capital, the Commercial Banking business unit also offers customized loan products for its commercial customers and business partners to enhance their position within the market. These loan products vary from commercial auto loans to commercial housing loans. The Bank's market share in commercial auto loans was 25.7% as of March 31, 2013 (source: BRSA). In order to provide its customers with more differentiated and focused service, the Bank set up a "Sector-Specific Banking/Agriculture and Tourism Unit" within the Commercial Banking business unit. The Bank supports the agricultural sector through specially designed credit products such as tractor and agricultural equipment loans and business cards such as "İşbank Agricultural Procedure Card" and "İmece Card." In addition, the Bank offers cash management and payment system products to its commercial banking customers.

In 2008, the Bank introduced a network of commercial branches with a view to offering high quality service to commercial customers of a certain size that are also in good standing with the Bank. As of March 31, 2013, 39 of these specialized commercial branches were in operation. For further information as to how the Bank's branches are categorized, see "*Channel Management*."

The Bank has agreements with various chambers of commerce and industry and associations and unions under which it offers credit and cash management products to member companies. The Bank has signed protocols with the Small and Medium Enterprises Development Organization ("*KOSGEB*") relating to servicing the working capital and export financing needs of manufacturers, tradesmen and artisans in Turkey. The Bank has also signed protocols with the Credit Guarantee Fund ("*KGF*") and the Turkish Grain Board ("*TMO*"). The KGF provides guarantees that make it possible to provide loans to SMEs that lack sufficient collateral, and through its arrangement with the TMO the Bank extends loans against TMO receipts to its depositors who have delivered their produce (wheat, barley, corn and rice) to the TMO.

### ***Retail Banking***

As of March 31, 2013, the Bank had approximately 12.9 million retail banking customers. In order to sustain and grow revenues in the competitive Turkish banking environment, the Bank's focus is on retaining and growing the range of products and services utilized by its profitable customers through an emphasis on cross-selling. Aiming to achieve customer-centricity, the Bank analyzes customer data and builds business models based upon the results obtained from various analytical models.

As of March 31, 2013, the Retail Banking business unit accounted for TL 27.0 billion (or 22.6%) of the Group's total loans and TL 41.8 billion (or 39.1%) of the Group's total deposits. The Group's retail loans are comprised of three different loan categories: consumer loans, overdrafts and credit cards.

The Bank categorizes its retail banking customers into three customer segments based upon behavioral patterns and financial needs. The Bank uses a value-based segmentation model to categorize its retail banking customer base as “mass,” “mass affluent” and “affluent.” A client’s assets under management, monthly income and average credit balance are among the principal criteria the Bank uses as part of its segmentation model. In addition to this value-based segmentation, retail banking customers are also categorized based upon their financial needs and behaviors so that customer-driven initiatives can be designed accordingly.

The Bank seeks to build and sustain its competitive advantage in the retail banking business by meeting the needs and expectations of its customers. The Bank employs a multi-factor approach to building loyalty and seeking to grow its customer base through a wide-ranging branch network, a customer-centric approach, employment of highly qualified personnel, providing innovative products and services designed to meet customer needs and providing alternative distribution channels enabling various types of transactions. The Bank also analyzes customer data through certain analytic models, such as value-based segmentation, customer churn analysis, lifetime value analysis, potential value analysis and next-best product analysis, in order to gain insight into customer needs and then seeks to provide new products to meet those needs.

The products and services that the Bank offers to its retail banking customers include auto loans, housing loans, general purpose cash loans, deposit and overdraft accounts, checks, investment accounts, payment and collection services, individual cash management services, OGS-HGS highway toll payment products, smart cards, credit, debit and prepaid cards, interactive banking facilities (including telephone, internet and mobile banking), ATM services (with online cash deposit features), payroll services, automatic payments, tax and insurance premium collection, fixed income and over-the-counter (“*OTC*”) securities (including odd-lot *OTC* equity trading) and foreign exchange transactions.

*Payroll Services.* The Bank’s management believes that the Bank’s large network of branches and ATMs make the Bank an attractive choice for large corporations entering into “payroll agreements.” When a company opens its main account with one of the Bank’s branches and then enters into a payroll agreement for its employees, the Bank opens an individual account and issues a debit and credit card for each employee on that company’s payroll.

The Bank had payroll agreements with approximately 23,500 employers providing for the direct deposit of paychecks to approximately 1.25 million employee accounts maintained with the Bank, as of March 31, 2013. The Bank’s management believes that the expansion of accounts covered by payroll agreements is of strategic importance as it provides an opportunity for the Bank to cross-sell the Group’s other banking and financial services.

*Automatic Payments.* The Bank’s management believes that the Bank provides a broader range of services in the area of automatic payments and fee collections than its principal competitors, including those related to fees of several universities and private schools, taxes and insurance installments, as well as telephone, water, electricity and natural gas bills. The Bank has systematically extended its bill payment services by entering into agreements with institutions nationwide. The number of automated bill payment orders through the Bank was 5.2 million during the first three months of 2013. The Bank’s payroll services and automated bill payments are important sources of demand deposits.

*Overdraft Accounts.* An overdraft account has typically been a highly popular retail product among the Bank’s customers since it provides comfort and flexibility for short-term financing needs. The Bank offers overdraft accounts to all of its retail banking customers. An overdraft account enables the Bank’s customers to pay their bills, make payment transfers and withdraw cash even if their account balance is not sufficient. An overdraft account does not have a specific term. It can be used permanently if the customer makes regular payments on the account. As of March 31, 2013, the value of funds held in the Bank’s retail overdraft accounts was TL 309 million.

*Consumer Lending.* As of March 31, 2013, the Group's total consumer loans (excluding overdrafts), which are composed of general purpose loans, auto loans and housing loans, amounted to TL 22,902 million. General purpose loans amounted to TL 11,463 million (50.1%), auto loans amounted to TL 1,288 million (5.6%) and housing loans amounted to TL 10,151 million (44.3%).

As of March 31, 2013, according to BRSA data, on a bank-only basis, the Bank's market share of the consumer loan market was 11.6%, with a market share of 12.0% related to housing loans, 17.2% related to auto loans and 10.9% related to other loans.

Auto loans are generally collateralized by a pledge on the purchased vehicles and/or guaranteed by creditworthy individuals or entities. Housing loans are generally collateralized by a mortgage on the purchased property in an amount 50% more than the aggregate scheduled installments. Housing loans generally have a tenor of no longer than 120 months and are denominated in Turkish Lira with a fixed rate of interest.

All appraisal procedures for collateral are conducted by independent appraisal firms that have been licensed by the BRSA and CMB. The Bank's Construction and Real Estate Department has determined the list of independent appraisal firms and the appraisal of collateral must be done by firms that are included in this list. The branch managers have no authority to appraise collateral.

With its extensive branch network and large customer base, the Bank provides a diversified range of housing loan products for each segment of customers. The Bank's employees all undertake certified housing loan training programs in order to assist customers with their housing loan needs. Working in cooperation with real estate agencies, the Bank enacts various strategies that enable it to acquire new housing loan customers. Additionally, the Bank is intensively focused on increasing its share in ongoing residential estate projects. The Bank has various housing loan products, of which fixed payment housing loans have been the most popular product.

*Deposits.* Deposits (both from retail and other customers) are the Group's main source of funding and reached TL 106,776 million as of March 31, 2013. Deposits accounted for 51.6% of the Group's total liabilities as of March 31, 2013. As of March 31, 2013, Turkish Lira-denominated deposits accounted for approximately 57.7% of the Group's total deposits, while foreign currency-denominated deposits accounted for the remainder.

The Bank has the largest market share of deposits among private sector banks in Turkey on a bank-only basis, with 13.4% of total deposits as of March 31, 2013 according to the BRSA. The Bank's management believes that this indicates the Bank's customers' trust in the Bank and also that deposits are a strong and stable funding source in large part due to the Bank's large domestic customer base, extensive branch network, sound reputation, advanced information technology and efficient retail banking services.

The Bank offers its customers a range of deposit products, including Turkish Lira/foreign currency demand deposits, Turkish Lira/foreign currency current accounts, Turkish Lira/foreign currency term deposit accounts and Turkish Lira "Fixed Accounts" and "Floating Accounts." The Bank's "Floating Account" was Turkey's first term-deposit product with Turkish Lira Interbank Offered Rate-indexed return.

Current accounts and term deposit accounts are basic deposit products and are used extensively by the Bank's customers. Fixed accounts and floating accounts provide liquidity through periodic interest payments. The terms of these accounts vary between a minimum of one year and a maximum of three years with interest payments at one, three, six or 12 month intervals. The interest rate is fixed for the duration of a fixed account. The account protects customers against falling interest rates during its lifetime. For floating-rate accounts, interest is paid at intervals and is linked to the Turkish Lira Interbank Bid Rate. The Bank also recently commenced offering its "Automatic Deposit Order" service to facilitate customers' propensity to save, which service permits customers to set up automatic periodic transfers from their current accounts to interest-earning term deposit accounts.

As of March 31, 2013, the Bank had the largest market share among private sector banks in Turkey in terms of total deposits, Turkish Lira deposits, foreign exchange deposits, demand deposits (excluding deposits from banks) and Turkish Lira savings deposits with market shares of 13.4%, 12.0%, 16.3%, 15.5% and 13.8%, respectively, on a bank-only basis.

As of March 31, 2013, the total value of the Group's deposits reached TL 106,776 million, with demand deposits accounting for 20.1% and all other deposits accounting for the remaining amounts. In terms of Turkish Lira-denominated saving deposit accounts, the Bank's market share was 13.8% as of March 31, 2013 on a bank-only basis according to the BRSA. In terms of Turkish Lira-denominated demand saving deposits, the Bank's market share was 15.8% as of March 31, 2013, on a bank-only basis according to the BRSA.

*Credit and Debit Card Business.* The Bank's credit and debit card business consists of two main functions, issuing credit, debit and prepaid cards to its customers and acquiring the right to receive reimbursement for charges made on credit, debit and prepaid cards issued by other banks. As of March 31, 2013, the Bank had the largest market share in terms of numbers of debit cards among private sector banks in Turkey and ranked among the top three credit card issuers in Turkey in terms of number of credit cards according to Interbank Card Center (both on a bank-only basis).

The Bank also offers various card products to its customers, including contactless cards, prepaid cards, credit cards that enable customers to earn miles and credit and debit cards specifically issued for university students. The Bank aims at establishing a lifetime relationship with its cardholders through a number of loyalty programs and technological innovations. Credit card transactions are carried out in a secure manner in line with "Europay, MasterCard, Visa" rules.

As of March 31, 2013, the Bank had more than 6.0 million credit cards in issue to its own customers, representing approximately 12.8% of the total Turkish credit card market by total issuance volume and approximately 10.8% by number of cards outstanding; 9.3 million debit cards, representing approximately 9.9% of the Turkish debit card market; and over 250,000 point-of-sale terminals, representing approximately 11.6% of the total Turkish market, each according to the Interbank Card Center. As of March 31, 2013, the Bank, with a 12.8% market share of the Turkish credit card market in terms of transaction volume on a bank-only basis, managed two different credit card brands, "Maximum Card" and "Maximiles," and was the fourth largest participant in the market in terms of total transaction volume (source: Interbank Card Center). The Bank's wide range prepaid "MaxiPara" cards offer different solutions for various needs. The MaxiPara card is not linked to any account and, as of March 31, 2013, the Bank provided seven types of MaxiPara Cards: MaxiPara Card Ekonomik (for a consumer's own use), MaxiPara Youth 18 (for customers 12-18 years old), Maxi Para Youth+18 (for customers 18 years old and above), MaxiPara Gift Card, MaxiPara Personalized Card (for corporate use), MaxiPara Unpersonalized Card (for corporate use) and MaxiPara Goldcard (for depositing gold).

The Maximum Card and Maximum loyalty program award customers with installment advantages and reward points, which can be redeemed in various stores. Launched in 2009, "Maximiles" targets frequent flyers, offering customers the opportunity to earn air miles with every purchase as well as the reward points and installment advantages of a regular Maximum Card. As of March 31, 2013, cardholders were able to use their reward points with over 260,000 merchant firms and almost 196,000 chains. With its credit card segmentation model, the Bank keeps track of its customers' spending behavior and develops specific programs for different segments.

The card business is not viewed by the Bank as an isolated product but, rather, that it complements other products within the Bank's retail and corporate banking product portfolio. In monitoring a relationship with a particular customer, the Bank considers the profitability and the lifetime value of the relationship as a whole and not only with respect to the card business. The Bank's management believes that the Bank's card business is a core component of the Bank's retail banking business, driving the cross-selling of other products such as demand deposits and commercial accounts and enabling the Bank to remain competitive in

the Turkish banking sector. The Bank's credit card business constitutes its largest source of gross fees and commissions income, contributing 36%, 40%, 38% and 34% of total gross fees and commissions income in the three months ended March 31, 2013 and the full year 2012, 2011 and 2010, respectively.

### ***Private Banking***

The Bank offers financial solutions and investment alternatives to private banking customers based upon a "personalized service" approach. To be eligible for the Bank's private banking services as of the date hereof, customers are required to have a minimum of TL 250,000 of assets under management held with the Bank.

As of March 31, 2013, the Private Banking business unit accounted for TL 0.5 billion (or 0.4%) of the Group's total loans and TL 18.6 billion (or 17.5%) of the Group's total deposits.

The Private Banking business unit mainly focuses on activities regarding the diversifying of investment products to cater to the individual needs and expectations of private banking customers. The Private Banking business includes financial products and services tailored to the specific needs of its customers, including priority one-on-one service, which are consolidated under the "Privia" brand. This unit also designs and develops processes for providing high quality and customized services in the Bank's branches and other delivery channels.

The Bank services private banking customers through dedicated private banking branches (as of the date hereof, eight total located in İstanbul, Ankara, İzmir, Antalya and Adana), and through private banking divisions set up at branches (as of the date hereof, 22 total located in İstanbul, Ankara, İzmir, Bursa, Mersin and Hatay). In addition, in various of the Bank's branches, customer relationship managers provide dedicated services solely for private banking customers.

### ***Capital Markets Operations and Other Financial Services***

The Bank (including through its financial subsidiaries) offers a diverse range of products to its retail, private, corporate and commercial banking customers with competitive pricing as well as an extensive network of branches, ATMs and kiosks and an interactive internet banking facility. In recent years, the Bank has sought to expand its stock, gold, bond, bill and repo trading and mutual fund capabilities.

As of March 31, 2013, the total value of the securities portfolio that the Bank manages for its customers was valued at TL 50,776 million (TL 48,366 million as of December 31, 2012).

*Investment Accounts.* In 1990, the Bank was the first bank in Turkey to offer investment accounts for its customers. Such accounts permit customers to trade listed securities, the Bank's mutual funds and fixed income securities including government securities, gold and futures contracts traded on the Turkish Derivatives Exchange (the "TURKDEX") and to enter into "repo" transactions. Customers can access their investment accounts through ATMs and the Bank's interactive banking services. As of March 31, 2013, the Bank had 10.8 million investment accounts.

*Fixed Income.* The Bank was the leading provider of fixed-income trading services to investors in Turkey as of March 31, 2013, with 21.2% of the Turkish market on a bank-only basis, totaling TL 15,684 million in fixed income securities under custody (source: BRSA). According to Borsa İstanbul data, as of March 31, 2013, the Bank held first place in the Borsa İstanbul, with a 20.9% market share in transaction volume.

The Turkish Treasury issues bonds both domestically and internationally. Its domestic issuances include zero coupon bonds and coupon bonds. Coupon bonds include inflation-linked bonds, fixed coupon bonds and floating rate notes. All types of Turkish Treasury issuances can be sold and purchased by the Bank's customers without any restriction. Repo and reverse-repo transactions for various maturities are executed on an electronic platform in the Borsa İstanbul Bonds and Bills Market. OTC reverse repo transactions are also offered to all of the Bank's customers.

*Mutual Funds.* The Bank was the leading Turkish bank in the mutual fund market as of March 31, 2013 with a market share of 21.1%, totaling TL 6.8 billion (source: Rasyonet). The Bank offers numerous mutual funds catering to a wide range of risk and return profiles. As of March 31, 2013, the Bank had over 835,000 investors in mutual funds.

As of March 31, 2013, the Bank had 21 Type-B funds, six of which were capital protected mutual funds, and the Bank was the largest Type-B fund provider in Turkey with a portfolio size of TL 6.2 billion, achieving a 20.5% market share (source: Rasyonet). As of the same date, the Bank's money market funds had a portfolio size of TL 4.8 billion, making the Bank the market leader in the Turkish money market mutual funds market according to Rasyonet. As of the same date, the portfolio size of the Bank's Type-A Funds was TL 607.7 million and the Bills and Bonds Funds was TL 423.3 million.

As of March 31, 2013, the Bank had six equity ("Type-A") mutual funds. As of March 31, 2013, the İşbank Moneybox Fund (the first fund in Turkey to be geared towards children) was the largest Type-A fund in Turkey with 260,000 investors and a portfolio size of TL 382.2 million, and the İşbank Affiliate Fund was the sixth largest Type-A fund in Turkey with a portfolio size of TL 67.8 million (source: Rasyonet).

The Bank also has a leading role in environmental and social responsibility projects in Turkey. As a major participant in the mutual fund sector, in May 2008, the Bank introduced the "Invest in Environment Fund" (the Type-B TEMA Environmentally Responsible Fund), Turkey's first mutual fund to be focused on the environment and social responsibility.

*Odd-Lot Equity Trading.* The minimum trade size of a stock on the Borsa İstanbul is 1 share with a nominal value of TL 1.00. All stocks traded below this level are considered as "odd-lots" and can be traded via licensed institutions. According to Borsa İstanbul data, as of March 31, 2013, the Bank was the leading Turkish market participant in "odd-lot" trading with a market share of around 99%

*Custody.* The Bank has been the leading custody provider in Turkey since the re-activation of the former İstanbul Stock Exchange and Gold Exchange ("İSE") in 1986. The investment account system, which is unique to the Bank, offers custody facilities for a full range of securities, including equities, mutual funds, derivatives, gold, bonds and bills as well as repo transactions.

In addition to domestic custody services, as an SEC (U.S. Securities and Exchange Commission)-qualified bank, the Bank is also one of the main providers of custodial services to non-resident institutional investors. Services offered to non-resident institutional investors include settlement, clearing and safekeeping services, SWIFT reporting, prudent cash management, foreign exchange transactions, legal bookkeeping, corporate action processing/income collection, proxy voting and the provision of up-to-date market information.

In January 2008, the CMB authorized the Bank to act as a "Portfolio Custody Institution" for asset management companies. Within the scope of this role, the Bank provides settlement, clearing and safekeeping services for the assets of individual and corporate investors managed by asset management companies.

*Gold Trading.* The Bank is an active gold trader on the Borsa İstanbul. The Bank's management believes that, as of March 31, 2013, the Bank had the largest market share among all banks in Turkey in terms of the total gold balance of its deposit and investment accounts. As of March 31, 2013, the Bank held a total of 43 tons in gold for over 400,000 customers. The Bank trades gold on the Borsa İstanbul as well as on the international OTC market and settles trades on both a physical basis and a cash basis.

*Investment Banking and Capital Markets Operations.* The Bank provides capital market services and investment banking services through its Capital Markets Division and its subsidiaries İş Yatırım Menkul Değerler A.Ş. ("İş Yatırım") and İş Portföy Yönetimi A.Ş. ("İş Portföy"). Türkiye Sınai Kalkınma Bankası A.Ş. ("İş TSKB"), another subsidiary, is also active in Turkish capital markets and investment banking operations.

*International Banking.* The Bank's International Banking division manages the Bank's correspondent banking relationships and its international fund raising activities.

The Bank is the first Turkish bank that opened overseas branches, having established branches in Alexandria, Egypt and Hamburg, Germany in 1932. The Bank's global expansion strategy is to become first a regional bank, then an international bank. As such, the Bank studies the international markets with a special focus on the neighboring regions and has taken important initiatives in recent years. As of the date hereof, in addition to Turkey, the Bank operates in 14 countries with branches, representative offices and two financial subsidiaries having a total of 49 branches and two representative offices. As of March 31, 2013, the Bank had 14 branches in the Turkish Republic of Northern Cyprus and one branch in each of Bahrain, London, Arbil (Iraq), Batumi (Georgia) and Pristina (Kosovo). As of March 31, 2013, the Bank's representative offices are located in Cairo and Shanghai. In addition to its existing global network, the Bank has ongoing overseas expansion activities, including (as of March 31, 2013) being in the process of opening branches in Baghdad and Duhok (Iraq), Tbilisi (Georgia) and Taşkinköy (Turkish Republic of Northern Cyprus).

As of March 31, 2013, the Bank's network of correspondent banks comprised more than 1,500 banks in over 125 countries. This worldwide coverage through its correspondent banks, coupled with the Bank's own extensive network, resulted in incoming foreign currency transfers at the Bank of US\$114.4 billion and outgoing foreign currency transfers of US\$68.0 billion during 2012. The Bank is a major participant in international trade finance and handles a sizable portion of the trade finance activities in Turkey. The Bank's management believes that the Bank is one of the few Turkish banks that are active in trade finance, and had a market share in trade finance of more than 10% according to December 2012 data from TurkStat. As part of its international banking activities, the Bank acted as the financial intermediary in connection with approximately US\$ 24.2 billion of import and US\$18.3 billion of export transactions in 2012. The Bank also has arrangements with all major export credit agencies that are active in Turkey.

As part of the Bank's international fund raising activities, the Bank obtains funds through syndicated term loan facilities, future flow transactions, eurobonds, multilateral institutions and export credit agencies, as well as bilateral transactions. For further information, see "*Funding*."

### **Own-Account Securities Portfolio**

In addition to securities held for customers, the Group manages its own portfolio of securities. As of March 31, 2013, the Group's total securities portfolio was valued at TL 36,986 million. As of such date, the Bank's securities portfolio was comprised of Turkish Lira-denominated floating rate securities (54.5%), Turkish Lira-denominated discount and fixed securities (29.8%), foreign currency-denominated discount and fixed securities (12.4%) and foreign currency-denominated floating securities (3.3%). Turkish government bonds and Turkish government treasury bills constituted 96.2% of the Bank's total securities portfolio as of such date. Moreover, 69.2% of the Bank's total securities portfolio was classified as "available for sale" as of such date.

### **Subsidiaries and Affiliates**

Since its establishment in 1924, the Bank has played an important role not only in the Turkish financial sector but also in certain industrial sectors in Turkey. The Bank has pioneered the development of a number of new areas of business through investments and equity participations in the industrial and financial services sectors. Since its establishment, the Bank has invested in the equity of almost 300 companies and, over time, has divested all but a few of these companies. As of March 31, 2013, the Bank's direct equity interests were in companies operating in finance, glass, telecommunications and other industrial and services sectors, of which the shares in five companies were classified as available-for-sale securities. As of March 31, 2013, the total book value of the Bank's equity participations was TL 8,218 million.

Other than the strategic non-financial equity participations described under "Non-financial participations" below, the majority of the Bank's non-financial equity participations are held as medium-term investments.

The Bank continually evaluates opportunities to divest its stakes in these non-strategic equity participations under favorable conditions.

### Financial Participations

The Bank has direct and indirect financial services subsidiaries active in the following sectors: banking, brokerage and custody, investment banking, leasing, factoring, insurance, private pension, reinsurance, real estate investment trust asset management and venture capital. Financial services subsidiaries enrich the product and service range that the Bank offers to its customers through its various business lines and create cross and complementary product delivery and sales opportunities.

The following table sets forth details of the Bank's financial participations as of March 31, 2013.

Group Company	Field of Activity	Bank's	Group's	Assets <sup>(1)</sup>	Shareholders'	Market
		Direct	Share		Equity	Share
		Share	Share		Assets <sup>(1)</sup>	Equity
(US\$ thousands)						
Türkiye Sınai Kalkınma Bankası A.Ş <sup>(3)</sup> ..	Investment					
	Banking	40.52%	50.00%	6,124,165	1,062,811	20.76% <sup>(1)</sup>
İşbank AG.....	Banking	100.00%	100.00%	1,227,153	144,846	N/A
CJSC İşbank .....	Banking	100.00%	100.00%	225,516	57,671	N/A
Anadolu Anonim Türk Sigorta Şirketi <sup>(3)</sup> ..	Non-Life					
	Insurance	-	57.31%	1,418,951	342,220	12.7% <sup>(2)</sup>
Anadolu Hayat Emeklilik A.Ş <sup>(3)</sup> .....	Life Insurance &					
	Private Pension	62.00%	83.00%	4,100,255	282,368	20% <sup>(10)</sup>
Milli Reasürans T.A.Ş <sup>(13)</sup> <sup>(3)</sup> .....	Reinsurance	76.64%	77.06%	2,099,094	515,847	12% <sup>(11)</sup> <sup>(12)</sup>
İş Yatırım Menkul Değerler A.Ş. <sup>(3)</sup> .....	Brokerage House	65.65%	70.69%	2,382,072	473,519	8.2% <sup>(4)</sup>
Yatırım Finansman Menkul Değerler A.Ş.	Brokerage House					
.....		-	98.42%	313,964	38,963	1.9% <sup>(4)</sup>
İş B Tipi Yatırım Ortaklığı A.Ş.....	Securities					
	Investment Trust	-	36.60%	163,007	147,028	40% <sup>(5)</sup>
İş Portföy Yönetimi A.Ş. ....	Asset Management	-	100.00%	39,584	37,260	21.5% <sup>(6)</sup>
İş Finansal Kiralama A.Ş. <sup>(3)</sup> .....	Leasing	27.79%	57.39%	1,535,771	321,856	4.9% <sup>(7)</sup>
İş Faktoring A.Ş.....	Factoring	-	100.00%	583,273	35,486	6.6% <sup>(8)</sup>
İş Gayrimenkul Yatırım Ortaklığı A.Ş. <sup>(3)</sup> ..	REIT	42.23%	58.04%	784,105	584,157	5.3% <sup>(9)</sup>
İş Girişim Sermayesi Yatırım Ortaklığı	Venture Capital					
A.Ş. <sup>(3)</sup> .....	Inv.Trust	-	57.67%	208,923	134,592	N/A
<b>Total</b> .....				<b>21,205,833</b>	<b>3,837,092</b>	

(1) Total Assets (derived from the BRSA's website)

(2) Gross written premiums (derived from data published by The Insurance Association of Turkey)

(3) Consolidated amounts.

(4) Transaction volume (derived from the Borsa İstanbul's website)

(5) NAV (derived from the CMB's website and the Public Disclosure Platform of the Borsa İstanbul)

(6) Funds under management (derived from the CMB's website)

(7) Transaction volume (derived from the Turkish Leasing Association)

(8) Transaction volume (derived from the Turkish Factoring Association)

(9) Market Value (derived from the Public Disclosure Platform of the Borsa İstanbul)

(10) Total amounts of participants' funds.

(11) Gross domestic written premiums.

(12) Milli Reasürans T.A.Ş. is the sole Turkish reinsurance company operating in Turkish insurance sector with a domestic market share of 12%. The remaining amount is shared by foreign reinsurance companies.

(13) As of December 31, 2012



*Insurance.* The Group provides its customers non-life and life insurance services through the Bank's insurance subsidiaries, Anadolu Anonim Türk Sigorta Şirketi ("*Anadolu Sigorta*") and Anadolu Hayat Emeklilik A.Ş. ("*Anadolu Hayat*"). In addition to insurance services, the Group also provides reinsurance services through Milli Reasürans T.A.Ş. ("*Milli Reasürans*").

*Non-Life Insurance.* Established in 1925, Anadolu Sigorta offers a range of non-life insurance policies including fire and natural disaster, transport, accident, engineering, agriculture, health, general damage and other insurance products. As of March 31, 2013, the Bank had an indirect control over Anadolu Sigorta through its subsidiary Milli Reasürans, which has a 57.31% share in the company. Anadolu Sigorta was the second largest non-life insurance company in Turkey with a 12.68% market share in terms of gross written premiums in the non-life insurance market as of March 31, 2013 (source: The Insurance Association of Turkey). Anadolu Sigorta had gross written premiums of TL 713 million and TL 2,235 million for the three months ended March 31, 2013 and for the year ended December 31, 2012, respectively.

For 2012 and the three months ended March 31, 2013, Anadolu Sigorta recorded net losses of TL 56 million and net income of TL 0.3 million, respectively, on a consolidated basis. Anadolu Sigorta's products are distributed through its approximately 2,600 agents and through the Bank's and other contracted banks' branches.

*Life Insurance and Private Pension.* Anadolu Hayat was established in 1990 and offers life insurance and private pension policies. As of March 31, 2013, Anadolu Hayat was the second largest life insurance company in Turkey with a 10.68% market share in the life insurance market according to data published by The Insurance Association of Turkey and the largest private pension fund in Turkey with a 20.05% market share as of the same date, according to data provided by the Pension Monitoring Center. The Bank owns a 62.0% direct equity interest in the share capital of Anadolu Hayat as of March 31, 2013. For the three months ended March 31, 2013, Anadolu Hayat had gross written premiums of TL 104 million and for the year ended December 31, 2012 it had gross written premiums of TL 367 million. For the three months ended March 31, 2013, Anadolu Hayat had pension contribution income of TL 192 million and for the year ended December 31, 2012 it had pension contribution income of TL 713 million. For the year ended December 31, 2012 and the three months ended March 31, 2013, Anadolu Hayat recorded a net profit of TL 81 million and TL 24 million, respectively, on a consolidated basis. Anadolu Hayat insurance and pension products are distributed through its approximately 260 agents and through the Bank's and other contracted banks' branches and financial planning specialists.

*Reinsurance.* Milli Reasürans was established in 1929 to manage compulsory reinsurance transactions within Turkey and, as of the date herof, is the only active reinsurance company resident in Turkey. The company fulfilled approximately 12% of the industry's need for reinsurance coverage as of March 31, 2013 (source: Milli Reasürans and The Insurance Association of Turkey). Since 1991, Milli Reasürans accepts business on a voluntary basis from Turkish insurance companies. As of March 31, 2013, the Bank owned a 76.6% direct interest in the share capital of Milli Reasürans. Its Singapore branch, opened in 2007, marked the first step of Milli Reasürans' plans to expand its presence beyond national borders. Milli Reasürans had gross written premiums of TL 263 million for the three months ended March 31, 2013 and TL 1,031 million for the year ended December 31, 2012. For the three months ended March 31, 2013, the company recorded net profit of TL 17 million on a consolidated basis (TL 39 million for the year ended December 31, 2012). In April 2013, A.M. Best affirmed Milli Reasürans' financial strength rating as "B+" and no longer under review while S&P raised Milli Reasürans' national scale rating to "trAA+".

#### *Investment Banking*

TSKB is an equity participation in which the Bank held a 40.52% direct interest and a 50.0% group share as of March 31, 2013. TSKB's ordinary shares have been listed on the Borsa İstanbul (and its predecessor, the İSE) since 1986, and as of December 31, 2012, 54.06% of TSKB's shares were traded on the Borsa İstanbul and the remaining were minority shares. Founded in 1950, TSKB was the first investment bank founded in Turkey. As of December 31, 2012, TSKB was the largest private investment bank in Turkey in terms of total

assets with total assets of TL 10,857 million and a 2012 net income of TL 325 million in consolidated figures (TL 11,072 million and TL 94 million, respectively, for the three months ended March 31, 2013) (source: Turkish Banks Association). TSKB is principally involved in providing long-term project financing for the domestic and international investments of Turkish companies as well as providing foreign currency and Turkish Lira-denominated loans to the Turkish industry. TSKB is also involved in capital market intermediary activities, portfolio management and corporate finance advisory services. TSKB's investment banking activities include intermediation in the sale of bonds, shares and other instruments of Turkish companies by public offer or block sale. TSKB provides consultancy services to domestic and foreign corporations, including locating strategic or financial partners and advising on company mergers and privatizations.

#### *Real Estate Investment Trust*

İş Gayrimenkul Yatırım Ortaklığı A.Ş. (“İş REIT”) is a real estate investment trust in which the Bank had a direct equity shareholding of 42.23% as of March 31, 2013. According to the Public Disclosure Platform of the Borsa İstanbul, İş REIT was the third largest real estate investment trust in Turkey with an asset value of US\$784 million as of March 31, 2013. The real estate portfolio of İş REIT, from which the company earns rental income, is comprised of office spaces, hotels and commercial properties, such as bank branches and shopping centers located in İstanbul and other Turkish cities. The İş Tower complex in İstanbul where the Bank maintains its headquarters is partially owned by İş REIT. İş REIT has also been developing a residential project in İstanbul and a mixed project comprised of a shopping mall and residential units in İzmir.

#### *Leasing*

İş Finansal Kiralama A.Ş. (“İş Leasing”) was established in 1988 as a joint venture among the Bank, Société Générale and the International Finance Corporation. The latter two entities sold their interests in 1995 and, as of March 31, 2013, the Bank held a 27.79% direct equity interest and a 57.39% group share in the company, while the remaining shares are traded on the Borsa İstanbul. As of March 31, 2013, the consolidated total assets and equity of İş Leasing amounted to TL 2,777 million and TL 582 million, respectively. Net current leasing receivables amounted to TL 1,414 million as of the same date. As of March 31, 2013, the distribution of leased assets by equipment categories as a percentage of total leased assets in the company's portfolio were as follows: machinery and construction (41%), real estate (25%), transportation (11%) and other sectors (23%).

#### *Brokerage and Custody*

The Bank owned 65.65% of the share capital of İş Yatırım as of March 31, 2013, which commenced operations on December 18 1996 following the implementation of capital market regulations requiring Turkish banks to conduct certain capital market activities through separate legal entities. An initial public offering of İş Yatırım's shares was held in May 2007 on the Borsa İstanbul. İş Yatırım was the first investment banking institution with its securities traded on the Borsa İstanbul. İş Yatırım's principal capital market activities are equity-related businesses and asset management.

İş Yatırım also trades fixed income securities, including government bonds, treasury bills and repurchase contracts, for institutional and individual clients other than the Bank. İş Yatırım also provides services in equity brokerage, corporate finance transactions (including privatizations, initial public offerings and listings on the Borsa İstanbul, international sales and trading of securities) and produces nationwide industry and company-specific research reports. In order to benefit from business opportunities in international capital markets, İş Yatırım established a financial subsidiary in London on August 8, 2005 under the name of Maxis Securities Ltd.

As of March 31, 2013, according to data provided by the Borsa İstanbul, İş Yatırım had the following market shares in organized exchange transactions: 8.2% in Borsa İstanbul equity transactions, 7.8% in the “Outright

Purchases and Sales” market of the “Bills & Bonds” market among brokerage houses and 15% in the stock futures market of the TURKDEX. According to data provided by the Borsa İstanbul, İş Yatırım was the market leader among licensed brokerage firms in Turkey in terms of equity trading volume as of March 31, 2013. İş Yatırım was one of the founding partners of the TURKDEX, which commenced its operations in February 2005, and as of March 31, 2013 it continued to be the leading brokerage firm in terms of trading volume realized since the foundation of the market. İş Yatırım’s consolidated net sales and net profit figures for March 2013 were TL 16.7 billion and TL 18.6 million, respectively, while its consolidated assets and equity amounted to TL 4.3 billion and TL 856.1 million, respectively. In addition, as of December 31, 2012, İş Yatırım was the largest licensed brokerage firm in Turkey in terms of its paid-in capital, which was TL 286 million (source: Union of Turkish Brokerage Firms). In December 2012, Fitch Ratings Ltd. confirmed İş Yatırım’s national long-term rating as “AAA.”

### *Banking*

Headquartered in Germany, İşbank AG was founded in 1992 as a wholly-owned subsidiary of the Bank. İşbank AG serves in key trading and financial markets with its European network (as of the date hereof) of 13 branches in Germany and one branch in each of The Netherlands, France, Switzerland and Bulgaria. One of İşbank AG’s main priorities is the promotion of close commercial and business ties between Europe and Turkey. As of March 31, 2013, total assets and equity figures for İşbank AG were €998 million and €113 million, respectively.

As a way of expanding its banking activities in the region, on April 27, 2011 the Bank purchased 100% of the shares of Closed Joint Stock Company Bank Sofia operating in Russia after approval by the BRSA, the Russian Government Commission and the Russian Central Bank. The name of the bank was changed to Closed Joint Stock Company İşbank in October 2011. Headquartered in Moscow, the bank (as of the date hereof) has four branches and eight affiliate branches in Moscow, St. Petersburg, Samara and Novosibirsk. As of March 31, 2013, the bank had over 300 employees and its total assets and equity amounted to 7,008 million Russian Rubles and 1,792 million Russian Rubles, respectively. The primary aim of the bank is to enhance and develop its corporate and commercial relationships with Turkish companies operating in Russia and with its Russian customers, and also to develop retail banking activities throughout Russia.

### *Other Financial Participations*

The following table sets forth certain information, as of March 31, 2013, on other financial companies in which the Bank or the Bank and its subsidiaries and other affiliates own 20% or more of the outstanding share capital.

<b>Company</b>	<b>Bank’s Share</b>	<b>Shares owned by the Bank and the Bank’s affiliates</b>	<b>Sector</b>
Arap Türk Bankası A.Ş.....	20.58%	20.58%	Banking
İş Faktoring A.Ş.....	—	100.00%	Factoring
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	—	57.67%	Venture Capital Inv. Trust
İş Portföy Yönetimi A.Ş.....	—	100.00%	Asset Management
İş Yatırım Ortaklığı A.Ş.....	—	36.60%	Securities Investment Trust

*Banking.* Arap Türk Bankası A.Ş. functions mostly in commercial and corporate banking. The Bank does not have a control share in the bank and the Bank’s direct share in the total capital of the bank was 20.58% as of March 31, 2013, which also indicates the Group’s group share in the bank. As of March 31, 2013, consolidated total assets and equity of the bank amounted to TL 2,899 million and TL 436 million, respectively.

*Factoring.* The Bank had a 100% indirect group share in İş Faktoring A.Ş. (“İş Faktoring”) as of March 31, 2013. The company had TL 1,055 million in total assets and TL 64 million in equity as of March 31, 2013, while its factoring receivables amounted to TL 1,048 million as of the same date. As of the date hereof, İş Faktoring is fully consolidated under İş Leasing.

*Venture Capital Investment Trust.* İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (“İş Girişim”) is a venture capital investment trust that was established in 2000 according to CMB rules as Turkey’s largest private equity fund. A 37.69% stake of İş Girişim was floated on the Borsa İstanbul in 2004. As of March 31, 2013, the Bank held a group share of 57.67% in the company through its subsidiaries, holding a paid-in capital amount of TL 58 million.

Being one of the most active and the very few local private equity houses, İş Girişim partners with Turkish companies to help them not only in Turkey but also globally to compete in their respective industries by sourcing acquisitions, enhancing operational efficiencies, facilitating new market expansions and designing the optimal capital structure to support them during the execution of their strategies.

İş Girişim’s consolidated net profit for 2012 was TL 51.3 million (for the first quarter of 2013, a net loss of TL 78,000). The company’s consolidated assets and equity as of March 31, 2013 amounted to TL 377.7 million and TL 243.3 million, respectively.

*Asset Management.* İş Portföy was founded in October 2000 as a subsidiary of the Bank. All of İş Portföy’s shareholders are subsidiaries of the Bank. The company provides discretionary and non-discretionary asset management services solely to institutional investors. Backed by experienced asset managers who inherited the Bank’s mutual fund management know-how in Turkey, the company is the leader in its sector.

The size of assets managed by İş Portföy reached TL 13.0 billion as of March 31, 2013. As of such date, İş Portföy managed 25 of the Bank’s mutual funds from various risk categories and had a market share of assets under management of 22.0% in a market size of TL 56.4 billion according to the CMB. Also, together with various pension funds that it manages for Anadolu Hayat, as of such date İş Portföy captured a 19.3% market share out of a market size of TL 23.0 billion according to the CMB.

İş Portföy’s operating income and net profit figures for 2012 were TL 5.4 million and TL 9.6 million, respectively (TL 1.8 million and TL 2.4 million, respectively, for the first quarter of 2013). The company’s assets and equity as of March 31, 2013 amounted to TL 71.6 million and TL 67.4 million, respectively.

*Securities Investment Trust.* İş B Tipi Yatırım Ortaklığı A.Ş. (“İş Yatırım Ortaklığı”) is a securities investment trust that was founded in August 1995 and went public on the Borsa İstanbul in 1996. The Bank has an indirect control over İş Yatırım Ortaklığı through its subsidiaries. İş Yatırım Ortaklığı manages a portfolio composed of capital market instruments, gold and other precious metals and had the largest portfolio in the sector with a market share of 40.0% in a market size of TL 668 million as of March 31, 2013 according to the CMB. İş Yatırım Ortaklığı’s net profit for 2012 was TL 47.5 million (TL 9.5 million for the first quarter of 2013) while, as of March 31, 2013, its assets and equity amounted to TL 294.7 million and TL 265.8 million, respectively.

#### *Non-Financial Participations*

In addition to its equity participations in the financial sector, the Bank holds equity stakes in companies whose businesses (such as glass and telecommunications) are outside of its core operations. In the past, the Bank has entered into a number of diversified equity participations as part of the promotion and development of Turkish industry and in areas in which its management believes investments provide a competitive rate of return. On rare occasions, the Bank has entered into equity participations with the aim of collecting its loans through debt-for-equity swaps. The Bank’s non-financial participations represented 2.39% and 2.36% of its total assets as of December 31, 2012 and March 31, 2013, respectively. For the full year 2012 and the three months ended March 31, 2013, total dividend income received from its non-financial participations

constituted 5.9% and 9.6%, respectively, of the Bank's net income. As of March 31, 2013, significant strategic non-financial equity participations of the Bank were the Şişecam Group and Avea. These participations are strategic in the sense that they are long-term investments of the Bank in companies with strong market positions in Turkey and, in Şişecam's case, in neighboring areas. These non-financial participations are not consolidated in the income statement of the consolidated BRSA Financial Statements; *however*, they are shown under the "Investments in Associates" and "Investments in Subsidiaries" line items at their market values for publicly traded non-financial participations and at their book values for the other non-financial participations in the consolidated BRSA Financial Statements.

*Glass – Şişecam Group.* As of March 31, 2013, the Bank held a 65.47% stake in the Şişecam Group, which it founded in 1935. With total assets of US\$5,146 million as of March 31, 2013, the Şişecam Group operates mainly in the area of glass manufacturing (including flat glass, glassware and glass packaging) and the production of fiberglass, soda ash and chromium chemicals. The Şişecam Group's production facilities are located in nine countries, namely Turkey, Egypt, Russia, Georgia, Bulgaria, Bosnia Herzegovina, Italy, Ukraine and Romania. Depending upon product category, as of the date hereof, Şişecam's ranking in terms of glass production capacity varies from third to sixth globally and from second to fourth within Europe according to company-specific analysis derived from various external sources.

*Telecommunications – Avea.* As of March 31, 2013, the Bank together with its subsidiaries and other affiliates held 10.00% of the share capital of Avea and the remaining shares were owned by Türk Telekom. The Bank's standalone share in Avea's paid-up capital was 7.44% as of such date. Avea, which is one of the three GSM operators active in Turkey, was created through the merger of İş-Tim Telekomünikasyon Hizmetleri A.Ş. with Aycell Haberleşme ve Pazarlama Hizmetleri A.Ş. in February 2004. The merger created significant operational and financial synergies following the integration, creating a new entity (Avea) with significant increases both in network coverage and market share. As of March 31, 2013, Avea had approximately 13.7 million subscribers and a 20% market share in the Turkish GSM market according to the "Electronic Communications Market in Turkey Report" published by Information and Communications Technologies Authority.

*Others.* The following table sets forth certain information, as of March 31, 2013, about the other non-financial companies in which the Bank or the Bank's subsidiaries and other affiliates own(s) 20% or more of the outstanding share capital. None of these investments represent more than 0.15% of the Bank's assets as of such date.

<b>Company</b>	<b>Bank's Share</b>	<b>Shares owned by the Bank and the Bank's affiliates</b>	<b>Sector</b>
Antgıda Gıda Tarım Turizm Enerji ve Demir Çelik San. Tic. A.Ş.....	99.89%	99.99%	Food
Bayek Tedavi Sağlık Hizm. ve İşl. A.Ş. ....	—	98.29%	Health Care Services
CamişYatırım Holding A.Ş.....	99.97%	100.00%	Holding
İş Merkezleri Yönetim ve İşletim A.Ş. ....	86.33%	100.00%	Facility Management
İş Net Elek. Bilgi Üretim Dağ.Tic.ve İletişim Hizmetleri A.Ş. ....	94.65%	100.00%	Information Technologies
Softtech Yazılım Tek. Ar-Ge ve Yaz. Paz. Tic. A.Ş.	—	100.00%	Software
Trakya Yatırım Holding A.Ş. ....	65.34%	100.00%	Holding
Mipaş Mümessillik İth. İhr. ve Paz. A.Ş.....	—	100.00%	Real Estate Development
Nemtaş Nemrut Liman İşletmeleri A.Ş. ....	99.81%	100.00%	Shipping
Kültür Yayınları İş Türk Ltd. Şti .....	99.17%	100.00%	Publication

## Channel Management

As of March 31, 2013, the Bank, with its 1,246 domestic branches, had the most extensive branch network of all private sector banks in Turkey and had branches in every city in the country (source: Turkish Banks Association). As of the same date, the Bank was the leading private sector bank in terms of the number of branches in 75 cities out of 81. Unlike most of its competitors, in addition to the branches in large cities, the Bank also has branches in rural districts.

Below is a table presenting the number of branches that the Bank had in each region of the country (plus foreign branches) as of March 31, 2013:

Regions	Branches
Marmara.....	491
Central Anatolia.....	219
Aegean.....	190
Mediterranean.....	140
Black Sea.....	108
South East Anatolia.....	58
Eastern Anatolia.....	40
Foreign Branches.....	19
Total.....	1,265

The Bank opened 63 (six branches were consolidated with other branches) in 2011, 47 (no branches were consolidated with other branches) in 2012 and 15 (no branches were consolidated with other branches) in the three months ended March 31, 2013, and it plans to open additional domestic branches in 2013 and 2014. As well as developing its internet, telephone and mobile banking services in recent years, the Bank has maintained a strong focus on expanding its branch network, which it considers to be its core marketing and selling unit. Customer relationships are usually initiated and maintained at the branch level while technical and marketing support or expertise needed to enhance customer relations is provided by the head office.

The Bank's domestic branches are arranged in the following categories depending upon the structure of their target markets and target customer segments and the variety of services provided:

- *Corporate Branches – 10 branches as of March 31, 2013.* These branches provide specialized services to companies that meet the corporate qualification and size criteria determined by the Bank's head office.
- *Commercial Branches – 39 branches as of March 31, 2013.* These branches provide specialized services to companies within the commercial segment that meet the commercial qualification and size criteria determined by the Bank's head office.
- *Private Banking Branches – 8 branches as of March 31, 2013.* These branches provide tailored services to customers falling within the high net worth segment according to criteria determined by the Bank's head office as well as customers identified as being potential high net worth customers.
- *Mixed Branches – 1,189 branches as of March 31, 2013.* These are non-specialized branches whose services are not solely geared towards a specific segment of customers.

Branch openings are closely co-ordinated with ATM installation and electronic banking expansion.

In addition to its nationwide branch network, the Bank places great importance on its alternative distribution channels, including internet banking, mobile banking ("*İşCep*" and, for tablets, "*İşPad*"), ATMs and telephone banking.

The Bank had over 4,880 domestic ATMs as of March 31, 2013. Based upon data provided by the Interbank Card Center, as of March 31, 2013, the Bank maintained the largest ATM network in Turkey among private commercial banks, with a market share of 13.04%. From October 1, 2009, debit card users were able to withdraw money from their bank accounts via ATMs from all banks nationwide. Transactions via different banks' ATMs are subject to a fee determined by the cardholder's bank. The Bank's management believes that in having the largest ATM network and nationwide coverage, the Bank has been one of the banks that benefits the most from this change.

As of March 31, 2013, the Bank had over 260,000 point-of-sale terminals.

Below is a table presenting the Bank's percentage allocation of distribution channels (by transaction numbers) for the periods indicated:

	2010	2011	2012	2013 Q1
<b>Branches</b> .....	30%	25%	22%	20%
<b>Non-branch</b> .....	70%	75%	78%	80%
ATMs .....	30%	30%	32%	31%
Internet and Mobile .....	35%	40%	40%	45%
Telephone .....	1%	1%	2%	2%
Call Center.....	4%	4%	4%	3%

The Bank was the first to offer non-branch banking in Turkey when its first "Bankamatik" ATMs were introduced in 1982. The Bank was also the first bank in Turkey to introduce telephone banking based upon an IVR system (1996), offer internet banking (1997) and provide value-added channel transactions such as remote stock exchange transactions. The Bank was also the first in Turkey to offer a mobile phone banking service (İşCep) compatible with a wide range of mobile platforms. Two more recent innovations, both based upon code technology, were the Bank's "Parakod" service, which enables online and point of sale payment with a credit card using a smartphone application to scan codes on an online shopping site or point of sale, and a service to permit cardless cash withdrawal on ATMs.

All of the Bank's retail banking services and a substantial portion of the Bank's corporate banking services are fully computerized. All of the Bank's points of service, including branches and alternative distribution channels (including ATMs, point-of-sale terminals and call centers) are linked to the Bank's main data center located at its head office in Istanbul, which gives the Bank the ability to centrally monitor and analyze services, while allowing most transactions to be executed on a real-time, online basis. As of March 31, 2013, the Bank offered remote services in respect of more than 350 transactions that may be executed over the telephone or the internet and more than 100 transactions that could be executed over "İşCep" (mobile banking).

## Information Technology

The Bank's technology operations and initiatives are managed by its IT division. This division employed almost 550 personnel, including approximately 300 professionals dedicated to installing, maintaining and operating the Bank's software applications, management information system and security system and branch IT systems as of March 31, 2013. In addition, two subsidiaries (Softtech and İşnet) provide application development and maintenance project management and systems operations/infrastructure services, respectively.

There is a continuous effort to implement and operate best practices such as COBIT, ITSM and CMMI, which are the most widely accepted development, service delivery, service support and IT governance standards. Most critical operational data and software are stored on mainframe computer systems. As of the date hereof, approximately 3,500 Windows /AIX-based servers are installed to host or support collaboration, e-mail, database, reporting services, applications servers, general ledger, payment systems, core banking, call center, customer relationship management ("CRM"), internet banking web hosting of the Bank's websites

and interactive voice response applications (“IVR”). The IT department of the Group reduced hardware-caused outages, as well as maintenance, power, space and other costs, by increasing the ratio of virtualized servers. WAN infrastructure is totally renewed and VOIP has become widespread.

The Bank’s main data center is located at its head office in İstanbul. The data center at the head office is the main IT operation center and connection point for the internet and the Bank’s branches. The Bank also maintains other operation centers in İstanbul, which are used for certain business operations and a call center.

The Bank has a contract with IBM to provide a disaster recovery solution for the Bank’s critical systems. The IBM-operated center is located in İzmir, Turkey. In the event of a disaster, natural or otherwise, whereby the Bank cannot operate its technology infrastructure, the IBM system is designed to act as a surrogate technology backbone providing all of the Bank’s services to the branches and electronic banking systems. The IBM system is designed to allow the Bank to operate under as close to normal conditions as possible during such a disaster, although this system has never been required to date.

Since 2002, J2EE-based application servers have been chosen as the strategic growth platform for core business applications and service-oriented architecture (SOA) backbone. In recent years, many end user applications have been improved and modernized in both user interface and back office services by taking advantage of this new SOA backbone. The data warehouse was renewed in 2010 using IBM’s BDW data model, and the Bank has established a strong presence in the mobile banking market with the İşCep mobile application brand.

The Bank has continued to invest in IT and new technologies to maintain its competitive position in the Turkish banking sector. The Bank’s IT infrastructure is being continuously improved.

## **Lending Policies and Procedures**

### *Credit Approval and Monitoring*

The credit evaluation process in the Bank is designed in accordance with its lending policies, which are, in turn, based upon the principles of security, liquidity, profitability and credit risk rating. The credit evaluation process starts at the branch level but, in accordance with credit authorization levels, may end within the branch, with the Consumer Loans Underwriting division, the SME Loans Underwriting Unit Regions, the SME Loans Underwriting division, the Corporate or Commercial Loans Underwriting divisions, the Credit Committee (which is comprised of the Deputy Chief Executive Officer or the Chief Executive Officer and two members of the Board of Directors) or the Board of Directors. These units are also supported by the Financial Analysis (company analysis), Economic Research (sector analysis) and Risk Management (credit risk analysis) divisions. For further discussion on our risk management policies, see “*Risk Management*.”

The following table indicates the credit approval letter that is required as of the date hereof, which is based upon the size of the credit:

	<b>Authorization Limit</b>
Board of Directors .....	> US\$30,000,000
Credit Committee.....	≤ US\$30,000,000
Chief Executive Officer .....	≤ US\$20,000,000
Deputy Chief Executive.....	≤ US\$12,000,000
Corporate, Commercial, SME and Consumer Loans Underwriting Division Managers .....	≤ US\$8,000,000
Corporate and Commercial Loans Underwriting Division Unit Managers .....	≤ US\$4,000,000
SME and Consumer Loans Underwriting Division Unit Managers .....	≤ US\$3,000,000
Corporate, Commercial and SME Loans Underwriting Division Assistant Managers.....	≤ US\$1,000,000
Consumer Loans Underwriting Division Assistant Managers.....	≤ US\$500,000



In addition, as of the date hereof the Bank's branches have limited authority to extend credit in the range of US\$4,000 to US\$1,000,000 according to their credit extension capacities.

Prior to extending credit, each loan application is assessed initially at the branch level. The analysis undertaken takes into consideration a number of criteria, including three years of financial statements of potential borrowers, standard credit ratios, levels of existing indebtedness, the prior relationship of the proposed borrower to the Bank, past credit history, various documentation relating to the operation of a potential borrower's business, the quality of the proposed security, if any, and evidence of income and personal statistics in the case of individual loans. In each case, the loan application form is then forwarded to the person(s) or committee with the authority to approve the loan. Loan authorities may revise the terms of the proposed loan or may request additional collateral before deciding whether to grant the loan. The decisions of credit offices are facilitated by the works of the Financial Analysis (company analysis), Economic Research (sector analysis) and Risk Management (credit risk analysis) divisions.

Corporate and commercial customers whose assigned loan limits exceed US\$1,000,000 or net sales exceed US\$8,000,000 are graded by a detailed credit risk rating system. Loans are extended only to firms that have a risk rating between A+ and C (on a scale of A+ to D), and these ratings are reviewed annually. For SME customers with lower loan limits and for consumer loans, the Bank uses an internal scoring system, where SME and micro business loan customers are scored with SME and micro application scorecards. Both of the scorecards are divided into three score bands according to the following levels of risk potential: (a) insufficient, (b) moderate and (c) high. The scorecards are applied for each credit proposal of the firms in these segments and the output of the scorecard is used as a decision support system in the underwriting process. For consumer loans, credit risk analysis is carried out initially at the branch level. Where the credit amount exceeds the relevant branch's consumer loan limit, loan offers are passed to the Head Office Consumer Loans Underwriting division for consideration and approval. Customers' credit bureau records, the Bank's application scorecard results, Central Bank records and payable installment amount (among others) are taken into account when assessing risk.

The Bank's senior management regularly monitors the overall quality of its loan portfolio. In order to detect deteriorating positions in its corporate, commercial and SME loan portfolio in a more timely and efficient manner, a behavioral model based upon data from the Central Bank's Risk Centralization division and from a selection of internal behavioral indicators has been developed. Indicators include defaults on liabilities and commitments, such as unpaid principal or interest, unpaid checks, protested drafts or bonds and unpaid commissions. All corporate, commercial and SME customers are monitored monthly and each customer is flagged according to risk classes determined by the model. This is a supportive process for both decision-making on new credit assignments to existing customers and taking actions to prevent borrower default. In addition, the Credit Risk Management and Portfolio Monitoring division reviews relevant governmental regulations and internal bank policies and reports to the relevant authorities. The relevant loan authority and/or branches are then responsible for monitoring the credit to prevent borrower default. In addition, the Financial Analysis division and branches of the Bank are responsible for preparing financial analyses on a yearly basis using published financial statements and reviews the credit exposure of customers to other financial institutions and customer payment history based upon information supplied by the Central Bank.

#### *Concentration Limits*

The Bank has certain internal concentration limitations for its loan portfolio, which limitations are even more stringent than the regulations set by the BRSA. The Bank's internal regulations also differ from the BRSA regulations in certain ways, such as, in the Bank's internal approach, borrowers are separated into different limit categories and exposure to borrowers in each category is limited to a certain percentage of the Bank's own funds.

The following table shows the BRSA legal limits for each of the major concentrations as of the date hereof:

	<b>Turkish legislation</b>
A borrower's indebtedness/own funds <sup>(1)</sup> .....	25%
A group of borrower's indebtedness/own funds <sup>(1)</sup> .....	25%
The Bank's own risk group's indebtedness/own funds <sup>(1)</sup> .....	20%
Total of large loans cannot exceed the own funds over <sup>(1) (2)</sup> .....	800%

(1) Own funds calculated as the total of core capital and supplementary capital as required by the BRSA in the capital adequacy calculation regulation.

(2) Large loans are the loans made available to a real or legal person (or risk group) that equals or exceeds 10% of a bank's own funds.

### *Loan Classification and Provisioning Policy*

The Bank classifies its total loan portfolio in accordance with current Turkish banking regulations in its financial statements. Pursuant to these regulations, banks are required to classify their loans and receivables in one of the following groups:

*Standard Loans and Other Receivables (Group I)* – All loans and receivables are fully collectible or expected to be paid in full in a timely manner where the debtor is financially strong. Loans that are paid in due time and that suffer insolvency up to 30 days are classified in this group.

*Closely Monitored Loans and Other Receivables (Group II)* – In the event that a deterioration in the financial condition or in the cash flow of the debtor is evidenced, or there is sufficient proof or risk that repayment will not be made in a timely manner and in accordance with the conditions as set forth in the applicable loan agreement, loans and receivables must be allocated to this group. Nevertheless, in order to be classified in this group, there must be an expectation that such loans or receivables will be repaid in full. It is not required to provide any specific reserve for this group of loans. Loans whose maturity exceeds 30 days, but that do not meet the requirements to be classified in Group III regarding the length of the default in payment, are among this group.

*Loans and Other Receivables with Limited Collectability (Group III)* – In the event that the principal and/or accrued interest on a loan or receivable is not paid within a period of 90-180 days following its due date, then such loan or receivable must be allocated to this group.

*Loans and Other Receivables with Remote Collectability (Group IV)* – In the event that the principal and/or accrued interest on a loan or receivable is not paid within a period of 180 days to one year following its due date but there is still an expectation that the debtor may get additional financing by way of a merger, capital increase or cash injection, then such loan or receivable must be allocated to this group.

*Loans and Other Receivables Considered as Losses (Group V)* – In the event that there is no likelihood of collection on a loan or receivable, or the principal and/or accrued interest thereon is not paid or not expected to be paid within one year following its due date, such loan or receivable must be allocated to this group.

In the event that a loan is not expected to be paid within 90 days of the due date or the net equity of the debtor and the security provided is not sufficient for the repayment of a loan or receivable, it can be directly classified as an NPL without considering any unpaid period.

Pursuant to these regulations, all loans and receivables in Groups III, IV and V above and the collection of whose principal and/or accrued interest payments thereon have remained unpaid for 90 days following their due dates are classified as NPLs.

Furthermore, if: (a) the Bank's management has reason to believe that the borrower will default or (b) a guarantee is not paid within 90 days following the date of indemnification, the Bank has to classify the unpaid loan and all other loans of the same borrower as non-performing regardless of whether they have reached maturity.

For NPLs, the Bank is required by the applicable regulations to provide a specific reserve. As of the date hereof, these specific reserves must be set aside for NPLs in Groups III, IV and V described above in the amounts of 20%, 50% and 100%, respectively, of the relevant uncovered portion (net of collateral of the loan – net exposure) of the loan or receivable. The uncovered portion of a loan is calculated by deducting the cash equivalent value of collateral from the NPL. Collateral is taken into consideration in the calculation with respect to its liquidation level, applying (as of the date hereof) between 100% and 25% of its notional values.

See table in “*Portfolio Supervision and NPLs*” below for details of the movements in the Group's NPL portfolio as of each of the indicated dates.

As of the date hereof, Turkish regulations also require Turkish banks to provide: (a) a general loan loss reserve calculated at 1% of their total standard cash loan portfolio and 2% of their watch-list cash loan portfolio and comprising any loan that is considered to be a cash loan pursuant to the applicable banking law provisions and (b) a general reserve calculated at 0.2% of their total standard non-cash loan portfolio (letters of guarantee, acceptance credits, letters of credit, undertakings and endorsements) and 0.4% of their watch-list non-cash loan portfolio. Furthermore, regulations (as of the date hereof) also require banks to provide general reserves equal to: (a) 5% of their standard cash loan portfolio and watch list cash loan portfolio whose loan conditions will be amended in order to extent the first payment schedule, (b) 4% for standard and 8% for watch list consumer loans other than auto loans and housing loans, all applicable for the banks whose consumer loans to total loans ratio is above 20% or those having a ratio of non-performing consumer loans (other than auto loans and housing loans) to consumer loans (other than auto loans and housing loans) above 8%, and (c) 10% for standard and watch list consumer loans (other than auto loans and housing loans) whose loan conditions will be amended in order to extent the first payment schedule and for those banks whose consumer loans to total loans ratio is above 20% or those having a ratio of non-performing consumer loans (other than auto loans and housing loans) to consumer loans (other than auto loans and housing loans) above 8%.

See also “*Turkish Regulatory Environment – Loan Loss Reserves.*”

#### *Portfolio Supervision and NPLs*

Where a loan becomes impaired due to a delay in its principal or interest repayment of more than 90 days, the Bank classifies the loan as an NPL and classifies it under Group III as set out in the Turkish regulations. Accrued but uncollected interest must be deducted from revenue records. Interest on such a loan cannot be recorded as income unless collected. Furthermore, restructured loans are transferred to the “Renewed and Restructured Loans Account” according to collection performance as defined in the related decree. Under the Regulation on Provisions and Classification of Loans and Receivables, legal provisioning requirements for renewed and restructured cash and non-cash loans as of the date hereof are 2% and 0.4% respectively. The amount of NPLs restructured and transferred to the “Renewed and Restructured Loans Account” in the three months ended March 31, 2013 and the full years 2012, 2011 and 2010 totaled TL 68.1 million, TL 75.4 million, TL 101.8 million and TL 121.4 million, respectively. The ratio of restructured NPLs to total NPLs as of March 31, 2013 and December 31, 2012, 2011 and 2010 was 3.08%, 3.72%, 5.13% and 5.04%, respectively. Other loans that are not classified as NPLs may also be restructured. As of March 31, 2013, restructured performing loans constituted 2.9% of the Bank's total performing loan portfolio.

Due to its high recovery rates, historically the Bank has, in general, given priority to the recovery of NPLs through negotiations and initiating legal proceedings as opposed to sales. The Bank currently prefers to use negotiations to work-out NPLs over legal procedure, as legal procedures are a lengthier and costlier process. Before 2009, the Bank managed its NPL portfolio through recovery alone; *however*, the Bank signed two

NPL sales contracts in 2009 and since then has periodically sold NPL portfolios as market conditions were attractive to do so. NPLs that are sold may be written off either before or at the time of sale. The following table sets forth details of the movements in the Group's NPL portfolio as of each of the indicated dates.

	As of December 31,			As of March 31,
	2010	2011	2012	2013
	<i>(TL millions)</i>			
Balance at the beginning of the period .....	2,818	2,464	2,109	2,154
Additions <sup>(1)</sup> .....	1,006	988	1,200	410
Recoveries <sup>(2)</sup> .....	1,025	1,075	717	214
Portfolio sale .....	329	88	421	-
Write-off <sup>(2)</sup> .....	6	179	17	2
Balance at the end of the period .....	2,464	2,109	2,154	2,348

(1) Including foreign currency effect.

(2) Excluding portfolio sales.

The following table sets forth details of the Group's renewed and restructured loan accounts as of the indicated dates.

	As of December 31,			As of March 31,
	2010	2011	2012	2013
	<i>(TL millions)</i>			
Renewed and restructured loan accounts .....	782	1,318	2,425	3,300

#### *Loan Portfolio Quality*

The following table sets forth details of the Bank's NPL ratios as of each of the indicated dates.

	As of December 31,			As of March 31,
	2010	2011	2012	2013
Total NPL (TL million) .....	2,407	1,984	2,025	2,213
Coverage Ratio <sup>(1)</sup> .....	100.0%	100.0%	78.9%	78.0%
NPL Ratio .....	3.6%	2.1%	1.9%	2.0%

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

The following table sets forth details of the Bank's NPL ratios by loan categories as of each of the indicated dates.

	As of December 31,			As of March 31,
	2010	2011	2012	2013
Consumer loans <sup>(1)</sup> .....	2.9%	1.5%	1.6%	1.7%
Credit card loans .....	9.1%	5.2%	3.5%	3.9%
<b>Total Loans</b> .....	<b>3.6%</b>	<b>2.1%</b>	<b>1.9%</b>	<b>2.0%</b>

(1) Including retail overdraft accounts.

As of March 31, 2013, the Bank's NPL ratios were 1.7%, 3.9% and 2.0% for consumer loans, credit card loans and total loans, respectively, each lower than the sector averages according to the BRSA. The Bank's NPL ratios for the same segments as of December 31, 2012 were 1.6%, 3.5% and 1.9%, respectively.

### *Collateral*

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, there are five categories of collateral as set out in the table below. The amount of the specific reserve that is to be allocated is determined after the cash equivalent value of the collateral is deducted from the amount of the NPL. In this calculation, only the portion of the collateral that is equal to the amount of the NPL is taken into consideration. Each category of guarantee has its own rate of consideration as indicated below:

Category of Collateral	Types	Evaluation Ratio
1	Treasury bonds, cash, deposits, etc.	100%
2	Mortgages, promissory notes based upon real commercial transactions, equities, corporate bonds, bank guarantees, etc.	75%
3	Personal guarantees, export documents, movable pledges, etc.	50%
4	Others	25%
5	Unsecured loans	—

### **Related Party Transactions**

All related party transactions of the Bank are subject to the same approval procedures as those applicable to its customers (see "*Lending Policies and Procedures*" above).

The Banking Law places limits on a bank's exposure to related parties. Under the Banking Law, the total amount of loans to be extended by a bank to its risk group must not be more than 20% of its own funds. As of March 31, 2013, the Bank's total net exposure to its risk group totaled TL 2,575 million, an amount corresponding to 10.2% of its own funds. The Bank is therefore within the limits of the Banking Law in terms of its exposure to its subsidiaries and other affiliates.

In addition, the Banking Law limits the total amount of loans to be made available by banks to all shareholders, irrespective of whether they are dominant partners or whether they own qualified shares (excluding those that have a less-than 1% share in the capital of a bank), and to persons who have indirect loan relations with such persons, which amount to 50% or more of their own funds. With a negligible amount of exposure to its shareholders and their risk group as of March 31, 2013, the Bank is well within the limits set by the BRSA.

## Employees and Benefits

As of March 31, 2013, the Bank had 24,300 employees. The following table sets forth the number of employees as of the indicated dates.

	Employees
December 31, 2010.....	23,944
December 31, 2011.....	24,887
December 31, 2012.....	24,411
March 31, 2013.....	24,300

The Bank focuses on ensuring that employees have the level of education suitable for operational effectiveness and a career at the Bank. As of March 31, 2013, 20% of the Bank's employees had only a secondary school education, 2% were graduates of two or three years at college, 69% were graduates of universities relating to the banking industry, 5% were graduates of other universities and 4% had postgraduate degrees. Historically, the Bank has sought to maximize the opportunity for career development for its employees, with all positions filled through internal promotions and assignments as possible.

The Bank's workforce accounted for 11.89% of all banking industry employees in Turkey as of March 31, 2013 according to the Turkish Banks Association. The Bank's personnel turnover rate (*i.e.*, resignations excluding retirees) is very low, amounting to 2.47%, 2.76% and 3.45% in 2010, 2011 and 2012, respectively. As of March 31, 2013, the Bank's employees (excluding security guards) had, on average, approximately 8.97 years of experience in the Bank and an average age of approximately 33.95 years. The Bank places a high priority on personnel training and career development. Through its staff training department, the Bank operates training programs focusing on skills appropriate to the operations to be performed.

Almost all of the Bank's employees are members of Basisen, the Turkish union for the banking and insurance industries. Basisen and the Bank are parties to a collective bargaining agreement, the most recent of which was agreed on March 4, 2013. Collective bargaining negotiations for the next period are expected to begin in 2014. The Bank's management believes that the Bank has good relations with Basisen, the sole union associated with the Bank.

Turkish employees of the Bank participate in two private pension funds. All employees are members of Türkiye İş Bankası A.Ş. Emekli Sandığı Vakfı (the "*İşbank Pension Fund*"), which was established and operates under Turkish social security regulations. In addition, the majority of employees participate in the Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı (the "*İşbank Personnel Supplementary Pension Fund*"). The Bank and its employees contribute to both pension funds. On retirement, The Bank makes an additional lump-sum retirement payment, with employees entitled to receive pension salaries from the pension funds.

For pension funds, Law no. 5754 "Emendating Social Security and General Health Insurance Act and Certain Laws and Decree Laws", which was published in the Official Gazette dated May 8, 2008 and numbered 26870, decrees that payment obligations to the contributors of bank pension funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this law within three years after the release date of the related article without any need for further operation and that the three year transfer period can be prolonged for up to two years by a decision of the Turkish Cabinet; *however*, the law "Emendating Social Security and General Health Insurance Act", which was published in the Official Gazette dated March 8, 2012 and numbered 28227, raised the two year period to four years. The initial three-year transfer period was extended for two years by a Cabinet decision dated March 14, 2011, which was published in the Official Gazette dated April 9, 2011 and numbered 27900, and has since been further extended to May 8, 2015.

## Legal Proceedings

In the normal course of its business, the Bank is party to certain legal proceedings, whether as plaintiff or defendant, but the Bank's management does not believe that any such proceedings, individually or taken together, are likely to have a material adverse effect on the business of the Group or on the results of its operations or financial condition.

### *Competition Board Investigations*

Competition in Turkey is mainly regulated by Law No. 4054 on the Protection of Competition. This law is enforced by the Competition Board, which has the power to investigate possible breaches and impose fines.

In August 2009, the Competition Board released a report announcing that it had initiated an investigation of eight major banks, including the Bank, into allegations of collusion among such banks in relation to the provision of promotions to public and private corporate customers while providing payroll deposit services, in breach of the Competition Law. After its investigation, the Competition Board announced in March 2011 that it imposed an administrative fine amounting to TL 12,987,340 on the Bank with the possibility of the Bank's appealing the fine to the Council of State. In September 2011, the Bank announced that TL 9,740,505 of the fine (the amount calculated by benefiting from the discount within the framework of the provision of Article 17 of the Misdemeanor Law No. 5326) had been paid by the Bank on September 21, 2011; *provided* that the Bank reserved its right to litigate against the related decision and to claim for refund. The appeal process is currently pending.

In November 2011, the Bank, together with 11 other banks operating in Turkey, was subject to another investigation by the Competition Board. The Competition Board announced that it had initiated an investigation of 12 major banks (including the Bank), as well as two other financial institutions, with respect to allegations of acting in concert regarding interest rates and fees on deposits, loans and credit card services in breach of the competition law. On March 8, 2013, the Competition Board ruled that the Bank was to be fined TL 147 million (other banks were also fined, ranging from TL 10 to TL 213 million, with fines generally based upon net income) in connection with this investigation. The Bank's management has indicated that it intends to explore options to object to this decision through proceedings in the administrative courts. While there is no precedent Turkish court decision approving the legal validity of any such claims by customers and there are not any resolved cases opened by any customers against the Bank in this respect, under articles 57 and 58 of the Law on the Protection of Competition customers may be able to bring claims against the Bank seeking damages.

### *Tax Audit*

In order to fulfill its liabilities with respect to the articles of association of Vakouf (*Vakıf senedi*), the Bank made payments to "Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı," which is a foundation established according to Turkish Commercial Law and Civil Law. In relation to these payments made by the Bank, the tax auditors conducted an inspection of these payments, which claimed that the payments should have been considered as wage and subject to withholding tax as the beneficiaries of the payments were the employees of the Bank. Based upon the auditors' reports for 2007 and 2008, the Turkish tax authorities notified the Bank of their request for income tax, stamp tax and tax penalties for these taxes. The total amount of the claimed taxes and tax penalties (as of June 26, 2013) was TL 74.0 million. The Bank's management is of the opinion that these payments were made in compliance with applicable legislation and that there is no legal basis for the assessments and claims raised in the tax audit reports and, accordingly, the Bank has not established any provision for this matter in the Bank's financial statements. The Bank has applied to tax courts to cancel these tax notifications.

## Anti-Money Laundering Policies

Turkey is a member country of the FATF and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. Minimum standards and duties include customer identification, record keeping, suspicious activity reporting, employee training, an audit function and designation of a compliance officer. Suspicious transactions must be reported to the Turkish Financial Intelligence Unit, Financial Crimes Investigation Board. In Turkey, all banks and their employees are obliged to implement and fulfill certain requirements regarding the treatment of activities that may be referred to as money-laundering. See “*Risk Factors – Risks Related to Turkey – Combating the Financing of Terrorism.*”

The main provisions of the applicable law include regulation of: (a) client identification, (b) reporting of suspicious activity, (c) training, internal audit and control, risk management systems and other measures, (d) periodical reporting, (e) information and document disclosure, (f) retention of records and data, (g) data access systems to public records, (h) protection of individuals and legal entities and (i) written declaration of beneficial owners by transacting customers, among other provisions. Suspicious transactions must be reported to the Turkish Financial Intelligence Unit, which is the Financial Crimes Investigation Board.

To ensure that the Bank and its financial subsidiaries are not used as an intermediary in money laundering and other criminal activities, a program of compliance with the obligations of anti-money laundering and combating the financing of terrorism rules, which is to be followed by all employees, has been implemented throughout the Bank and its financial subsidiaries. This program includes written policies and procedures, assigning a compliance officer to monitor this matter, an audit and review function to test the robustness of anti-money-laundering policies and procedures, monitoring and auditing customer activities and transactions in accordance with anti-money laundering legislation and regulations and employee training.

## Compliance with OFAC Rules

OFAC administers regulations that restrict the ability of US persons to invest in, or otherwise engage in business with, Sanction Targets. Before opening an account for, or entering into any transaction with, a customer, the Bank ensures that such customer is not listed as a Sanction Target. In addition, the names of all customers and all incoming and outgoing transactions are continuously and automatically screened against the list of Sanction Targets. All daily transactions are further reviewed for compliance with OFAC rules by the Bank. Accordingly, the Bank’s policies restrict the Bank from engaging in any prohibited business investments and transactions with Sanction Targets, including Iran.

## Credit Ratings

Each of the Bank’s credit ratings from Standard & Poor’s, Moody’s and Fitch as of the date of this Base Prospectus are set out below. Each of these rating agencies is established in the European Union and is registered under Regulation (EU) No. 1060/2009, as amended. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

### *Standard & Poor’s (April 5, 2013)*

Foreign Currency Issuer Credit Ratings	BB+ / (Stable) / B
Local Currency Issuer Credit Ratings	BB+ / (Stable) / B
Certificates of Deposit	BB / B
Turkish National Scale	trAA+ / trA-1

### *Moody’s (May 21, 2013)*

Bank Financial Strength	D+ / Stable
Baseline Credit Assessment	Baa3



Bank Deposit Foreign Currency  
Bank Deposit Local Currency  
Foreign Currency Issuer

Baa3 / Stable / P-3 (Prime 3)  
Baa2 / Stable / P-2 (Prime 2)  
Baa2 / Stable

*Fitch (December 14, 2012)*

Foreign Currency Issuer Default Rating  
Local Currency Issuer Default Rating  
National Long Term Rating  
Viability Rating  
Support Rating  
Support Rating Floor

BBB / Stable / F3  
BBB / Stable / F3  
AAA (tur) / Stable  
bbb  
3  
BB+

## **RISK MANAGEMENT**

### **General**

The Bank's management believes that assessment and control of risk is critical to the Group's success. The Bank closely identifies, measures, monitors and manages the risks arising from the Group's operations. The Bank monitors and manages the mismatch of maturities, the size and degree of interest rate and exchange rate exposure and its counterparty credit quality in order to minimize the effect of these risks on profitability. The Group's current system of risk control and risk management, including the Group's operational risk framework, operational risk policy, application principles and disaster recovery plan, has been in place since 2002. The Group's system of risk control and risk management is reviewed and modified as necessary and is integrated into the Group's internal systems for planning, management and control.

The Bank continues to maintain and further develop its risk management system, which has been established both to meet its internal risk management needs and to comply with its legal and regulatory requirements, including the Basel criteria and the BRSA's regulations. Risk management personnel are also involved in risk, control and compliance analysis processes of the Bank's new products and services. The process comprises not only new but also expanded or modified products and services that may have significant effect on the Bank's risk profile. During this process, the "Internal Systems" group conducts risk, control and compliance due diligence and, throughout the process, Risk Management personnel are responsible for ensuring that all potential risks that may affect the Bank's business strategy and risk profile are analyzed and conveyed to the related parties.

### **Internal Systems**

The Bank's "Internal Systems" group is comprised of the Bank's Board of Inspectors, the Internal Control division, the Risk Management division and the Corporate Compliance division. This system has been structured based upon management's assessment of best market practices in Turkey and internationally and in accordance with the principles and organizational set-up required by Turkish regulations.

The Bank applies sophisticated risk management methods and techniques available in the international banking arena. Risk management is a dynamic process for the Group, evolving alongside developments in international practices and regulations.

The Board of Inspectors and Internal Control, Risk Management and Corporate Compliance divisions report to the Board of Directors through the Audit Committee.

#### *Board of Inspectors*

The Board of Inspectors aims to ensure that the activities of the Bank are fully and efficiently implemented in compliance with all applicable laws and corporate regulations. It also serves to secure the accuracy, reliability, completeness and timeliness of all financial and management information.

The scope of the audit process covers all activities and units of the Group. The branches, head office units, subsidiaries, associates and financial participations, information technology and banking processes are periodically audited in accordance with the Bank's audit plan, which is based upon risk-based methodology. Other than these periodic, risk-based audits, the Bank also performs special audits upon the request of the Board of Directors or the Audit Committee.

The audit process includes both the on-site and off-site examination of all material information, accounts, records and documents and all other factors that may affect the operations of the Bank. The Board of Inspectors also assesses the adequacy and effectiveness of the internal control, risk management and compliance systems.

### *Internal Control Division*

The Internal Control division focuses on the internal control system of the Bank, which is structured within the BRSA framework. The Internal Control division controls all branches, the head office divisions that are directly related to the Bank's main banking activities and all subsidiaries that are subject to consolidation according to principles determined in accordance with applicable international auditing standards.

The Internal Control division aims to examine, monitor, design and co-ordinate the Bank's internal control activities to enable banking activities to be carried out along the objectives, principles and provisions laid down by the Bank's management, and the legislation and regulations in effect, in a secure and efficient manner. Controls on compliance with the relevant laws and regulations, controls on assets, limits, approval and authorization, IT controls and controls on financial reporting systems are implemented in accordance with the charter of the Internal Control division, with the objective of achieving a strong and efficient internal control system in relation to the Bank's banking operations.

Internal controllers conduct on-site control activities in the Bank's head office divisions (including information systems divisions) and branches. On-site controls are supported with centralized computer-assisted control activities.

### *Risk Management Group*

The Risk Management Group is made up of the Risk Committee as well as the Credit Risk and Economical Capital unit, Asset Liability Management Risk unit and Operational Risk, Model Validation and Subsidiary Risk unit operating under the Risk Management division. The Risk Management division is responsible for measuring, monitoring, analyzing and reporting on both financial and non-financial risks.

### *Corporate Compliance Division*

The Corporate Compliance division is responsible for the co-ordination of compliance functions and activities implemented in the Bank's branches and head office divisions. The Corporate Compliance division consists of three sub-units, namely the Regulatory Compliance unit, the Banking Activities Compliance unit and the Anti-Money Laundering Compliance unit. Together, these units aim to contribute towards the internal management of compliance risk, ensuring that the Bank remains in compliance with the relevant legislation, regulations and standards.

The duties and responsibilities of the Compliance Officer as set out in the Prevention of Laundering Proceeds of Crime Law (as described in "—Anti Money Laundering and Combating Financing of Terrorism Policies" below) and other relevant regulations are fulfilled by the Head of the Bank's Corporate Compliance division in his capacity as Compliance Officer of the Bank.

### *Treasury Division*

The Treasury division is responsible for managing and implementing the Bank's asset and liability positions on a day-to-day basis with a special emphasis on Turkish Lira and foreign currency liquidity, ensuring the availability of funds for all products and services distributed through the Bank's network.

The Treasury division's activities are held in the domestic and international money, currency and capital markets. The Treasury division also has the responsibility of determining the fund transfer pricing ("FTP") of Turkish Lira and foreign currency-denominated loans and deposits.

The Treasury division consists of separate groups concentrating on different activities such as Turkish Lira liquidity and securities portfolio management, foreign currency liquidity and securities portfolio management, Turkish Lira/foreign currency trading through both international and domestic foreign exchange markets and the pricing of derivative products. Apart from these trading floor activities, the

Treasury division employs personnel from the Bank's back office operations. The risk exposure arising from changes in market conditions, counterparty risk and liquidity risks are monitored on a daily basis by a separate desk within the Treasury division. The Asset and Liability Management desk of the Treasury division is responsible for determining FTP, developing business strategies based upon developments in the banking system and reporting results.

The Treasury division's activities include, among others, the following:

- (a) managing the Bank's liquidity position,
- (b) managing the Bank's investment portfolio,
- (c) daily trading in order to enable the Bank to benefit from any advantageous market opportunities,
- (d) managing the Bank's net foreign currency position, ensuring that it remains within the limits set by the Turkish banking authorities and the risk appetite of the Bank as set by its Board of Directors,
- (e) managing the composition of any long or short foreign currency position,
- (f) utilizing derivative instruments, such as currency and interest rates swaps, as well as forward, futures and options transactions, for general hedging purposes,
- (g) determining the Bank's Turkish Lira/foreign currency rates, which are used by its branches in pricing Turkish Lira/foreign currency transactions for their clients,
- (h) managing the Bank's foreign currency cash stocks and providing services to domestic banks enabling the transportation of their foreign currency denominated cash from Turkey to a related country,
- (i) pricing high volume Turkish Lira and foreign currency-denominated deposits of financial institutions and charities similar to the money market transactions in terms of pricing besides the determination of FTP for both Turkish Lira and foreign currency-denominated loans and deposits,
- (j) pricing structured finance deals and bilateral loans,
- (k) mitigating counterparty risk arising from treasury transactions through ISDA Credit Support Annex related collateral management,
- (l) monitoring market risk on the Bank's trading book via the traders limit system, and
- (m) finalizing the operational processes of the Bank's front office transactions, including the management of Turkish Lira and foreign currency money transfers.

### **Asset Liability Management**

The main responsibility of the Treasury division is to manage the Bank's assets and liabilities in accordance with the strategies set by the Asset and Liability Committee ("ALCO"). ALCO is responsible for forming and overseeing the implementation of the asset and liability management strategy of the Bank and its objective is to structure the Bank's balance sheet in view of liquidity needs and market risk (both interest rate and exchange rate risks), while ensuring that the Bank has adequate capital and is using its capital to maximize net interest income. ALCO generally meets monthly, or more frequently if necessary, to review the Bank's risk exposure, set the Bank's policy for risk exposure (arising from its positions in respect of loans, investment securities and deposits in terms of market risk, together with risks arising from inflation rates, the Bank's liquidity position, capital adequacy and the macro-economic environment including domestic and

international political and economic events), determine the Bank's strategies for interest rate levels and terms for loan deposits and determine maturities and the pricing of loans and deposits. ALCO also supervises the implementation process relating to these decisions.

ALCO is chaired by the Bank's Deputy Chief Executive who is also responsible for the Treasury division. The other Deputy Chief Executives who attend ALCO meetings are those in charge of the following functions: corporate and commercial banking, corporate and commercial loan underwriting, credit risk management and portfolio monitoring and SME loans underwriting, retail and private banking, strategy and corporate performance management, capital markets and international banking, subsidiaries and financial management. The Head of the Treasury division is also a member of ALCO and is in charge of coordinating and reporting with respect to ALCO meetings.

ALCO sets the Bank's policies for interest rate levels and the terms for loans and deposits and makes decisions regarding the maturities and pricing of loans and deposits. Every week, a sub-committee of ALCO, the Asset and Liability Management Unit ("ALMU"), gathers to discuss the latest developments in the financial markets and sets the main framework for the following week's policies and pricing strategies. Decisions made in ALCO thus constitute the basis for decisions made in ALMU. ALMU is chaired by the head of the Treasury division. Other members include the heads of the retail banking product division, commercial banking product division, consumer loans division, economic research division, financial management division, risk management division, strategy and corporate performance division and capital markets division, as well as the unit managers of the Treasury division.

Based upon the decisions made in ALMU and ALCO meetings, the Bank's Treasury division is responsible for managing and implementing the Bank's asset and liability positions and policies on a day-to-day basis and ensuring the availability of funds for all of the Bank's products and services distributed through its network. The Treasury division measures and evaluates on a daily basis the Bank's risk exposure and unfavorable changes in market conditions and regularly monitors the short-term mismatches between assets and liabilities. For further information, see "Treasury Division" above.

#### *Composition of the Group's main assets and liabilities*

The Group's main assets are comprised of cash and banks, loans and securities. As of March 31, 2013, the Group's total assets increased to TL 207,018 million from TL 201,075 million as of December 31, 2012. The following chart sets forth details of the composition of the Group's main assets and liabilities by currency as of the indicated dates:

	As of December 31,					
	2010		2011		2012	
	(TL)	(Foreign Currency)	(TL)	(Foreign Currency)	(TL)	(Foreign Currency)
<i>Assets</i>						
Cash and Banks.....	44.3%	55.7%	30.4%	69.6%	26.4%	73.6%
Loans.....	65.5%	34.5%	61.0%	39.0%	63.3%	36.7%
Securities Portfolio.....	79.1%	20.9%	76.6%	23.4%	83.4%	16.6%
<b>Total Assets .....</b>	<b>70.2%</b>	<b>29.8%</b>	<b>63.9%</b>	<b>36.1%</b>	<b>66.4%</b>	<b>33.6%</b>
<i>Liabilities</i>						
Deposits.....	66.1%	33.9%	60.1%	39.9%	60.0%	40.0%
Funds Borrowed <sup>(1)</sup> .....	37.1%	62.9%	44.0%	56.0%	47.4%	52.6%
<b>Total Liabilities.....</b>	<b>67.3%</b>	<b>32.7%</b>	<b>63.0%</b>	<b>37.0%</b>	<b>64.3%</b>	<b>35.7%</b>

(1) Including interbank, repo funds and marketable securities issued (consisting of TL and foreign currency-denominated bills and bonds issued by the Bank).

		<b>As of March 31,</b>	
		<b>2013</b>	
		(TL)	(Foreign Currency)
<i>Assets</i>			
Cash and Banks .....		25.6%	74.4%
Loans .....		63.1%	36.9%
Securities Portfolio .....		84.6%	15.4%
<b>Total Assets</b> .....		<b>65.7%</b>	<b>34.3%</b>
<i>Liabilities</i>			
Deposits .....		57.7%	42.3%
Funds Borrowed <sup>(1)</sup> .....		51.7%	48.3%
<b>Total Liabilities</b> .....		<b>63.7%</b>	<b>36.3%</b>

(1) Including interbank, repo funds and marketable securities issued (consisting of TL and foreign currency-denominated bills and bonds issued by the Bank).

The following chart sets forth the composition of the Group's main assets and liabilities by maturity as of December 31, 2012:

	<b>Less than or equal to one month</b>	<b>Greater than one month and less than or equal to three months</b>	<b>Greater than three months and less than or equal to 12 months</b>	<b>Greater than 12 months</b>
<i>Assets</i>				
Cash and Banks .....	96.2%	3.3%	0.5%	0.0%
Loans <sup>(1)(2)</sup> .....	22.2%	7.3%	23.6%	46.8%
Securities Portfolio .....	6.1%	1.8%	18.6%	73.5%
<b>Total Assets<sup>(2)</sup></b> .....	<b>27.4%</b>	<b>5.4%</b>	<b>19.5%</b>	<b>47.7%</b>
<i>Liabilities</i>				
Deposits .....	73.8%	19.4%	6.2%	0.6%
Funds Borrowed <sup>(3)</sup> .....	39.7%	5.9%	21.9%	32.5%
<b>Total Liabilities<sup>(4)</sup></b> .....	<b>64.7%</b>	<b>14.8%</b>	<b>11.3%</b>	<b>9.2%</b>

Notes: Derivative Financial Assets Held for Trading amounting to TL 642,523 thousand are included in the securities portfolio.

(1) Including factoring receivables.

(2) Excluding unallocated assets.

(3) Including interbank, repo funds and marketable securities issued (consisting of TL and foreign currency- denominated bills and bonds issued by the Bank).

(4) Excluding unallocated liabilities.

As part of its internal asset liability management policy, the Bank seeks to structure its securities and loan portfolios such that the borrowing side matches the lending side in terms of total Turkish Lira/foreign currency exposures or fixed rate/floating rate exposures in order to minimize risk. The Bank also utilizes derivative transactions in order to hedge itself against interest rate risk and foreign currency risk, as well as liquidity risk.

## Market risk

Market risk is defined as the risk of loss in the trading portfolio of the Bank arising from movements in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads that may affect the Bank's assets, income or the value of its holdings of financial instruments. The objective of market risk

management is to monitor and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The level of market risk to which the Bank is subject is measured by two separate methods known as the “Standard Method” and the “Value at Risk (“VaR”) Method”. Both methods are in accordance with local Turkish regulations as adopted from internationally accepted practices.

Using the Standard Method, market risk measurements are carried out on a monthly basis. The results of these measurements are included in the Bank’s public regulatory reports as well as in internal reports, which are addressed to the Bank’s Board of Directors and senior management.

The VaR Method is used to measure market risk in terms of interest rate risk, exchange rate risk, equity risk and volatility risk on a daily basis and is a part of the Bank’s daily internal reporting procedure. Back-testing is carried out to determine the reliability of the daily market risk measurements under the VaR Method.

In order to support the VaR model that measures the loss that may occur under ordinary market conditions, scenario analyses are developed and performed based upon future predictions and past crises. The potential impact of these scenarios on the value of the Bank’s trading book is determined and the results are reported to the Bank’s Board of Directors and senior management.

The ALCO, comprising members of senior management of the Bank, manages market risk by monthly meetings based upon reports prepared by the risk management and related executive divisions. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, match the interest and duration structure of its assets and liabilities and keep a sufficient level of liquid assets. The limits, which are established for managing market risk within the framework of the Bank’s asset and liability management risk policy, are monitored by the Risk Committee and reviewed in accordance with current market conditions.

## **Interest Rate Risk**

A significant component of the Bank’s asset and liability management risk policy is the management of interest rate risk. Interest rate risk is the possibility of loss in relation to the structural position arising from adverse movements in interest rates. The Bank is exposed to interest rate risk due to mismatches in the maturity or re-pricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets or liabilities mature or re-price in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A positive gap denotes asset sensitivity and normally means that an increase in interest rates would have a positive effect on net interest income, while a decrease in interest rates would have a negative effect on net interest income.

The potential effects of interest rate risk on the Bank’s assets and liabilities, market developments, general economic environment and expectations are regularly addressed in ALCO meetings where further measures to reduce risk are implemented when necessary.

While interest rate risk in trading book is managed through VaR limits, interest rate risk in the banking book is monitored and controlled by the limit established on the ratio of structural interest rate risk to regulatory capital. Structural interest rate risk is quantified by calculating the change in the Bank’s economic value of equity under standardized interest rate shocks (*i.e.*, *plus* 2% for foreign currency and 5% for local currency). The interest rate risk limits determined by the Board of Directors are monitored by the Risk Committee in accordance with the Bank’s asset and liability management policy. Furthermore, scenario analyses that are developed based upon future predictions are conducted for managing interest rate risk.

The following table sets forth the Group's "re-pricing" gap, which is the difference between the interest rate sensitivity of assets and the interest rate sensitivity of liabilities, as of December 31, 2012:

	Less than or equal to one month	Greater than one month and less than or equal to three months	Greater than three months and less than or equal to 12 months	Greater than 12 months	No Interest	Total
<i>(TL thousands)</i>						
Cash balances and balances with the						
Central Bank.....	-	-	-	-	16,111,127	16,111,127
Balances with banks.....	3,006,260	682,860	80,505	-	782,268	4,551,893
Trading securities.....	368,828	745,742	538,110	208,172	341,789	2,202,641
Interbank funds sold.....	81,675	-	-	-	-	81,675
Securities available for sale loans .....	9,323,834	3,159,679	8,071,869	11,361,709	256,734	32,173,825
Loans <sup>(1)</sup> .....	33,584,462	14,239,146	26,859,888	41,531,623	18,304	116,233,423
Securities held to maturity .....	676,402	3,290,560	5,084,488	1,997,329	-	11,048,779
Other assets.....	924,355	71,338	298,889	915,379	16,461,415	18,671,376
Total assets .....	47,965,816	22,189,325	40,933,749	56,014,212	33,971,637	201,074,739
Bank deposits.....	2,308,441	404,997	258,284	11,863	228,227	3,211,812
Other deposits .....	54,553,321	20,184,263	6,344,956	610,250	21,106,258	102,799,048
Interbank funds borrowed .....	15,725,235	584,075	721,521	-	-	17,030,831
Miscellaneous payable .....	230,187	1,967	258	3,557	8,948,509	9,184,478
Marketable securities issued <sup>(2)</sup> .....	977,611	1,789,232	1,838,522	3,675,449	-	8,280,814
Funds borrowed from other financial						
institutions .....	8,910,894	5,247,654	3,743,469	1,259,895	-	19,161,912
Other liabilities .....	266,570	773,842	2,284,506	63,667	38,017,259	41,405,844
Total liabilities .....	82,972,259	28,986,030	15,191,516	5,624,681	68,300,253	201,074,739
Asset/liability gap .....	(35,006,443)	(6,796,705)	25,742,233	50,389,531	(34,328,616)	
Off-balance sheet gap .....	2,332,732	4,365,149	(3,128,493)	(3,252,217)	-	317,171
Total gap.....	(32,673,711)	(2,431,556)	22,613,740	47,137,314	(34,328,616)	317,171
Cumulative gap.....	(32,673,711)	(35,105,267)	(12,491,527)	34,645,787	317,171	

(1) Includes factoring receivables.

(2) Includes subordinated bonds, which are classified on the balance sheet as subordinated loans.

## Liquidity risk

In general, liquidity risk is the risk that an entity will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk is a substantial risk in Turkish markets, which have historically exhibited significant volatility.

The Bank's principal source of funding is deposits. While the average maturity of deposits is shorter than the average maturity of assets as a result of market conditions, the Bank's extensive network of branches and steady core deposit base are its most important safeguards for the supply of funds. Medium and long-term funds are acquired from financial institutions abroad as well as debt securities issued in local and foreign markets.

In order to meet the liquidity requirements that may emerge from market fluctuations, considerable attention is paid to the need to preserve liquidity and efforts in this respect are supported by projections of Turkish Lira and foreign currency cash flows. Based upon cash flow projections, prices are differentiated for different maturities and measures are taken accordingly to meet liquidity requirements. Moreover, potential



alternative sources of liquidity are determined where required for extraordinary circumstances. Foreign currency and total liquidity adequacy ratios, which are subject to weekly legal reporting requirements, are also used to monitor liquidity on an ongoing basis.

Within the framework of the Bank's asset and liability management risk policy, internal limits established for liquidity risk management are monitored by the Risk Committee and, in the case of extraordinary situations where prompt action is required to be taken due to unfavorable market conditions, emergency measures and funding plans related to liquidity risk are put into effect.

The major objectives of the Bank's asset and liability management risk policy are to ensure that sufficient liquidity is available to meet its commitments to its clients in respect of the repayment of deposits and ATM transactions, to satisfy the Bank's other liquidity needs and to ensure compliance with the capital adequacy and other applicable Central Bank regulations. Liquidity risk arises in the general funding of the Bank's financing and trading activities and in the management of investment positions. It includes the risk of increases in funding costs and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

The largest portion of the Group's funding source is deposits, constituting 58.7%, 53.7% and 52.7% of total liabilities as of December 31, 2010, 2011 and 2012, respectively. The Bank's management believes that deposits provide a stable funding base for the Bank. The Bank seeks to maximize the amount of Turkish Lira-denominated demand deposits in order to reduce the average funding cost. In addition, the Bank executes strategies to obtain long-term funds in order to match the maturities between its assets and liabilities.

As of March 31, 2013, the Group's demand deposits, of which 54.2% were Turkish Lira-denominated, constituted 20.1% of total deposits. As of the same date, time deposits represented 79.9% of total deposits, with foreign currency-denominated deposits playing a major role, constituting 41.4% of the total time deposits.

The following table sets forth the original maturity profile of the Group's deposits (including accrued interest that may be payable thereon) as of each of the indicated dates:

	As of December 31,				
	2010	Change	2011	Change	2012
	(TL millions)	(%)	(TL millions)	(%)	(TL millions)
<b>No term</b> .....	14,689	29.72%	19,054	12.03%	21,347
Turkish Lira-denominated .....	9,290	10.10%	10,228	11.84%	11,439
Foreign currency-denominated .....	5,399	63.47%	8,826	12.26%	9,908
<b>Up to three months</b> .....	65,294	1.26%	66,115	12.48%	74,366
Turkish Lira-denominated .....	46,002	(6.31)%	43,101	16.21%	50,086
Foreign currency-denominated .....	19,292	19.29%	23,014	5.50%	24,280
<b>Greater than three months and less than or equal to</b>					
<b>12 months</b> .....	5,546	56.87%	8,700	(49.37)%	4,405
Turkish Lira-denominated .....	2,827	91.69%	5,419	(72.26)%	1,503
Foreign currency-denominated .....	2,719	20.67%	3,281	(11.55)%	2,902
<b>Over 12 months</b> .....	2,948	68.35%	4,963	18.74%	5,893
Turkish Lira-denominated .....	392	63.01%	639	(14.40)%	547
Foreign currency-denominated .....	2,556	69.17%	4,324	23.64%	5,346
<b>Total deposits</b> .....	88,477	11.70%	98,832	7.26%	106,011
Turkish Lira-denominated .....	58,511	1.50%	59,387	7.05%	63,575
Foreign currency-denominated .....	29,966	31.63%	39,445	7.58%	42,436

## Currency Risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that a bank is subject to due to the exchange rate movements in the market.

The Bank effectively hedges its foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

Currency risk is managed by internal currency risk limits, which are established by the Board of Directors as a part of the Bank's internal risk policies. ALCO and ALMU meet regularly to take necessary decisions for managing exchange rate and parity risks within the scope of the Bank's asset and liability management risk policy. The Bank manages foreign currency risk through monthly ALCO meetings and by setting limits on the positions that can be taken by the Bank's Treasury Division. These limits are regularly reviewed by the Board of Directors and are amended from time to time to meet the growing business needs of the Bank.

The general net foreign currency positions of Turkish banks are also regulated by the BRSA and this figure, in absolute terms, cannot exceed 20% of the relevant bank's shareholder equity.

Both the Standard Method and VaR Method are used in order to measure currency risk. Using the Standard Method, currency risk measurements are carried out on a monthly basis and the results are used for calculating the regulatory capital requirement of the Bank. Risk measurements within the context of the VaR Method are performed on a daily basis using historical and Monte Carlo simulation methods. Furthermore, scenario analyses are conducted to support the VaR calculations.

The results of these currency risk measurements are reported to senior management and the risks are closely monitored by taking into account current market and economic conditions.

A 10% weakening of the Turkish Lira against foreign currencies as of December 31, 2010, 2011 and 2012 would have changed profit or loss by the amounts shown in the table below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	As of December 31,		
	2010	2011	2012
	(TL thousands)		
US\$ .....	224,241	236,031	228,999
Euro .....	(10,908)	(92,892)	(202,894)
Other currencies.....	8,588	105,295	76,740
<b>Total.....</b>	<b>221,921</b>	<b>248,434</b>	<b>102,845</b>

## Credit Risk

In general, credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank places emphasis mainly on the payment ability and cash generating ability of the borrower in any given transaction, and also obtains sufficient collateral from borrowers including, wherever possible, cash collateral, mortgages or security over other assets. The Bank seeks to manage its credit risk exposure through the diversification of its lending activities to avoid undue concentration of risks with individuals or groups of clients in specific locations or businesses. Furthermore, the Bank's lending is subject to the principles and internal limits set by the Board of Directors, which observes the relevant Turkish banking regulations.

The Bank has implemented centralized credit approval processes and loan proposals are evaluated and monitored by the relevant authorized divisions (see “*Business of the Group – Lending Policies and Procedures*” and “*Business of the Group – Collateral*” above).

The day-to-day management of credit risk is devolved to individual business units, such as the Corporate, Commercial and SME Loans Underwriting divisions, the Consumer Loans division and the Treasury division, which perform regular appraisals of quantitative information relating to counterparty credit.

Credit risk arising from treasury transactions is monitored on a daily basis. Exposure from over-the-counter derivative transactions is subject to daily margin call on counterparty basis under the relevant credit support annex agreements. 99% of the total credit risk arising from over-the-counter derivative transactions is collateralized with cash.

### **Operational Risk**

Operational risk is the risk of loss arising from faults or deficiencies in the regular operations of a bank, including problems with systems, hardware, technology and communication infrastructures, natural disasters, terrorist attacks or earthquakes, as well as with respect to personnel responsibilities for monitoring, controlling, reporting, taking action and being diligent.

Operational risk assessments are conducted by the Bank’s Risk Management division using both qualitative and quantitative techniques. In terms of qualitative techniques, a “risk control self-assessment” is carried out using interviews to identify and classify risks and workshops are used to measure and evaluate risks. Following the assessment process, risks identified are reported to the Risk Committee and Board of Directors and “Monitoring Action Plans” are prepared accordingly. In terms of quantitative techniques, the Risk Management division employs a range of diagnostic tools, such as key risk indicators and scenario analysis, together with data analysis and modeling.

Risks derived from information technologies are primarily assessed within the scope of the Bank’s operational risk management analysis. It is essential that those risks, which could be seen as multipliers of other risks derived from activities of the Bank, are measured, closely monitored and controlled within the framework of the Bank’s integrated risk management.

### **Subsidiaries’ Risk Management**

The Bank has a group-wide risk policy set by the Bank’s Board of Directors. The Risk Management division monitors both internal and legal risk limits and other risks relating to subsidiaries falling within the scope of the group-wide risk policy. In addition to this, the Bank’s subsidiaries also have their own internal, sector-specific risk policies, limits and procedures. The Bank’s Risk Committee meets every three months to evaluate the group’s risk level on a consolidated basis. The risk levels of subsidiaries are reported to the Board of Directors through the Risk Management division.

### **Anti-Money Laundering (“AML”) and Combating the Financing of Terrorism (“CFT”) Policies**

Turkey has been a member country of FATF since 1991 and has enacted a series of laws and regulations related to the prevention of money laundering and terrorism financing. In Turkey, all banks and their employees are obliged to implement and fulfill certain requirements regarding the treatment of activities that may be referred to as money laundering and terrorism financing. The first law relating to anti-money laundering (the “Prevention of Money Laundering” Law No. 4208) came into effect as of November 19, 1996. The “Prevention of Laundering Proceeds of Crime” Law No. 5549 came into effect as of October 18, 2006.

The “Regulation on Measures Regarding Prevention of Laundering Proceeds of Crime and Financing of Terrorism” was published in the Official Gazette in Turkey on January 9, 2008 and came into effect as of

April 1, 2008. The main provisions include the regulation of: (a) obligations, (b) principles regarding client due diligence, (c) procedures of suspicious transaction reporting, (d) principles of providing information and documents, (e) inspection of obligations and (f) retaining and submitting.

In order to regulate principles and procedures regarding establishment of compliance programs and the assignment of compliance officers by obliged parties for the purpose of the prevention of money laundering and terrorism financing, the “Regulation on Program of Compliance with Obligations of Anti-Money Laundering and Combating the Financing of Terrorism” (the “*AML Regulation*”) was published in the Official Gazette in Turkey on September 16, 2008 and came into effect as of March 1, 2009. The obligations introduced under the AML Regulation include: (a) establishing a compliance program, (b) developing institutional policy and procedures, (c) risk management, (d) monitoring and controlling, (e) assigning a “compliance officer” and establishing a compliance unit, (f) training and (g) internal audit.

In line with the AML Regulation, on September 24, 2008, the Bank’s Corporate Compliance division was established and a manager was appointed as the Bank’s Compliance Officer. The Corporate Compliance division reports directly to the Board of Directors.

In an effort to ensure compliance with FATF requirements, the CFT Law was introduced on February 16, 2013. The CFT Law introduces an expanded scope to the financing of terrorism offense (as currently defined under Turkish anti-terrorism laws). The law includes further criminalizing terrorist financing and implementing an adequate legal framework for identifying and freezing terrorist assets. On May 31, 2013, the Regulation on Procedures and Principles Regarding the Application of the Law on the Prevention of the Financing of Terrorism become effective, which regulation provides the procedures and principles for the decision-making, execution and termination of the freezing of assets as well as the management and supervision of the frozen assets. See “*Risk Factors – Risks Related to Turkey – Combating the Financing of Terrorism.*”

The Bank has adopted various policies and procedures aimed at preventing money laundering and terrorist financing. In line with FATF recommendations, Wolfsberg principles and the standards promulgated by the Basel Committee on Banking Supervision, the Bank applies “know-your-customer” (KYC) and “know-your customer’s-transaction” (KYCT) procedures, as well as procedures to identify beneficiary owners. The Bank’s most recent policy on the prevention of money laundering and terrorism financing was adopted on March 2, 2009. The Bank’s AML/CFT policies and procedures are based upon, and the Bank believes that such policies and procedures are in compliance in all material respects with, applicable provisions of Turkish law and applicable laws in other jurisdictions. All the Bank’s branches and subsidiaries, regardless of their geographic location, must comply with the Bank’s programs, policies and procedures.

The Bank’s Board of Inspectors is responsible for the oversight and audit of the Bank’s AML/CFT policies and procedures. Transactions and records in the Bank’s branches are reviewed on a regular basis to ensure compliance with the Bank’s policies and procedures. Each year, the Bank must provide reports to the Turkish Financial Crimes Investigation Board (the “*FCIB*”) that contain data on the annual transaction volume, the total number of employees and branches that were audited, the date and duration of the audits, the number of personnel responsible for the audits, the number of transactions that were inspected and the number of suspicious transactions that were detected. The Bank also provides training to new and existing employees on its AML/CFT policies and procedures.

#### *Client Identification*

Under the AML Regulation, banks must verify the identification documents and other information provided by their permanent clients. The identification process also extends to walk-in clients where the value of a single transaction or the total value of multiple linked transactions is equal to or more than the thresholds specified in the AML Regulation. If there is any suspicion regarding the transaction requested by a walk-in client, regardless of the value of the transaction, the identification process must be carried out in full by the employee dealing with the transaction. The Bank’s policy is that, as with other obliged parties covered by the

AML Regulation, all necessary measures should be taken in order to determine whether a transaction is being carried out for the benefit of a third party and, if so, to identify that third party. Moreover, all financial institutions are required by the AML Regulation to identify the beneficiary owner of an account. It is also compulsory for the banks to identify the natural person or legal entity that owns more than 25% of a legal entity.

The Bank's internal policies and systems prohibit the opening of anonymous accounts or the provision of services to shell banks or individuals who fail to provide sufficient identification. This is automatically controlled by the Bank's account-opening system, under which an account will not be allowed to be opened if certain conditions are not met.

#### *Monitoring Suspicious Transactions*

The Bank uses specialized software designed to detect unusual transactions in terms of money laundering and terrorism financing. The Bank's Anti-Money Laundering Compliance unit then analyzes the alerts generated by the software and files suspicious transaction reports to the FCIB as necessary. In the Bank, risk assessment of the customers, products and countries was updated and this risk assessment was integrated with the software. The profiling process, known as "peer-profiling", is based not only upon the historical transactions of the Bank's clients but also on demographic information, occupation type for real persons and field of activity for legal persons. The software also screens the Bank's customers and transactions according to watch lists of individuals, companies or geographic locations issued by authorities such as OFAC and the United Nations. If any party in a transaction falls within any of the watch lists, the system creates an alert, which the Bank reviews, and then decides, on a case-by-case basis, whether to accept or refuse the transaction. Branches also report suspicious transactions in written form to a compliance officer.

#### **Funding**

Deposits are the Group's main source of funding, with a 51.6% share in total liabilities as of March 31, 2013. As of March 31, 2013, according to the consolidated financial statements 69.4%, and according to the Bank-only financial statements 75.0%, of total funding was from deposits, while the rest was largely from long-term foreign borrowings.

In terms of foreign currency, the primary funding sources for the Bank include foreign currency deposits, "repo" transactions, syndicated term loan facilities, eurobond issuances, future flow transactions and post-finance transactions, financings from multilateral institutions and export credit agencies, as well as bilateral transactions.

In terms of Turkish Lira, other than deposits, the primary funding sources currently available for the Bank are the repo and reverse repo market of the Borsa İstanbul, the over-the-counter interbank money market, the interbank money market of the Central Bank, collateralized loans and bill and bond issues. In January 2012, the Bank's Board of Directors authorized the issuance of bills and bonds with a value of up to TL 6.1 billion. In July 2012 the Board authorized another issuance of bills and bonds up to TL 5.75 billion and in April 2013 up to TL 7.46 billion for the upcoming period. As of March 31, 2013, the Bank has issued corporate bonds with a total value of TL 15.3 billion, consisting of TL 12.8 billion of bills, TL 2.3 billion of discounted bonds and TL 161 million of coupon-bearing bonds since it commenced issuing such bills and bonds in February 2011. In April and May 2013, the Bank continued issuing corporate bonds with a total value of TL 1.8 billion, consisting of TL 1.6 billion of bills and TL 160 million of discounted bonds.

As a last resort, the Bank also has the ability to borrow funds through the Central Bank. The Bank's limits for these kind of transactions are determined by the Central Bank and generally carry a maturity of up to one month.

The Bank has been accessing the international markets for syndicated loan facilities since 1986 and is a regular borrower in the syndicated loan market. As of March 31, 2013, the balance of the two syndicated term loan facilities obtained by the Bank was approximately US\$2.3 billion.

On February 2, 2011, the Bank completed its first issuance of eurobonds with a term of five years and an interest rate of 5.1% *per annum* for a total amount of US\$500 million. The transaction was the first eurobond from a Turkish issuer in 2011 and achieved the lowest coupon to such date from a Turkish bank. In 2012, the Bank issued a second US\$500 million five year eurobond at an interest rate of 3.875% and a US\$1.0 billion subordinated ten-year eurobond with an interest rate of 6.00%. In 2013, the Bank issued US\$750 million of 5.5 year eurobonds at an interest rate of 3.750%.

The Bank has two outstanding future flow programs. The first program is the “Diversified Payment Rights” program created in 2004. Through this program, the Bank sold all right, title and interest in, to and under US Dollar-, Euro- or Sterling-denominated payment orders received by the Bank, which are sent or delivered by a payor to any office of the Bank and the payment of which is to be made to the Bank outside of Turkey. Since 2004, several tranches have been issued under the program amounting to US\$3.3 billion. The second program is the credit and debit card voucher future flow program created in 2005. Through this program, the Bank sold credit and debit card flows derived from the Bank’s principal membership (as an acquiring member) in VISA International Service Association, MasterCard International Incorporated and Europay International S.A. The total amount of issuances under this program is US\$350 million.

As of December 31,					
	2010	% Change	2011	% Change	2012
	(TL millions)				
Deposits .....	88,477	11.7%	98,832	7.3%	106,011
Repos & Money Market .....	12,969	73.3%	22,473	(24.2)%	17,031
Funds Borrowed <sup>(1)</sup> .....	14,557	55.5%	22,640	21.2%	27,443
Other .....	15,821	24.4%	19,680	30.7%	25,732
Equity .....	18,987	7.0%	20,311	22.4%	24,859
<b>Total .....</b>	<b>150,811</b>	<b>22.0%</b>	<b>183,936</b>	<b>9.3%</b>	<b>201,075</b>

(1) Including debt issuances and subordinated loans.

As of December 31,			
	2010	2011	2012
	(% of Total Liabilities)		
Deposits .....	58.7%	53.7%	52.7%
Repos & Money Market .....	8.6%	12.2%	8.5%
Funds Borrowed <sup>(1)</sup> .....	9.6%	12.3%	13.6%
Other .....	10.5%	10.7%	12.8%
Equity .....	12.6%	11.1%	12.4%
<b>Total .....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Including debt issuances and subordinated loans.

## Capital Adequacy

The Bank is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank for International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures (commitment and contingencies). The Bank’s total capital ratio is calculated by dividing its “Tier I” capital, which comprises its share capital, reserves, retained earnings and profit for the current

periods, *plus* its “Tier II” capital, which comprises general provisions and revaluation surplus, by the aggregate of its risk-weighted assets and risk-weighted off-balance sheet exposures. In accordance with these guidelines, the Bank must maintain a total capital ratio in excess of 8% calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio.

As of March 31, 2013, the Bank’s regulatory capital adequacy ratio was 16.22% and the Group’s regulatory capital adequacy ratio was 16.09%, each significantly exceeding the minimum ratio of 8.0%.

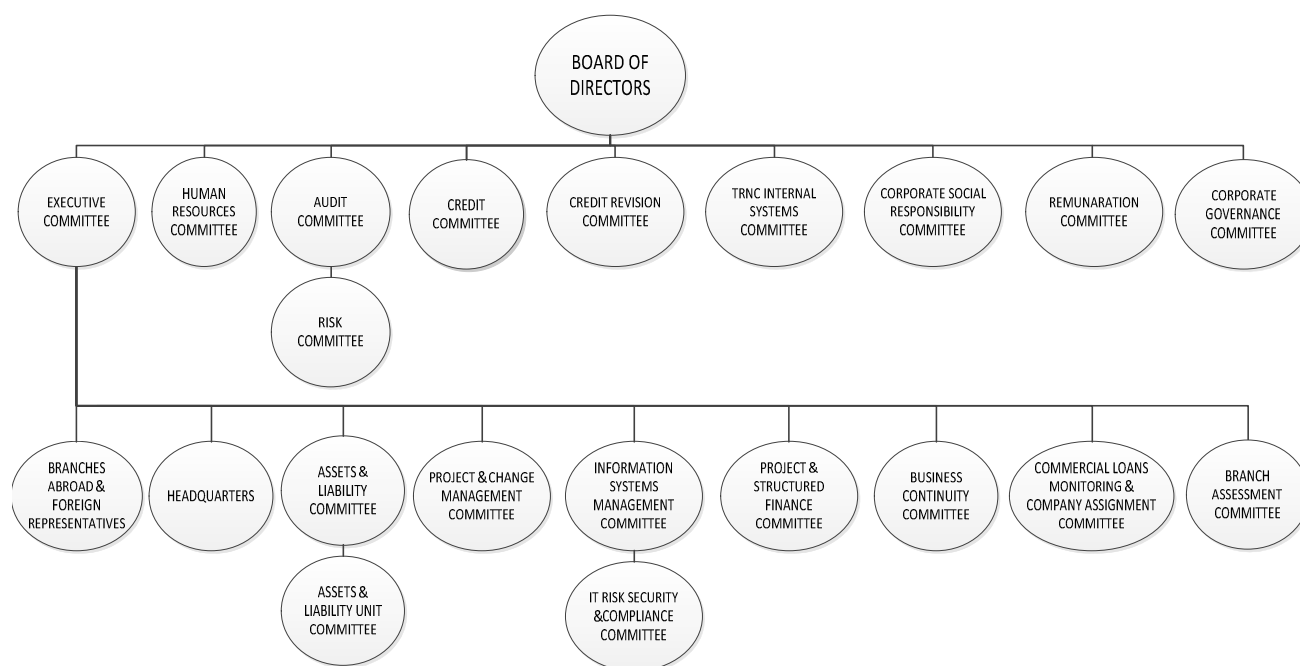
In the future, Turkish banks’ capital adequacy requirements will likely be affected by Basel III, which includes requirements regarding regulatory capital, liquidity adequacy, leverage ratio and counterparty credit risk measurements. At this stage, the BRSA has announced its intention to adopt the Basel III requirements and a draft Regulation on the Equities of Banks as well as a draft regulation amending the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks were made available by the BRSA for public review on February 1, 2013. In addition to these implementations, a draft Regulation on the Capital Conservation and Countercyclical Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, was prepared and delivered to the banks for their review. Turkish banks have submitted comments on the draft regulation to the BRSA, following which there will be further discussions regarding the final implementations of rules and schedules. The BRSA’s draft regulations are expected to be implemented within the second half of 2013. In the future, Turkish banks’ capital adequacy requirement may be further affected by Basel III, which includes requirements regarding regulatory capital, liquidity adequacy, leverage ratio and counterparty credit risk measurements. Please see “*Turkish Regulatory Environment*” below for further discussion on Basel III.

## MANAGEMENT

In accordance with the Bank's articles of incorporation and the relevant laws of Turkey, the Bank is ultimately controlled by its shareholders through its General Assembly. According to the Bank's articles of incorporation, general resolutions at the General Assembly are adopted by affirmative votes of an absolute majority of the votes present at the meeting; *provided* that a quorum is attained. Resolutions concerning amendments to the articles of incorporation themselves, however, must be approved by affirmative votes of two-thirds of the votes present at the meeting; *provided* that a quorum is attained.

The Bank comprises more than 40 departments. Five of these departments – the Board of Inspectors, Internal Control, Secretariat to the Board of Directors, Risk Management and Corporate Compliance – report directly to the Board of Directors. The other departments are managed by the Executive Committee comprising the CEO and Deputy CEOs.

The following chart shows the corporate organizational structure of the Bank as of June 28, 2013:



### Board of Directors

According to the Bank's articles of incorporation, the Board of Directors consists of between 7 and 11 members, as elected by the shareholders at the General Assembly, with the exception of the Chief Executive Officer who is appointed by the Board of Directors. Each director serves for a term of three years.

Under the Bank's articles of incorporation, the Board of Directors must hold their meetings at least once a month at the address where the Bank's head office is located. They may also hold meetings in any other suitable place; provided that more than one half of the Board members concur.

The presence of more than one half of the Board of Directors is required for the validity of a board meeting. Resolutions are adopted by the majority of the members present and, in the event of an equality of votes, the relevant matter is postponed until the subsequent meeting. Should the votes again be equal, the proposal in question is considered as rejected.



Recent amendments to the Turkish Commercial Code allow the appointment of a legal entity as a member of the board of directors of a joint stock company. Under such rules, a legal entity on a board of directors would be represented by a natural person designated by it. Alternatively, natural persons can be members of the board. Notwithstanding this recent change, the BRSA's Board has issued a decision prohibiting the appointment of a legal entity as a member of the board of directors of any joint stock company that it regulates, and thus members of the Bank's board can still only be natural persons.

The business address of each of the members of the Board of Directors is İş Kuleleri 34330 Levent, İstanbul, Turkey. As of the date of this Base Prospectus, the Board of Directors comprises the following:

<b>Name</b>	<b>Position</b>	<b>Year first appointed to the Board</b>
H. Ersin Özince.....	Chairman	1998
Füsun Tümsavaş .....	Deputy Chairman	2008
Adnan Bali .....	Director & CEO	2011
Prof. Dr. Savaş Taşkent .....	Director	2005
Hasan Koçhan.....	Director	2008
Aynur Dülger Ataklı.....	Director	2011
M. Mete Başol .....	Director	2011
Mustafa Kıcaloğlu .....	Director	2011
Aysel Tacer.....	Director	2011
Hüseyin Yalçın .....	Independent Director	2011
Murat Vulkan.....	Director	2011

*H. Ersin Özince (Chairman)*

Born in Havran in 1953, H. Ersin Özince graduated from the Business Administration Department of the Middle East Technical University in 1975 and started his professional career in January 1976 at the Bank's Board of Inspectors. After serving as the head of various departments within the Bank, he was appointed as Deputy Chief Executive in 1994 and was responsible for the Treasury, Financial Management, Capital Markets, Loans, Credit Information and Financial Analysis Departments. He was appointed as the 15th Chief Executive Officer of the Bank on October 28, 1998. Mr. Özince was elected as Director to the Board on March 31, 2011 and as Chairman of the Board on April 1, 2011. He has also been serving as the Head of the Remuneration Committee since December 29, 2011.

*Füsun Tümsavaş (Deputy Chairman)*

Born in Ankara in 1957, Füsun Tümsavaş graduated from the Economics and Finance Department of Ankara University, Faculty of Political Sciences. She started her professional career at the Central Bank's Ankara Branch in 1979. In 1981, she started to work at the Bank's I. Loans Department as an Officer, and became an Assistant Supervisor and later an Assistant Loan Specialist in the same department. She was appointed to the Bank's I. Loans Department as an Assistant Manager in 1994 and as a Regional Manager in 1999, and in 2004 she became the head of the Commercial Loans Department. Füsun Tümsavaş was appointed to the Bank's Board of Directors on March 28, 2008 and re-appointed on March 31, 2011. She has been serving as a member of the Credit Committee since April 2, 2008. She is the Deputy Chairman of the Bank's Board of Directors and also Head of the Risk Committee, Audit Committee and the TRNC (Turkish Republic of Northern Cyprus) Internal Systems Committee.

*Adnan Bali (Director and Chief Executive Officer)*

Born in İslahiye in 1962, Adnan Bali graduated from the Economics Department of Middle East Technical University and started his career at the Bank's Board of Inspectors in 1986. Mr. Bali became an Assistant Manager at the Treasury Department in 1994, a Unit Manager in 1997 and the Head of the Treasury Department in 1998. Mr. Bali was appointed as the Manager of the Şişli Branch in 2002, the Manager of the

Galata Branch in 2004 and the Deputy Chief Executive on May 30, 2006. Mr. Bali was appointed as the 16th Chief Executive Officer of the Bank and the Chairman of the Credit Committee on April 1, 2011. He is also a member of the Risk Committee.

*Prof. Dr. Savaş Taşkent (Director)*

Born in İyidere in 1943, Prof. Dr. Savaş Taşkent graduated from the Faculty of Law at İstanbul University. He started his academic career in 1971 as an assistant in the Department of Law of the Faculty of Basic Sciences at İstanbul Technical University. He also attended postgraduate seminars and received his PhD degree from the Faculty of Law of İstanbul University in 1980, and subsequently became an assistant professor at the Faculty of Management Engineering of İstanbul Technical University in 1982, an associate professor in the Discipline of Labor and Social Security Law in 1984 and a professor in 1990. He served as Deputy Dean from 1986 to 1992 and Vice Rector from 1996 to 1998. In 1982 and in 1987, he undertook research studies abroad (at the Universities of Erlangen and Heidelberg). He served as a Counselor to the Minister at the Ministry of Labor and Social Security from 1991 to 2000 and he attended the ILO Conference held in Geneva as the Counselor to the Government during the years 1991 to 2003. Prof. Dr. Taşkent had also been the Head of Major Discipline of Law at the Faculty of Business Administration of İstanbul Technical University. He is currently retired and serving as a visiting professor at the same university. He was elected to the Bank's Board on March 31, 2005 and re-elected on March 28, 2008, and March 31, 2011. He has been serving as a member of the Audit Committee since March 26, 2008, the TRNC (Turkish Republic of Northern Cyprus) Internal Systems Committee since June 15, 2009 and the Remuneration Committee since December 29, 2011.

*Hasan Koçhan (Director)*

Born in Trabzon in 1957, Hasan Koçhan graduated from the Banking Department of the Banking Insurance Trade Institution of Higher Education of Ankara Academy of Economic and Commercial Sciences. He started his professional career at the Bank's Maçka/Trabzon Branch as an Officer in 1984. He was appointed as an Assistant Supervisor in the Bayburt Branch in 1988, and served in the same position in the Yomra/Trabzon Branch, Bulancak/Giresun Branch and Trabzon Branch. After serving at Trabzon Branch as a Sub-Manager (from 1996) and as an Assistant Manager (from 1998), he was appointed as the Manager of the Park/Trabzon Branch in 1999, the Ordu Branch in 2000, the Gaziantep Branch in 2002 and the İzmit/Kocaeli Branch in 2005. Mr. Koçhan was appointed to the Bank's Board of Directors on November 3, 2008 and re-appointed on March 31, 2011. He has been serving as a member of the Credit Committee since May 30, 2011.

*Aynur Dülger Ataklı (Director)*

Born in Ankara in 1958, Aynur Dülger Ataklı graduated from the Department of Economics-Finance of the Faculty of Political Sciences at Ankara University, where she started her professional career in 1979 as a Research Assistant. She later served as an Assistant Specialist and Specialist at the State Planning Organization from 1980 to 1991. She attended a post-graduate program in the United States from 1987 to 1988 and the Senior Public Administration Techniques and European Union program at The Royal Institute of Public Administration in the United Kingdom in 1990. She served as a Specialist, Department Head and Deputy General Manager at the Undersecretariat of Treasury, General Directorate of Foreign Capital during the period from 1991 to 1998, and a Counselor at the Undersecretariat of Treasury from 1998 to 2011. Mrs. Ataklı was elected to the Bank's Board on March 31, 2011 and as a member of the Social Responsibility Committee on April 1, 2011.

*M. Mete Başol (Director)*

Born in İstanbul in 1957, Mehmet Mete Başol graduated from the Economics Department of Arizona State University. He has held various positions at Interbank from 1984 to 1988 and during the period from 1988 to 2001 he served as Deputy Chief Executive, Chief Executive Officer and Chairman of the Board at Turk

Merchant Bank A.Ş., Bankers Trust A.Ş. and Deutsche Bank A.Ş., respectively. He has served as Managing Director at the Public Banks Joint Board for restructuring and rehabilitation practice from 2001 to 2003. Additionally, he has been a Counselor and Director at various financial institutions since 2003. Mr. Başol was elected to the Bank's Board on March 31, 2011 and was elected as an alternate member of the Credit Committee on April 1, 2011.

*Mustafa Kıcalıoğlu (Director)*

Born in Silifke in 1946, Mustafa Kıcalıoğlu graduated from the Faculty of Law of Ankara University and completed the Public Administration Postgraduate Expertise Program at the Public Administration Institute for Turkey and the Middle East. He began his career as a Judge in Silifke, then served as the Aralık and Giresun Deputy Public Prosecutor and then served as a Judge in Baskil, Çankırı, Kocaeli and Ankara. In 2001, Mr. Kıcalıoğlu was elected as a Member of the Supreme Court (serving as Head of the 4th Civil Chamber), where he remained until he retired. Mr. Kıcalıoğlu was elected to the Bank's Board on March 31, 2011.

*Aysel Tacer (Director)*

Born in Siverek/Şanlıurfa in 1959, Aysel Tacer graduated from the Business Administration Department of the Faculty of Economics and Administrative Sciences of Marmara University. She began her career at the Bank as an Officer at the Taksim Branch in 1980, served as an Assistant Supervisor and a Financial Analyst at the Credit Information and Financial Analysis Department from 1983 to 1989 and became an Assistant Loan Specialist in 1989 and an Assistant Manager in 1993 at the Şişli Branch. During the period from 1996 to 2011, she served as the Manager of the Akatlar, Çarşı Bakırköy, Bakırköy, Güneşli and Güneşli Corporate Branches. Ms. Tacer was elected to the Bank's Board on March 31, 2011, and on April 1, 2011 she was elected as a member of the Social Responsibility Committee and on May 30, 2011 was elected as an alternate member of the Credit Committee.

*Hüseyin Yalçın (Independent Director)*

Born in Konya in 1947, Hüseyin Yalçın graduated from the Economics Department of the Faculty of Administrative Sciences of Middle East Technical University. He began his professional life as an elementary school teacher. He served as an Officer at Dışbank and Emlakbank, served as an Inspector, Assistant Manager, Branch Manager and Manager of the İzmir Region Foreign Operations at Ziraat Bank during the period from 1977 to 1990 and served as Deputy Chief Executive and General Manager Consultant at Development Bank of Turkey from 1990 to 2000. He served as Senior Deputy Chief Executive at Yurtbank, as Deputy Chief Executive at Sümerbank and as General Manager Consultant at Toprakbank from 2000 to 2002, after the transfer of those banks to the SDIF. Mr. Yalçın was elected to the Bank's Board on March 31, 2011 and, on February 27, 2013, was elected as an independent director, which election was approved by the Bank's shareholders at its March 29, 2013 annual General Assembly.

*Murat Vulkan (Director)*

Born in Ankara in 1957, Murat Vulkan graduated from the English Language and Literature Department of the Faculty of Social and Administrative Sciences at Hacettepe University. He started his professional career at the Bank as an Officer at the Kızılay/Ankara Branch in 1982 and became Assistant Supervisor at the Ankara Branch in 1987. He became a Sub-Manager in 1993 and Assistant Manager in 1995. He was appointed as the Ereğli/Karadeniz Branch Manager in 1999 and the Kayseri Branch Manager in 2001. He was promoted as the Regional Manager of the İstanbul-Maltepe Region of SME Loans Underwriting Division in 2004 and became the Manager of the Yenişehir/Ankara and Başkent Corporate Branches in 2006 and 2007, respectively. Mr. Vulkan was elected to the Bank's Board on May 30, 2011.

## Executive Committee

The Bank's Executive Committee consists of the Chief Executive Officer and the Deputy Chief Executives. The meetings of the Executive Committee are held once a month; however, the Chief Executive Officer may call for a meeting whenever it is necessary. Resolutions are made on a majority basis and require the approval of the Chief Executive Officer.

The Executive Committee is responsible for, among other things, preparing the strategies, policies, targets and the business plan of the Bank and assessing the Bank's performance. Members of the Executive Committee are:

Name	Position
Adnan Bali .....	Chief Executive Officer
Senar Akkuş .....	Deputy Chief Executive
Hakan Aran .....	Deputy Chief Executive
Ertuğrul Bozgedik .....	Deputy Chief Executive
Yılmaz Ertürk .....	Deputy Chief Executive
Serdar Gençer .....	Deputy Chief Executive
Suat İnce .....	Deputy Chief Executive
İlhami Koç .....	Deputy Chief Executive
Levent Korba .....	Deputy Chief Executive
Rıza İhsan Kutlusoy .....	Deputy Chief Executive
Mahmut Magemizoğlu .....	Deputy Chief Executive
Aydın Süha Önder .....	Deputy Chief Executive
Yalçın Sezen .....	Deputy Chief Executive

Additional information on each of these Deputy Chief Executives is set forth below:

### *Senar Akkuş*

Born in Diyarbakır in 1969, Ms. Senar Akkuş graduated from the Economics Department of the Faculty of Economics and Administrative Sciences at the Middle East Technical University. She joined the Bank as an Assistant Specialist at the Treasury Department in 1991. After serving in various units of the Bank, she was appointed as Deputy Chief Executive in 2011.

### *Hakan Aran*

Born in Antakya in 1968, Mr. Hakan Aran graduated from the Computer Engineering Department of the Faculty of Engineering at the Middle East Technical University. He holds a master's degree in Business Administration from the Başkent University, Institute of Social Sciences. He began his career at the Bank as a Software Specialist in the IT Department in 1990 and served in different positions in IT & Software Development Department. He was appointed Deputy Chief Executive in 2008.

### *Ertuğrul Bozgedik*

Born in Kayseri in 1964, Mr. Ertuğrul Bozgedik graduated from the Economics Department of the Faculty of Political Sciences at Ankara University. He joined the Bank in 1986 as an Assistant Inspector on the Board of Inspectors and served in various units. He was appointed as Deputy Chief Executive in 2011.

### *Yılmaz Ertürk*

Born in İstanbul in 1964. Mr. Yılmaz Ertürk is graduated from the Faculty of Economics at İstanbul University and received his master's degree from the same university, Institute of Social Sciences. In 1987, he joined the Bank as an Assistant Specialist in Economic Research Division. He became an Assistant

Specialist at the Treasury Department in 1990, an Assistant Manager in 1996 and a Unit Manager in 1998 at the same department. Mr. Ertürk became the Head of the Economic Research Division in 2003, Head of the International Banking Division in 2006 and Manager of the Kozyatağı Corporate Branch in 2011. Mr. Ertürk was appointed as Deputy Chief Executive on January 30, 2013.

#### *Serdar Gençer*

Born in Siverek in 1967, Mr. Serdar Gençer graduated from the Industrial Engineering Department of the Faculty of Engineering at the Middle East Technical University. He holds a master's degree in Business Administration from the University of Nottingham (UK). He began his career at the Bank as an Assistant Inspector on the Board of Inspectors in 1990 and served in various units of the Bank. He was appointed Deputy Chief Executive in 2008.

#### *Suat İnce*

Born in Ankara in 1964, Mr. Suat İnce graduated from the Department of Economics of the Faculty of Economic and Administrative Sciences at the Middle East Technical University. He began his career at the Bank as an Assistant Inspector on the Board of Inspectors in 1987 and served in various units and branches of the Bank. He was appointed Deputy Chief Executive in 2008.

#### *İlhami Koç*

Born in Malatya in 1963, Mr. Koç graduated from Ankara University, Faculty of Political Sciences. Mr. Koç began his career at the Bank in 1986 on the Board of Inspectors. He became an Assistant Manager in 1994 at the Capital Markets Division, a Unit Manager responsible for Capital Markets and Portfolio Management at İş Yatırım Menkul Değerler A.Ş. in 1997, Deputy Chief Executive in 1999 at İş Yatırım Menkul Değerler A.Ş., Chief Executive Officer at İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. in 2001 and Chief Executive Officer at İş Yatırım Menkul Değerler A.Ş. in 2002. Mr. Koç was appointed as Deputy Chief Executive at İşbank on January 30, 2013.

#### *Levent Korba*

Born in Muğla in 1960, Mr. Levent Korba graduated from the English Language Department of Buca Faculty of Education at Dokuz Eylül University. He joined the Bank in 1986 as a Candidate Officer in İzmir Branch and served in various units and branches of the Bank. He was appointed as Deputy Chief Executive in 2011.

#### *Rıza İhsan Kutlusoy*

Born in İzmir in 1965, Mr. Rıza İhsan Kutlusoy graduated from the Business Administration Department of the Faculty of Economic and Administrative Sciences at the Middle East Technical University. He joined the Bank in 1988 as an Assistant Inspector on the Board of Inspectors and served in various units and branches of the Bank. He was appointed as Deputy Chief Executive in 2011.

#### *Mahmut Magemizoğlu*

Born in Antakya in 1959, Mr. Mahmut Magemizoğlu graduated from the Business Administration Department of the Faculty of Administrative Sciences at the Middle East Technical University. He holds a master's degree in investment analysis from the University of Stirling (UK). He began his career at the Bank in 1982 as an Assistant Inspector on the Board of Inspectors and served in various units of the Bank. He was appointed Deputy Chief Executive in 2005.

### *Aydın Süha Önder*

Born in İskilip in 1962, Mr. Aydın Süha Önder graduated from the Political Sciences and Public Administration Department of the Middle East Technical University. He joined the Bank in 1986 as a Candidate Officer in the Economic Research Department. Mr. Önder served in a number of units and branches of the Bank. He was appointed as Deputy Chief Executive in 2011.

### *Yalçın Sezen*

Born in İzmir in 1965, Mr. Yalçın Sezen graduated from the Political Sciences and Public Administration Department of the Middle East Technical University, Faculty of Economics and Administrative Sciences. He joined the Bank in 1987 as an Assistant Inspector on the Board of Inspectors. After serving in various units of the Bank, he was appointed as Deputy Chief Executive in 2011.

### *Board Committees*

In addition to the Executive Committee, the Board of Directors has established the Credit Committee, the Credit Revision Committee, the Audit Committee, the Risk Committee, the Turkish Republic of Northern Cyprus Internal Systems Committee, the Corporate Social Responsibility Committee, the Remuneration Committee and the Corporate Governance Committee.

*Credit Committee.* The Bank's Credit Committee consists of the Chief Executive Officer or his deputy, who is also the chairman of the Credit Committee, and two members of the Board of Directors. Each year, at the first Board meeting after the General Shareholders' Meeting, the members of the Credit Committee are determined. Two alternate committee members are also designated. Decisions of the Credit Committee relating to credit allocations require unanimous approval with each Credit Committee member having an opportunity to examine the credit file in question. Resolutions of the Credit Committee that have unanimous backing are executed directly while resolutions made on a majority basis are executed following the approval of the Board of Directors. The Credit Committee examined 100 credit files in 2012 and 20 in the first three months of 2013.

*Credit Revision Committee.* The Credit Revision Committee was established within the context of the Bank's credit risk policy in order to ensure that after any revision of its loan portfolio at the end of the year, relations with credit customers are evaluated and, where necessary, the credit limits allocated are renewed or revised. In 2013, the Bank's Credit Revision Committee revised all the firms and institutions under the authority of the Board of Directors and Credit Committee and completed the examination and revision of limits for hundreds of group or individual companies and 29 correspondents.

*Audit Committee.* The Audit Committee consists of two members (a chairman and a member) that serve on the Board of Directors. The Audit Committee members are selected by the Board of Directors. The Audit Committee informs the Board of Directors of the results of its activities and the measures that are required to be taken by the Bank, and offers its opinions on other matters that it considers to be significant for the Bank to conduct its business in a safe manner.

The Audit Committee is in charge of:

- ensuring that the Bank's internal systems function effectively and efficiently and that the Bank's accounting and reporting systems operate in compliance with the related regulations,
- carrying out the preliminary assessment of external auditors and rating agencies, evaluating and supporting service providers and monitoring on a regular basis the activities of the service providers selected by the Board of Directors,

- ensuring that the internal audit functions of subsidiaries that are subject to consolidation are being performed in line with the related regulations,
- reporting and advising to the Board of Directors in relation to the Bank's operations and activities, as well as the policies and regulations of its internal systems,
- evaluating the information and reports received from independent auditors and divisions that fall under the internal systems with respect to their activities,
- ensuring that the Bank's financial statements are in accordance with the relevant regulations, requirements and standards,
- where necessary, gathering information, reports and documents from the relevant units of the Bank or its supporting service providers and independent auditors and, subject to the approval of the Board of Directors, receiving consulting service from persons who are experts in their respective fields,
- carrying out its other regulatory duties and performing tasks assigned by the Board of Directors, and
- reporting to and advising the Board of Directors in relation to the results of its activities and the measures deemed necessary to be taken in order for the Bank to operate in a manner compliant with the relevant external and internal regulations and policies.

*Risk Committee.* The Risk Committee is responsible for formulating the risk management strategies and policies that the Bank will adhere to both on a consolidated and unconsolidated basis, presenting them to the Board of Directors for approval, and monitoring compliance with them. The Risk Committee is the common communication platform with the Bank's executive divisions in terms of assessing the risk to which the Bank is exposed, making suggestions about precautions to be taken and methods to be followed. The committee's principal duties include:

- preparing risk strategies and policies and presenting them to the Board of Directors for approval,
- adjudicating on and negotiating the issues raised by the Risk Management Division,
- recommending risk limits (including risk appetite limits, trading book limits, banking book limits, investment limits, loan concentration limits, industrial limits and liquidity risk limits) to the Board of Directors, monitoring the breach of risk limits and making recommendations to the Board of Directors regarding the treatment and elimination of those breaches,
- recommending to the Board of Directors changes in risk policies as circumstances require,
- monitoring risk identification, definition, measurement, assessment, and management processes carried out by the Risk Management Division, and
- monitoring the accuracy and reliability of the risk measurement methodologies and their results.

The Risk Committee also contributes to the configuration of group risk policies through consolidated group meetings. In the activities that the Risk Committee carries out on a consolidated basis, the Deputy Chief Executive responsible for the Equity Participations Division and the Department Head of the Equity Participations Division also attend the meetings.

*The Turkish Republic of Northern Cyprus ("TRNC") Internal Systems Committee.* Due to the Bank having branches operating in the TRNC, the TRNC Internal Systems Committee was established under resolution No. 35546 of the Board of Directors dated June 15, 2009 in accordance with the Banking Law of the TRNC and other relevant regulations.

The TRNC Internal Systems Committee informs the Board of Directors of the results of its activities and the measures that are required to be taken by the Bank's branches in the TRNC, and renders its opinions on other matters that it deems to be significant for these branches to conduct their business in a safe and effective manner.

The TRNC Internal Systems Committee is responsible for ensuring that the internal systems that have been established with regard to the activities of the branches operating in the TRNC function effectively and efficiently and that the Bank's accounting and reporting systems in these branches operate within the framework of the related regulations, ensuring the integrity of information produced.

The TRNC Internal Systems Committee is also responsible for carrying out the preliminary assessment of external auditors as well as monitoring on a regular basis the activities of the service providers for other banking activities that have been selected by the Board of Directors and have signed an agreement with the Bank.

*Corporate Social Responsibility Committee.* The Corporate Social Responsibility Committee was established in accordance with the Regulation on Social Responsibility Practice (the "Social Regulation"), which was adopted under resolution No. 33784 of the Board of Directors dated November 7, 2007. The Committee operates in line with the Social Regulation principles, by considering the following basic fields of contribution: "Education," "Culture and Art," "Health," "Protection of the Environment" and "Other Activities."

*Remuneration Committee.* As per the resolution of the Board of Directors, dated December 29, 2011 and No. 38038, the Remuneration Committee was established for the purpose of executing functions and activities related to monitoring and controlling remuneration implementations of the Bank on behalf of Board of Directors.

The Committee holds meetings at least twice a year and informs the Board of Directors about the results of its own activities and its opinions on other important issues. The Remuneration Committee is responsible for monitoring and controlling policies related to remuneration management on behalf of the Board of Directors within the context of compliance to the Bank's Corporate Governance Principles, ensuring that remuneration is in compliance with the Bank's ethical values, internal balances and strategic goals. The committee is also responsible for evaluating remuneration policy and its implementation within the framework of risk management, submitting proposals to the Board of Directors that are in line with the requirements after examining remuneration policy and officiating other responsibilities in accordance with relevant legislation and tasks assigned by the Board of Directors within this framework.

*Corporate Governance Committee.* As per the resolution of the Board of Directors dated February 27, 2013, the Corporate Governance Committee was established for the purpose of assuring that the Bank complies with corporate governance principles and determining appropriate independent nominees for the Bank's Board of Directors.

#### *Conflict of Interests*

There are no actual or potential conflicts of interest between the duties of any of the members of the Board of Directors and the Executive Committee and their respective private interests or other duties.

#### *Address*

The business address of the Executive Committee is İş Kuleleri 34330 Levent, İstanbul, Turkey.



## **Remuneration**

Monthly remunerations of the Board members and auditors are determined annually at the Bank's General Shareholders' Meetings and disclosed to the Borsa İstanbul. After the legal and extraordinary reserves fund and the first dividend have been allocated from the net profit of the Bank, 0.25% of the remaining balance is distributed among the members of the Board of Directors (including the Chief Executive Officer) equally.

The aggregate amount of the remuneration paid and benefits in hand granted to the members of the Board of Directors and senior management on a Bank-only basis for 2012 was TL 15 million (TL 2 million for the first quarter of 2013).

## **Corporate Governance**

The Bank recognizes the importance of maintaining sound corporate governance practices. The relationship between the Bank's management, shareholders, employees and third parties including customers, legal authorities, suppliers and various other individuals and institutions with whom the Bank does business are based upon fundamental governance principles including integrity, credibility, non-discrimination, compliance, confidentiality, transparency, accountability and sustainability.

The Bank is subject to the Corporate Governance Principles stated in the banking regulations and the regulations for capital markets that are applicable to banks. Where the Bank does not comply with any of the non-mandatory principles applicable to it under the Corporate Governance Communiqué, it will describe any such non-compliance in its annual Corporate Governance Principles Compliance Report, which is published as part of the Bank's annual report. See also "*Turkish Regulatory Environment – Corporate Governance Principles.*"

## OWNERSHIP

The Bank was established in 1924 at the initiative of Mustafa Kemal Atatürk, the founder of modern Turkey. The Bank has three classes of shares, Class A Shares, Class B Shares and Class C Shares. For the principal differences among these three classes of shares, see “*Voting rights*” and “*Privileges*” below.

According to the Central Registry Agency, as of March 31, 2013: (a) the major shareholder of the Bank, with a 39.73% shareholding, was the İşbank Personnel Supplementary Pension Fund, which acts on behalf of both active and retired employees of the Bank, (b) 32.18% of the Bank’s shares were on free float, and the remaining 28.09% were held by the CHP, which is the testamentary heir of the Bank share capital held initially by Mustafa Kemal Atatürk under his will dated as of September 5, 1938. Under such will and its interpretation by the Turkish courts, dividends on the share capital of the Bank held by the CHP are paid equally to the following two non-profit organizations: the Turkish Language Institute and the Turkish Historical Society.

As of March 31, 2013, the share capital of the Bank was TL 4,500,000,000 consisting of 112,502,250,000 fully paid-up shares. According to the Central Registry Agency, registered shareholdings in the Bank as of such date were as follows:

Shareholder	Shares <sup>(1)</sup>	Percentage
<b>Pension Fund</b>		
Class A Shares .....	35,532	0.0%
Class B Shares.....	948,830	0.0%
Class C Shares.....	44,690,309,717	39.7%
Sub-total.....	44,691,294,079	39.7%
<b>Atatürk’s Shares (the CHP)</b>		
Class A Shares .....	27,568	0.0%
Class B Shares.....	823,769	0.0%
Class C Shares.....	31,603,348,766	28.1%
Sub-total.....	31,604,200,103	28.1%
<b>Public Free Float</b>		
Class A Shares .....	25,122	0.0%
Class B Shares.....	775,545	0.0%
Class C Shares.....	36,203,079,369	31.2%
Sub-total.....	36,203,880,036	31.2%
<b>Total</b>		
Class A Shares .....	100,000	0.0%
Class B Shares.....	2,900,000	0.0%
Class C Shares.....	112,499,250,000	100.0%
<b>Total.....</b>	<b>112,502,250,000</b>	<b>100.0%</b>

(1) Each Class A and B share has a nominal value of one Kuruş. Each Class C share has a nominal value of four Kuruş. One hundred Kuruş are equal to one Turkish Lira.

## Dividends

Dividends are paid by the Bank from its net profit in accordance with its articles of incorporation. Under its articles of incorporation, the Bank is required to allocate 5% of its net profit towards its statutory reserve fund, 5% as a provision for probable losses and 10% as a first contingency reserve. From the balance of net profit, an amount equal to 6% of the Bank’s paid-up share capital represented by Class A, B and C shares is distributed to the shareholders as a “first dividend.” Should the net profit realized in any year be insufficient

to provide for the first dividend of 6%, the balance is to be distributed out of the Bank's contingency reserve fund with such amount constituting a charge to be made up out of profits to be realized in subsequent years. Once the first dividend (and, where appropriate, the contingency reserve fund) is provided for, the balance of the net profit is distributed as follows: 10% for founder shares (limited to TL 250,000 of paid-up capital), 0.25% for the members of the Board of Directors (including the Chief Executive Officer) to be shared among them equally, 20% for the employees of the Bank and 10% as a second contingency reserve. Once these amounts have been distributed, the balance is distributed to the Bank's shareholders as a "second dividend" in accordance with the Bank's articles of incorporation.

The following table sets forth details of the Bank's dividend distributions pertaining to the indicated years (all of which consisted entirely of cash dividends).

	<b>2010</b>	<b>2011</b>	<b>2012</b>
Class A Shares	TL 284	TL 205	TL 271
Class B Shares	TL 4,995	TL 3,848	TL 4,797
Class C Shares	TL 690,869,466	TL 542,616,499	TL 665,259,329
<b>Total</b>	<b>TL 690,874,745</b>	<b>TL 542,620,552</b>	<b>TL 665,264,396</b>
Payout ratio (%)	23.2%	20.3%	20.1%

### **Preferential rights**

Under the Bank's articles of incorporation, existing shareholders have preferential rights with respect to the purchase of new shares to be issued by the Bank. The duration and conditions of the exercise of these rights is to be determined by the Board of Directors in accordance with the relevant Turkish regulations. To the extent that these preferential rights are not exercised in respect of any new shares within the prescribed period, these shares are to be made available for subscription by the public.

### **Voting rights**

At least one share is needed for participating in any Ordinary or Extraordinary General Assembly. Each share provides one vote to its owner.

Law 5274, which amended Turkish Commercial Code No 6762 and came into effect on January 1, 2005, provided that each share must have a minimum nominal value of one Kuruş. While Turkish Commercial Code No 6102 came into effect and abolished the Turkish Commercial Code No 6762 on July 1, 2012, Article 476 of Turkish Commercial Code No 6102 (which is in effect as of the date hereof) also provides that each share must have a minimum nominal value of one Kuruş. At the time that Law 5274 was passed, each Class A share had a nominal value of "old" TL 500 (which was the equivalent of 50,000 "old" Kuruş); *however*, following the translation of the Turkish Lira (conversion of "old" Turkish Lira to "new" Turkish Lira by removing six zeros from the currency), the Class A shares had a nominal value of 0.05 "new" Kuruş (TL 500 *divided by* TL 1,000,000). In order to comply with the above-mentioned requirement, the Bank held an Extraordinary General meeting on July 25, 2007, during which shareholders passed a resolution to bundle 20 previous Class A shares each with a nominal value of 0.05 Kuruş into one Class A share, each with a nominal value of one Kuruş. As a result, each current Class A share gives its holder 20 voting rights.

Despite having a lower nominal value, Class B shares, each with a nominal value of one Kuruş, have the same voting rights as the Class C shares, each with a nominal value of four Kuruş. Votes may be cast by proxy.

### **Privileges**

Because each current Class A share is a bundle of 20 of the previously issued Class A shares, holders of current Class A shares have additional privileges according to Articles 18 and 19 of the Bank's articles of incorporation. For example, holders of Class A shares: (a) can receive 20 times the number of additional

shares in a possible distribution of bonus shares issued from the conversion of extraordinary and revaluation reserves generated in accordance with the relevant laws and (b) are eligible to exercise 20 times the preference rights per Class A Share.

Furthermore, Class A and B shares, each with a nominal value of one Kuruş, are granted privileges in distribution of profits pursuant to Article 58 of the Bank's articles of incorporation.

## **Major Shareholders**

### *İşbank Personnel Supplementary Pension Fund*

The Pension Fund is a separate legal entity from the Bank and is organized as a private Turkish "foundation" under the Turkish Civil Law, operating within the Turkish Regulations of Foundations. All active and retired Turkish employees of the Bank are members of the Pension Fund. The aim of the Pension Fund is to provide higher pensions to the Bank's employees when they retire and to provide both employees and pensioners with various social benefits.

### *Atatürk's Shares (The CHP)*

The CHP is the testamentary heir of the Bank's share capital held initially by Mustafa Kemal Atatürk. The CHP was founded on September 9, 1923 approximately one and a half months before the proclamation of the Republic of Turkey. The CHP is the first official political party of the Republic of Turkey and was established by Mustafa Kemal Atatürk, who was also the founder of the Bank. Atatürk remained the chairman of the CHP until his death in 1938 when, in line with the provisions of his will, his shares in the Bank were transferred to the CHP.

Under Atatürk's will, any dividends on the share capital of the Bank held by the CHP are paid to the Turkish Language Institute and the Turkish Historical Society. Therefore, the CHP enjoys only representative rights in relation to their shares derived from Atatürk's bequest.

## **Other Shareholders**

The remaining shares are on free float held by other individual or institutional shareholders who together owned 32.2% of the Bank's shares according to Central Registry Agency data as of March 31, 2013.

## RELATED PARTY TRANSACTIONS

The Bank and its qualified shareholders, Board of Directors (including the Chief Executive Officer) and the undertakings that they control individually or jointly, directly or indirectly or in which they participate with unlimited responsibility or where they are members of board of directors or general manager are considered and referred to as related parties. The Bank enters into transactions with related parties in the ordinary course of its business and on an arm's length basis and will continue to do so in the future. See also "*Business of the Group – Related Party Transactions.*"

Restrictions relating to loans extended by the Bank to the members of its Board of Directors are defined in Article 50 of the Banking Law. The Bank does not extend loans to the members of its Board of Directors other than those allowed by the law.

None of the members of the Bank's Board of Directors or executive officers has or has had any interest in any transaction effected by the Bank and that are or were unusual in their nature or conditions or significant to the business of the Bank and that were effected during the current or immediately preceding financial year or were effected during an earlier financial year and remain in any respect outstanding or unperformed. None of these individual transactions are material.

The Banking Law places limits on a bank's exposure to related parties. Under the Banking Law, the total amount of loans to be extended by a bank to its risk group must not be more than 20% of its own funds. As of March 31, 2013, the Bank's total net exposure to its risk group totaled TL 2,575 million, an amount corresponding to 10.2% of its own funds; the Bank is therefore within the limits of the Banking Law in terms of its exposure to its subsidiaries and other affiliates.

The following table shows the breakdown of the Group's business transactions with related parties as of the dates indicated.

	December 31,						March 31,	
	2010		2011		2012		2013	
	Amount	Percentage of Related Item	Amount	Percentage of Related Item	Amount	Percentage of Related Item	Amount	Percentage of Related Item
<i>(TL thousands, except percentages)</i>								
Cash loans.....	460,281	0.67%	702,189	0.71%	567,177	0.49%	519,511	0.44%
Non-cash loans .....	1,733,947	10.55%	2,458,207	9.01%	1,527,460	5.08%	1,627,705	5.40%
Deposits .....	2,287,626	2.59%	2,133,162	2.16%	2,291,383	2.16%	2,305,612	2.16%
Derivatives.....	—	0.00%	188,145	0.25%	817	0.00%	—	0.00%

## **TURKISH BANKING SYSTEM**

### **Structural Changes in the Turkish Banking System**

The Turkish financial sector has gone through major structural changes as a result of the financial liberalization program that started in the early 1980s. The abolition of directed credit policies, liberalization 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 Turkish Banks Association.

The Turkish money markets and foreign exchange markets have stabilized 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 25 private banks have been transferred to the SDIF due to, among other things, weakened financial stability and liquidity, and efforts are continuing on the resolution of the SDIF banks while restructuring and privatization 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 Utilization 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 January 2, 2013 *RUSF* rates for cross-border foreign exchange borrowings extended by financial institutions outside of Turkey with an average maturity of between one to two years changed from 0% to 1% and those with an average maturity of between two to three years changed 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 fueled by credit, which was in turn perceived to be adversely affecting Turkey's current account balance. The Council of Ministers determined the *RUSF* charged on consumer credits to be utilized by real persons (for non-commercial utilization) to 15% with its decision numbered 2010/974, which was published in the Official Gazette dated October 28, 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 December 31, 2008, which stayed at that level until February 2011 when Fortis Bank A.Ş. merged with Turk Ekonomi Bankası A.Ş. In October 2012, Odea Bank A.Ş. commenced operations. 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.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of banks	54	50	48	47	46	46	45	45	45	44	45

Source: Turkish Banks Association ([www.tbb.org.tr](http://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 March 31, 2013, 45 banks were operating in Turkey, including the newest Turkish bank (Odea Bank A.Ş.), which was granted an operating license in September 2012 and is the first bank since 1997 to obtain a license to establish a deposit bank in Turkey. Thirty-two of these were deposit-taking banks and the remaining banks were investment and development banks (four 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, 12 were private domestic banks, 16 were private foreign banks and one was under the administration of the SDIF. On December 20, 2012, the BRSA resolved to permit the establishment of a new deposit bank to be controlled by Bank of Tokyo-Mitsubishi UFJ Ltd.; *however*, this bank has not yet started operations.

The Banking Law permits deposit-taking banks to engage in all fields of financial activities, including deposit collection, corporate and consumer lending, foreign exchange transactions, capital market activities and securities trading. Typically, major commercial banks have nationwide branch networks and provide a full range of banking services, while smaller commercial banks focus on wholesale banking. The main objectives of development and investment banks are to provide medium-and long-term funding for investment in different sectors.

Deposit-taking Turkish banks' total balance sheets have grown at a compound average growth rate ("CAGR") of 17.6% from December 31, 2006 to March 31, 2013, driven by loan book expansion and customer deposits growth, which increased by a CAGR of 23.3% and 15.7%, respectively, between December 31, 2006 and March 31, 2013, 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 49.9% and 50.5%, respectively, as of December 31, 2012 according to BRSA data, whereas the eurozone's banking sector had loan and deposit penetration ratios of 128.9% and 115.3%, respectively, as of the same date based upon the European Central Bank'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) December 31,								As of (or for the three months ended) March 31,
	2006	2007	2008	2009	2010	2011	2012	CAGR	2013
Balance sheet									
	(TL millions, except CAGR)								
Loans .....	202,467	262,572	338,091	355,285	479,018	621,379	716,307	23.3%	751,343
Total assets .....	470,635	543,272	683,823	773,357	932,371	1,119,91	1,247,65	17.6%	1,299,613
						1	3		
deposits.....	296,495	342,031	435,554	487,909	583,947	656,276	724,296	15.7%	737,796
Shareholders' equity ....	50,409	64,533	72,060	93,833	114,979	123,007	157,553	20.5%	161,291
Income statement									
Net Interest Income .....	19,607	23,978	28,245	38,758	35,895	36,056	47,837		13,785
Net Fees and Commission Income ....	6,420	7,894	9,611	10,846	11,459	13,345	14,704		4,215
Total income.....	33,414	39,744	45,339	57,275	58,955	61,669	73,831		21,284
Net Profit .....	10,243	13,468	11,851	18,490	20,518	18,177	21,539		6,526
Key ratios									
Loans/deposits .....	68.3%	76.8%	77.6%	72.8%	82.0%	94.7%	98.9%		101.8%
Net interest margin .....	5.1%	5.3%	5.1%	5.9%	4.7%	3.7%	4.4%		4.5%
Return on average equity .....	22.2%	26.6%	19.9%	25.5%	22.2%	16.8%	16.9%		16.6%
Capital adequacy ratio .	19.9%	17.4%	16.6%	19.3%	17.7%	15.5%	17.3%		16.7%

Source: BRSA monthly bulletin ([www.bddk.org.tr](http://www.bddk.org.tr))

## Competition

The Turkish banking industry is highly competitive and relatively concentrated with the top 10 deposit-taking banks accounting for 89.7% of total assets of deposit-taking banks as of December 31, 2012 according to the BRSA. Among the top 10 Turkish banks, there are three state-controlled banks – Ziraat Bank, Halkbank and Vakıfbank, which were ranked second, sixth and seventh, respectively, in terms of total assets as of December 31, 2012 according to the bank-only financials published in the Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)). These three state-controlled banks accounted for 28.1% of deposit-taking Turkish banks' performing loans and 36.6% of total deposits as of December 31, 2012. The top four privately-owned domestic banks are the Bank, Türkiye Garanti Bankası A.Ş. ("*Garanti*"), Akbank A.Ş. ("*Akbank*") and Yapı ve Kredi Bankası A.Ş. ("*Yapı Kredi Bank*"), which in total accounted for approximately 49.1% of deposit-taking Turkish banks' performing loans and approximately 54.8% of total deposits as of December 31, 2012. The remaining banks in the top 10 deposit-taking banks in Turkey include three mid-sized banks, namely Finansbank A.Ş. ("*Finansbank*"), Türk Ekonomi Bankası and Denizbank A.Ş. ("*Denizbank*"), which were controlled by National Bank of Greece, TEB Holding and Sberbank, respectively, as of December 31, 2012.



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 December 31, 2012.

Rank by Assets	Bank	Major Shareholders	Assets (US\$ millions)	Assets market share	Loans market share <sup>(1)</sup>	Deposits market share	Branches
1		İşbank Personnel Supplementary Pension Fund (40.7%), Cumhuriyet Halk Partisi (28.1%)	98,288	14.1%	14.7%	14.5%	1,250
2	İşbank	Treasury (100%)	91,242	13.1%	9.7%	16.4%	1,514
3	Ziraat Bank	Doğuş Group (24.2%), BBVA (25.0%)	89,744	12.8%	12.6%	12.0%	933
4	Garanti	Sabancı Holding, affiliates and family (49.0%), Citigroup (9.9%)	87,313	12.5%	12.0%	11.8%	962
5	Akbank	Koç Financial Services <sup>(2)</sup> (81.8%)	68,448	9.8%	10.3%	9.4%	928
6	Yapı Kredi Bank	Privatization Administration (51.1%)	60,662	8.7%	9.0%	11.0%	821
7	Halkbank	General Directorate of Foundations (58.6%)	58,588	8.4%	9.3%	9.3%	744
8	Vakıfbank	National Bank of Greece (94.8%)	30,477	4.4%	5.0%	4.5%	582
9	Finansbank	TEB Holding (55.0%) <sup>(3)</sup> , BNP Paribas (40.4%)	24,388	3.5%	4.0%	4.0%	509
10	Türk Ekonomi Bankası	Sberbank (99.85%)	24,761	3.5%	3.8%	3.7%	610
	Denizbank						

Source: Turkish Banks Association ([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 Turkish Banks Association'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 50/50 joint venture owned by the Unicredit Group and Koç Holding.

(3) TEB Holding is a 50/50 joint venture between BNPP Fortis Yatırım Holding A.Ş. and Çolakoğlu Group.

The Bank's management perceives the other large private sector banks as its primary competitors. The table below compares certain financial information for the Bank's branches and those of the four largest private competitors mentioned above as of December 31, 2012:

Banks	Number of Branches	Total Assets	Per Branch	
			Loans <sup>(1)</sup>	Customer Deposits
(TL millions)				
The Bank .....	1,250	140.4	85.4	84.3
Garanti.....	933	171.7	98.2	93.8
Akbank .....	962	162.0	91.0	89.5
Yapı Kredi .....	928	131.7	80.6	73.3
Vakıfbank .....	744	140.6	91.2	90.4

Source: BRSA and the banks' financials as of December 31, 2012.

(1) Performing loans only are included.

## **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 established the BRSA, which is responsible for ensuring that banks observe banking legislation, supervises the application of banking legislation and monitors the banking system. The BRSA has administrative and financial autonomy. Historically, the BRSA's head office has been in Ankara; *however*, as of February 13, 2011 and pursuant to Law No. 6111, the head office was relocated to İstanbul and the BRSA has since been in the process of migrating functions from Ankara to İstanbul.

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 authorized to take and implement any decisions and measures in order to prevent any transaction or action that could jeopardize 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 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 regarding the Internal Systems of Banks, as issued by the BRSA and published in the Official Gazette dated June 28, 2012 and numbered 28337, banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit and risk management systems commensurate with the scope and structure of their organizations, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal control personnel cannot also be appointed to work in a role conflicting with their internal control duties.

#### *The Role of the Central Bank*

The Central Bank was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, provision of price stability and its 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 authorized 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.

#### *Turkish Banks Association*

The Turkish Banks Association is an organization 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 authorization of the BRSA. In the absence of such authorization, 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.

The board of directors of a bank is responsible for taking necessary measures to ascertain that shareholders attending general assemblies have obtained the applicable authorizations 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 authorization as described in the preceding paragraph, then it is authorized 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 authorization 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 recognized 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 Banking Regulation and Supervisory Board'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 shall 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.

Pursuant to Article 55 of the Banking Law, the following transactions are exempt from the above-mentioned lending limits:

- (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 Privatization Administration and the Housing Development Administration of Turkey and transactions carried out

against bonds, bills and other securities issued by or payment of which is guaranteed by these institutions,

- (c) transactions carried out in money markets established by the Central Bank or pursuant to special laws,
- (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 payment,
- (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 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 the 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 Provisions and Classification of Loans and Receivables, banks are required to classify their loans and receivables into one of the following groups:

- (a) *Loans of a Standard Nature and Other Receivables*: This group involves loans and other receivables:
  - (i) that have been disbursed to natural persons and legal entities with financial creditworthiness,
  - (ii) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor,
  - (iii) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and that can be fully collected, and
  - (iv) for which no weakening of the creditworthiness of the applicable debtor has been found.

The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *however*, in the event that

such modification is related to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than five times the sum of 1% of the cash loan portfolio *plus* 0.2% of the non-cash loan portfolio (letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) is required to be set aside, and such modifications are required to be disclosed under the financial reports to be disclosed to the public. This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below) for amended consumer loan agreements (other than vehicle and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner; *provided* that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

(b) *Loans and Other Receivables Under Close Monitoring:* This group involves loans and other receivables:

- (i) that have been disbursed to natural persons and legal entities with financial creditworthiness and for the principal and interest payments of which there is no problem at present, but which need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable materialization of the latter or significant financial risk carried by the person utilizing the loan,
- (ii) whose principal and interest payments according to the conditions of the loan agreement are not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might result in partial or full non-reimbursement risk,
- (iii) that are very likely to be repaid but the due dates are delayed for more than 30 days for justifiable reasons but not falling within the scope of “Loans and other Receivables with Limited Recovery” set forth under Group III below, or
- (iv) although the standing of the debtor has not weakened, there is a high likelihood of weakening due to the debtor’s irregular and unmanageable cash flow.

If a loan customer has multiple loans and one of these loans is classified in Group II and others are classified in Group I, then all of such customer’s loans are required to be classified in Group II. The terms of a bank’s loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *however*, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than 2.5 times the sum of 2% of the cash loan portfolio *plus* 0.4% of the non-cash loan portfolio for closely-monitored loans are required to be set aside and such modifications are required to be disclosed under the financial reports to be disclosed to the public. This ratio is required to be at least 1.25 times the Consumer Loans Provisions for amended consumer loan agreements (other than vehicle and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner; *provided* that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

(c) *Loans and Other Receivables with Limited Recovery:* This group involves loans and other receivables:

- (i) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and in case the problems observed are not eliminated, they are likely to cause loss,

- (ii) the credibility of whose debtor has weakened and where the loan is deemed to have weakened,
  - (iii) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date, or
  - (iv) in connection with which the bank is of the opinion that collection by the bank of the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.
- (d) *Loans and Other Receivables with Suspicious Recovery:* This group involves loans and other receivables:
- (i) that seem unlikely to be repaid or liquidated under existing conditions,
  - (ii) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement,
  - (iii) whose debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss due to such factors as a merger, the possibility of finding new financing or a capital increase, or
  - (iv) there is a delay of more than 180 days but not more than one year from the due date in the collection of the principal or interest or both.
- (e) *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 his 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 amendment dated September 21, 2012 made on 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 on which the payment of such loans and receivables has been delayed.

The Regulation on Provisions and Classification of Loans and Receivables also requires Turkish banks to provide a general reserve calculated at 1% of the cash loan portfolio *plus* 0.2% of the non-cash loan portfolio



(letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) for standard loans; and a general reserve calculated at 2% of the cash loan portfolio *plus* 0.4 % of the non-cash loan portfolio for closely-monitored loans. In addition, 25% of such rates will be applied for each check that remains uncollected for a period of five years after issuance. Pursuant to the amendment dated September 21, 2012 made on Regulation on Provisions and Classification of Loans and Receivables, at least 40% of the reserve amount calculated according to the above mentioned ratios had to be reserved by December 31, 2012, at least 60% shall be reserved by December 31, 2013, at least 80% shall be reserved by December 31, 2014 and 100% shall be reserved by December 31, 2015.

Banks with consumer loan ratios greater than 20% of their total loans and banks with non-performing consumer loan (classified as frozen receivables (excluding vehicle and housing loans)) ratios greater than 8% of their total consumer loans (excluding vehicle and housing loans) (pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) are required to set aside a 4% general provision for outstanding (but not yet due) consumer loans (excluding vehicle and housing loans) under Group I, and an 8% general provision for outstanding (but not yet due) consumer loans (excluding vehicle and housing loans) under Group II (the “*Consumer Loans Provisions*”).

If the sum of the letters of guarantee, acceptance credits, letters of credit undertakings, endorsements, purchase guarantees in security issuances, factoring guarantees or other guarantees and sureties and pre-financing loans without letters of guarantee of a bank is higher than ten times its equity calculated pursuant to the Regulation on Equities of Banks published in the Official Gazette No. 26333 dated November 1, 2006 (the “*BRSA Equities Regulation*”), 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 November 1, 2006) by applying the general provision rate applicable for cash loans. In addition to the general provisions, special provisions must be set aside for the loans and receivables in Groups III, IV and V at least in the amounts of 20%, 50% and 100%, respectively. An amount equal to 75% less special provisions is set aside for each check slip of customers who have loans under Groups III, IV and V, which checks were delivered by the Bank at least five years previously; *however*, if a bank sets aside specific provisions at a rate of 100% 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.

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 amendment dated September 21, 2012 made to the Regulation on Provisions and Classification of Loans and Receivables, the BRSA is entitled to increase the provision rates taking into account the sector and country risk status of the borrowers.

Banks must also monitor the following types of security based upon their classification:

**Category I Collateral:** (a) cash, deposit, profit sharing fund and gold deposit accounts that are secured by pledge or assignment agreements, promissory notes, debenture bonds and similar securities issued directly or guaranteed by the Central Bank, the Treasury, the Housing Development Administration of Turkey or the Privatization Administration and funds gained from repo transactions over similar securities and B-type investment profit sharing funds, member firm receivables arising out of credit cards and gold reserved within the applicable bank, (b) transactions executed with the Treasury, the Central Bank, the Housing Development Administration of Turkey or the Privatization Administration and transactions made against promissory notes, debenture bonds and similar securities issued directly or guaranteed by such institutions, (c) securities issued directly or guaranteed by the central governments or central banks of countries that are members of the Organization for Economic Co-operation and Development (the “OECD”), (d) guarantees and sureties given by banks operating in OECD member states, (e) securities issued directly or guaranteed by the European Central Bank, (f) sureties and letters of guarantee issued by banks operating in Turkey in compliance with their maximum lending limits and (g) bonds and debentures issued 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, and (i) bills of exchange stemming from actual trading relations, which are received from natural persons and legal entities.

**Category III Collateral:** (a) commercial enterprise pledges, (b) other export documents, (c) vehicle pledges, (d) mortgages on aircraft or ships, (e) sureties from real or legal persons whose creditworthiness is higher than the debtor itself and (f) promissory notes of real and legal persons.

**Category IV Collateral:** any other security not otherwise included in Category I, II or III.

Assets owned by banks and leased to third parties under financial lease agreements must also be classified in accordance with the above-mentioned categories.

When calculating the special reserve requirements for frozen receivables, the value of collateral received from an applicable borrower is deducted from such borrower’s loans and receivables in Groups III, IV and V above in the following proportions in order to determine the amount of the required reserves:

<b>Category</b>	<b>Discount Rate</b>
Category I collateral	100%
Category II collateral	75%
Category III collateral	50%
Category IV collateral	25%

In case the value of the collateral exceeds the amount of the NPL, the above-mentioned rates of consideration are applied only to the portion of the collateral that is equal to the amount of the NPL.

According to Article 11 of the Regulation on Provisions and Classification of Loans and Receivables, in the event of a borrower’s failure to repay loans or any other receivables due to a temporary lack of liquidity that the borrower is facing, a bank is allowed to refinance the borrower with additional funding in order to strengthen the borrower’s liquidity position or to structure a new repayment plan. Despite such refinancing or new repayment plan, such loans and other receivables are required to be monitored in their current loan

groups (whether Group III, IV or V) for at least the next six-month period and, within such period, provisions continue to be set aside at the special provision rates applicable to the group in which they are included. After the lapse of such six-month period, if total collections reach at least 15% 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.

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 (such as the maritime industry) or countries (such as current rules that are in place for real persons or legal entities residing in or engaged in activities relating to Libya and Syria).

### Capital Adequacy

In order to implement the rules of the report entitled “International Convergence of Capital Measurement and Capital Standards: a Revised Framework” published by the Basel Committee on Banking Supervision (the “*Basel Committee*”) in June 2004 (commonly referred to as “*Basel II*”) into Turkish law, on June 28, 2012, the BRSA issued a regulation on measurement and assessment of capital adequacy of banks, which entered into force on July 1, 2012. Article 45 of the Banking Law defines “Capital Adequacy” as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, perpetuate and report their capital adequacy ratio, which, within the framework of the BRSA’s regulations, cannot be less than 8%.

The BRSA is authorized to increase the minimum capital adequacy ratio and the minimum consolidated capital adequacy ratio, to set different ratios for each bank and to revise the calculation and notification periods, but must consider each bank’s internal systems as well as its asset and financial structures. Both the minimum total capital adequacy ratio and the minimum consolidated capital adequacy ratio for the Group as required by the BRSA is currently 8%. 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%.

Under the BRSA Equities Regulation, subordinated loans (which as defined can also include bonds) to a bank are grouped as “primary subordinated loans” and “secondary subordinated loans” and are listed as one of the items that constitute “Tier II” capital. The portion of primary subordinated loans equal to an amount from 15% up to 50% of “Tier I” capital is included in the calculation of “Tier I” capital. The portion of total subordinated debts and primary subordinated debts that exceed 50% of “Tier I” and the portion of general reserves that exceeds 125 per 10,000 of the total of the sum as a basis for credit risk, market risk and operational risk is not taken into consideration in calculating the “Tier II” capital.

See also a discussion of the potential implementation on Basel III in “Basel III” below.

*Tier II Rules under Turkish Law.* Secondary subordinated debts are regulated under the BRSA Equities Regulation. According to this regulation, the net worth of a bank (*i.e.*, the bank’s own funds) consists of main capital and supplementary capital *minus* capital deductions. In the relevant definition, “secondary subordinated loans” (which as defined can also include bonds) are listed as one of the items that constitute a bank’s supplementary capital (*i.e.*, “Tier II” capital); *however*, loans provided to the banks by their affiliates or debt instruments issued to their affiliates do not fall within the scope of such “secondary subordinated loans.” Unless temporarily permitted by the BRSA in exceptional cases, the portion of primary subordinated debts that is not included in the calculation of “Tier I” capital *plus* the total secondary subordinated debts that, in aggregate, exceeds 50% of “Tier I” capital is not taken into consideration in the calculation of “Tier II” capital. During the final five years of a secondary subordinated debt, the amount thereof to be taken into account in the calculation of the “Tier II” capital would be reduced by 20% per year. In addition, any secondary subordinated debt with a remaining maturity of less than one year is not included in the calculation of “Tier II” capital. Any cash credits extended by the bank to the provider(s) of the “secondary

subordinated loans” (if debt instruments, to the investor(s) holding 10% or more thereof) and any debt instruments issued by such provider(s) (or investor(s)) and purchased by the bank are also deducted from the amount to be used in the calculation of the Tier II capital. A secondary subordinated debt is taken into account in the calculation of “Tier II” capital on the date of the accounting of such secondary subordinated debt on the books of the relevant bank.

The BRSA Equities Regulation requires banks to obtain the prior permission of the BRSA for a debt to be classified as a “secondary subordinated loan”. In order to obtain such permission, the bank must submit to the BRSA the original copy or a notarized copy of the applicable agreement(s), and if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original to be made after receipt of the BRSA’s consent). The BRSA would, in considering any such request for its permission, determine if the credit in question meets the following criteria:

- (a) the debt must have an initial maturity of at least five years and the agreement must contain express provisions that prepayment of the principal cannot be made before the expiry of the five-year period and the creditors waive their rights to make any set-offs against the bank with respect to such debt; *it being understood* that interest and other charges may be payable during such five year period,
- (b) there may be no more than one repayment option before the maturity of the debt and, if there is a repayment option before maturity, the date of exercising the option must be clearly defined,
- (c) the creditors must have agreed expressly in the agreement that in the event of dissolution and liquidation of the bank, such debt will be repaid before any payment to shareholders for their capital return and payments on primary subordinated debts but after all other debts,
- (d) it must be stated in the agreement that the debt is not related to any derivative operation or contract violating the condition stated in clause (c) or tied to any guarantee or security, in one way or another, directly or indirectly, and the debts cannot be assigned to any affiliates of the bank,
- (e) it must be utilized as one single drawdown if utilized in the form of a loan and it must be wholly collected in cash if in the form of a debt instrument, and
- (f) payment before maturity is subject to approval of the BRSA.

If the interest rate applied to a secondary subordinated debt is not explicitly indicated in the loan agreement or the text of the debt instrument or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorize the inclusion of the loan or debt instrument in the calculation of “Tier II” capital.

In cases where the parties subsequently agree that a secondary subordinated debt be prepaid prior to its stated maturity (but in any event after the fifth anniversary of its utilization), they would be required to apply for the BRSA’s permission. Upon any such application, the BRSA would, in its sole discretion, determine if any such prepayment would adversely affect the bank’s credit lines and limits or its compliance with the applicable standard ratios and give or decline to give its consent accordingly.

In connection with secondary subordinated debts pursuant to which it has been agreed that a prepayment option shall be available and the remaining maturity is calculated by way of taking into account the originally agreed maturity date (*i.e.*, not on the basis of the prepayment option date), such prepayment option can only be exercised with the consent of the BRSA, which would apply the criteria stated above.

The BRSA has published draft regulations on its website to amend the Tier II rules in accordance with Basel III standards. As of the date hereof, these regulations have not entered into force and the drafts may be subject to change.

*Basel II Migration.* The most significant difference between the capital adequacy regulations in place before July 1, 2012 and the new Basel II regulations (discussed further in “Basel II” below) is the calculation of risk-weighted assets related to credit risk. The new 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 will largely stem 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 currently results in a 50% or 100% risk weighting for Turkey depending upon the selection of the rating agency; *however*, the Turkish law implementing Basel II principles in Turkey (*i.e.*, the “Turkish National Discretion”) revises this general rule by providing that all Turkish Lira-denominated claims on sovereign entities in Turkey and all foreign currency-denominated claims on the Central Bank will also have a 0% risk weight. As a result of these implementation rules, the impact of the new regulations has been fairly limited when compared to the previous regime. The BRSA has announced that the migration from the previous regime to Basel II regulations has had an effect of an approximately 0.20% decline in the capital adequacy levels of the Turkish banking system as of July 31, 2012. This figure is consistent with the Bank’s own experience and thus no additional capital needs are projected for the Bank in the short term due to this change in the regulatory capital adequacy framework.

### **Liquidity and Reserve Requirements**

Article 46 of the Banking Law requires banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures set out by the BRSA. Within this framework, a comprehensive liquidity arrangement has been put into force by the BRSA, following the consent of the Central Bank.

As of the date hereof, the reserve requirements regarding foreign currency liabilities vary by category, as set forth below:

<b>Category of Foreign Currency Liabilities</b>	<b>Required Reserve Ratio</b>
Demand deposits, notice deposits, private current accounts, precious metal deposit accounts, deposit accounts, deposit/participation accounts up to 1-month, 3-month, 6-month and 1-year maturities .....	13%
Deposit/participation accounts and precious metal deposit accounts up to 1-year and longer maturities and cumulative deposits/participation accounts.....	9%
Other liabilities up to 1-year maturity (including 1-year) .....	13%
Other liabilities up to 3-year maturity (including 3-year) .....	11%
Other liabilities longer than 3-year maturity .....	6%
Special fund pools.....	Ratios for corresponding maturities above

As of the date hereof, the reserve requirements regarding Turkish Lira liabilities vary by category, as set forth below:

<b>Category of Turkish Lira Liabilities</b>	<b>Required Reserve Ratio</b>
Demand deposits, notice deposits and private current accounts .....	11.5%
Deposits/participation accounts up to 1-month maturity (including 1-month) .....	11.5%
Deposits/participation accounts up to 3-month maturity (including 3-month) .....	11.5%
Deposits/participation accounts up to 6-month maturity (including 6-month) .....	8.5%
Deposits/participation accounts up to 1-year maturity.....	6.5%
Deposits/participation accounts up to 1-year and longer maturities and cumulative deposits/participation accounts .....	5%
Other Turkish Lira liabilities up to 1-year maturity (including 1-year) .....	11.5%
Other Turkish Lira liabilities up to 3-years maturity (including 3-years)	8%
Other Turkish Lira liabilities longer than 3-year maturity	5%
	Ratios for corresponding maturities above
Special fund pools.....	

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 US Dollars and/or Euro and another portion of the Turkish Lira reserve requirements in standard gold and (b) a portion of the foreign currency 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, as of September 28, 2012, banks are required to maintain their required reserves against their US Dollar-denominated liabilities in US Dollars only.

Furthermore, pursuant to an amendment to the Communiqué Regarding Reserve Requirements entered into force on December 31, 2012, 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%

Banks have been required to notify the Central Bank of their leverage ratios starting from December 31, 2012, and the above-described additional reserve requirements will first be implemented in 2014 starting with 2013 year-end financials.

Starting in September 2010, reserve accounts kept in Turkish Lira became non-interest-bearing (reserve accounts in foreign currencies have not been interest-bearing since 2008).

According to the Regulation on Measurement and Assessment of the Liquidity Adequacy of Banks issued by the BRSA and announced in the Official Gazette dated November 1, 2006 and numbered 26333, the liquidity adequacy ratio of a bank is the ratio of liquid reserves to liabilities of the bank. On a weekly basis, a bank must maintain: (a) a 100% liquidity adequacy ratio for the first maturity period (assets and liabilities maturing within seven days are taken into account in calculations on a weekly average as defined by the regulation) and the second maturity period (assets and liabilities maturing within 31 days of the last working day are taken into account) on an aggregate basis and (b) a 80% liquidity adequacy ratio on a foreign currency-only basis.

### **Foreign Exchange Requirements**

According to a regulation on foreign exchange net position/capital base issued by the BRSA and published in the Official Gazette dated November 1, 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, banks' boards of directors are required to establish audit committees for the execution of the audit and monitoring functions of the board of directors. Audit committees shall consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include the supervision of the efficiency and adequacy of the bank's internal control, risk management and internal audit systems, functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation, and integrity of the information produced; conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors; regularly monitoring the activities of independent audit firms selected by the board of directors; and, in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the Regulation on Authorization and Activities of Institutions to Perform External Audit in Banks, published in the Official Gazette on November 1, 2006 and numbered 26333. Independent auditors are held liable for damages and losses to third parties and are subject to stricter reporting obligations. Professional liability insurance is required for: (a) independent auditors and (b) evaluators, rating agencies and certain other support services (if requested by the service-acquiring bank or required by the BRSA). Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms. With the Regulation on Internal System of Banks published in the Official Gazette No. 28337, dated June 28, 2012, new standards as to principles of internal audit and risk management systems were established in order to bring such standards into compliance with Basel II requirements.

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 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 authorized 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 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, Banking Regulation and Supervision Board 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 Banking Regulation and Supervision Board.

(b) *Borrowings of the SDIF*

The SDIF: (i) may incur indebtedness with authorization 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 funds 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 funds 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 funds 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 Code 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 February 15, 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 March 25, 2006 and numbered 26119 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 organizations in which domestic and foreign equivalent agencies participate, and signing memoranda of understanding with the authorized bodies of foreign countries regarding the matters that fall within the SDIF's span of duty,
- (iv) insuring the savings deposit and participation funds in the credit institutions,
- (v) determining the scope and amount of the savings deposit and participation funds that are subject to insurance with the opinion of the Central Bank, 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 funds from its sources in the credit institutions whose operating permission has been revoked,
- (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 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 License**

If the results of an audit show that a bank's financial structure has seriously weakened, then the BRSA may require the bank's board of directors to take measures to strengthen its financial position. Pursuant to the Banking Law, in the event that the BRSA in its sole discretion determines that:

- the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due,
- the bank is not complying with liquidity requirements,

- 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,
- the regulatory equity capital of such bank is not sufficient or is likely to become insufficient,
- the quality of the assets of such bank have been impaired in a manner potentially weakening its financial structure,
- the decisions, transactions or applications of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA,
- such bank fails to establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the audit of such systems, or
- 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:

- to increase its equity capital,
- not to distribute dividends for a temporary period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund,
- to increase its loan provisions,
- to stop extension of loans to its shareholders,
- to dispose of its assets in order to strengthen its liquidity,
- to limit or stop its new investments,
- to limit its salary and other payments,
- to cease its long-term investments,
- to comply with the relevant banking legislation,
- to cease its risky transactions by re-evaluating its credit policy,
- 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
- to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, its financial structure cannot be strengthened despite the fact that such actions have been taken or the BRSA determines that taking such actions will not lead to getting a favorable result, then the BRSA may require such bank to:

- strengthen its financial structure, increase its liquidity and/or increase its capital adequacy,
- dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSA,

- decrease its operational and management costs,
- postpone its payments under any name whatsoever, excluding the regular payments to be made to its employees,
- limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors,
- 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,
- 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
- to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, the problem cannot be solved despite the fact that the actions have been taken or the BRSA determines that taking such actions will not lead to getting a favorable result, then the BRSA may require such bank to:

- 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,
- apply various restrictions, including restrictions on the interest rate and maturity with respect to resource collection and utilization,
- remove from office (in whole or in part) some or all of its members of the board of directors, general manager and deputy general managers and department and branch managers and obtain approval from the BRSA as to the persons to be appointed to replace them,
- make available long-term loans; *provided* that these will not exceed the amount of deposit or participation funds subject to insurance, and be secured by the shares of other assets of the controlling shareholders,
- limit or cease its non-performing operations and to dispose of its non-performing assets,
- merge with one or several banks,
- provide new shareholders in order to increase its equity capital,
- deduct any resulting losses from its own funds, and/or
- 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 jeopardize the rights of the depositors and the participation fund 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 utilized such bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardized 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 license 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 license 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 license 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 banking license 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. In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation.

Furthermore, Turkish companies (including banks) are required to comply with the Regulation regarding Determination of the Minimum Content of the Companies' Annual Reports published by the Ministry of Customs and Trade, as well as the Corporate Governance Communiqué, when preparing their annual reports. These reports include the following information: management and organization structures, human resources, activities, financial situations, 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 authorized to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

When the BRSA requests a bank's financial reports, 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

must submit a 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 a soft 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. Besides they must publish them on their websites by the end of May following the end of the relevant fiscal year.

### **Disclosure of Financial Statements**

With the Communiqué on Financial Statements to be Disclosed to the Public published in the Official Gazette No. 28337 dated June 28, 2012, new principles of disclosure of annotated financial statements of banks were promulgated. The amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios are reflected in the requirements relating to information to be disclosed to the public and new standards of disclosure of operational, market, currency and credit risk. In addition, new principles were determined with respect to the disclosure of position risks relating from (*inter alia*) securitization transactions and investments in quoted stocks.

### **Financial Services Fee**

Pursuant to Heading XI of Tariff No. 8 attached to the Law on Fees (Law No. 492) amended by the Law No. 5951, banks are required to pay to the relevant tax office to which their head office reports an annual financial services fee for each of their branches. The amount of the fee is determined in accordance with the population of the district in which the relevant branch is located.

### **Corporate Governance Principles**

On December 30, 2011, the Corporate Governance Communiqué was published by the CMB and entered into force, providing certain compulsory and non-mandatory principles applicable to all companies incorporated in Turkey and listed on the Borsa İstanbul, including the Bank. The provisions of the Corporate Governance Communiqué became applicable to the Bank on December 30, 2012. The CMB further amended the Corporate Governance Communiqué on February 22, 2013 (published in the Official Gazette dated February 22, 2013 No 28567) providing for specific exemptions and/or rules applicable to banks that are traded on the Borsa İstanbul. There are certain other additional miscellaneous corporate governance requirements under other Turkish law and regulations which it will remain subject to (*i.e.*, those that apply to non-listed companies and banks).

As of the date of this Base Prospectus, the Bank is subject to the Corporate Governance Principles stated in the banking regulations and the regulations for capital markets that are applicable to banks. Where the Bank does not comply with any of the non-mandatory principles applicable to it under the Corporate Governance Communiqué, it will explain any such non-compliance in its annual Corporate Governance Principles Compliance Report, which is published as part of the Bank's annual report.

The Corporate Governance Communiqué contains principles relating to: (a) companies' shareholders, (b) public disclosure and transparency, (c) the stakeholders of companies and (d) the board of directors. A number of principles are compulsory, while the remaining principles apply on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalization and the market value of their free-float shares, subject to recalculation on an annual basis. The Bank is classified as a "Tier 1" company.

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, which should constitute one third of the board of directors and should not be fewer than two; *however*, as per the amendment to the Corporate Governance Communiqué dated February 22, 2013, publicly traded banks are required to appoint three independent board members to their board of directors, which directors may be selected from the members of the bank's audit committee; *provided* that at least one member should meet the mandatory qualification required for independent board members as set out in the applicable legislation. The Corporate Governance Communiqué further initiated a pre-assessment system to determine the "independency" of individuals nominated as independent board members in "Tier 1" 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 board of directors is required to prepare a list of nominees based upon this evaluation for final review by the CMB, which is authorized to issue a "negative view" on any nominee and prevent their appointment as independent members of the board of directors. The Corporate Governance Communiqué also requires listed companies to establish certain other board committees.

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, transactions concerning the establishment of security (excluding for financial institutions), pledge (excluding for financial institutions) and mortgage (excluding for financial institutions) for third parties and transactions which are deemed "material." "Material transactions" are described as the lease, transfer or establishment of rights *in rem* (other than establishment of rights *in rem* by financial institutions resulting from their general course of business) over the total or a substantial part of the listed company's assets, acquire or lease of a material asset, establishing privileges or changes in the scope of current privileges and delisting of the company. 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 two thirds majority of the attendees who may vote; *however*, in the event of attendance of shareholders representing not less than one-half of the voting rights, a simple majority of the attendees would be sufficient (unless a larger majority is required pursuant to such company's articles of association).

The Capital Markets Law authorizes 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.

### **Anti-Money Laundering**

Turkey is a member country of the FATF and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Turkey, all banks and their employees are obligated to implement and fulfill 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. See "*Risk Factors – Risks Related to Turkey – Combating the Financing of Terrorism.*"

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.

### **Basel III**

The Basel Committee has recently adopted further revisions to Basel II (*i.e.*, Basel III), but there is no certainty as to whether these most recent Basel III revisions will be implemented by the BRSA in Turkey and, if so, when and in what form. Recently, a draft regulation replacing the current BRSA Equities

Regulation and a draft regulation amending the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks were made available by the BRSA.

The draft regulation replacing the current BRSA Equities Regulation, as published on the official website of the BRSA on February 1, 2013, introduces the following changes: (a) introducing core capital as a component of equity, (b) determining the capital items to be included in core Tier I, additional Tier I and Tier II capital, (c) determining regulatory adjustments concerning items included within the components of capital, (d) changing the principles for inclusion of minority rights and shares owned by third persons within the consolidated capital and (e) ensuring the borrowing instruments included in additional Tier I capital and Tier II capital are in a form that permits their removal from the Bank's share records (or from being convertible into equity) should a bank's capital adequacy ratio decrease below a determined threshold. In light of the foregoing changes, the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks required amendment and the draft regulation amending the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks proposes to: (i) introduce a minimum core capital adequacy standard ratio (4.5%) and a minimum Tier I capital adequacy standard ratio (6.0%) to be calculated on a consolidated and non-consolidated basis and (ii) apply risk weighting treatment for some items that are deducted from capital in current regime in determining capital adequacy.

In addition to these implementations, a draft Regulation on the Capital Conservation and Countercyclical Buffer that regulates the procedures and principles regarding the calculation of available additional core capital and required additional core capital amounts that will be used for determining the level of dividend distribution for banks has been prepared and delivered to the banks for their review. Turkish banks have submitted comments on the draft regulation to the BRSA, following which there will be further discussions regarding the final implementations of rules and schedules. The BRSA's draft regulations are expected to be implemented within the second half of 2013.



## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the “Clearing Systems”) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

According to the Communiqué on Debt Instruments, Notes issued under the Program outside Turkey are required to be in electronically registered form and the interests therein recorded in the CRA in Turkey. Notes can also be recorded collectively with the CRA without being registered in the name of individual holders, depending on whether the Issuer or any relevant CRA member qualifies for such collective recording of the Notes. However, upon the Issuer’s request, the CMB may resolve to exempt the Notes from these requirements if the Notes are to be issued outside Turkey. The Bank submitted an exemption request through its letter to the CMB dated July 1, 2013 numbered 1754. As of the date of this Base Prospectus, an exemption from the registration requirement has not been obtained from the CMB and no Notes will be issued under the Program until such exemption is obtained or Notes may otherwise be issued under the Program in accordance with the applicable provisions of the Communiqué on Debt Instruments.

Notwithstanding such exemption, the Issuer shall notify the CRA within three business days from the issuance date of the Notes, of the amount, issue date, ISIN code, the first payment date, maturity date, interest rate, the name of the custodian, the currency of the Notes and the country of issuance.

### Book-entry Systems

#### *DTC*

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its direct participants (“*Direct Participants*”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by NYSE Euronext and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“*Indirect Participants*” and, together with Direct Participants, “*Participants*”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “*Rules*”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system (“*DTC Notes*”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the SEC. Participants with which beneficial owners of DTC Notes (“*Beneficial Owners*”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Beneficial Owners. Accordingly, although Beneficial Owners who hold interests in DTC Notes through Participants will not possess Registered Notes, the Rules, by virtue of

the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the relevant Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of each transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner holds its interest in the DTC Notes. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the DTC Notes will be made to DTC or its nominee. DTC's practice is to credit 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 which, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions.*"

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to effect such pledge through DTC

and its Participants or if not possible to so effect it, to withdraw its Registered Notes from DTC as described below.

The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

#### *Clearstream, Luxembourg*

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of a number of currencies, including U.S. dollars and Turkish Lira. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in several countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the *Commission de Surveillance du Secteur Financier* and the *Banque Centrale du Luxembourg*, which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.

The ability of an owner of a beneficial interest in a Note held through Clearstream, Luxembourg to pledge such interest to persons or entities that do not participate in the Clearstream, Luxembourg system, or otherwise take action in respect of such interest, may be limited by the lack of a definitive note for such interest because Clearstream, Luxembourg can act only on behalf of Clearstream, Luxembourg's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such persons may be limited. In addition, beneficial owners of Notes held through the Clearstream, Luxembourg system will receive payments of principal, interest and any other amounts in respect of the Notes only through Clearstream, Luxembourg accountholders.

#### *Euroclear*

Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between its accountholders. Euroclear provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear also deals with domestic securities markets in several countries through established depository and custodial relationships. Euroclear customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and

clearing corporations. Indirect access to Euroclear is available to other institutions that clear through or maintain a custodial relationship with direct participants in Euroclear.

The ability of an owner of a beneficial interest in a Note held through Euroclear to pledge such interest to persons or entities that do not participate in the Euroclear system, or otherwise take action in respect of such interest, may be limited by the lack of a definitive note for such interest because Euroclear can act only on behalf of Euroclear's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such persons may be limited. In addition, beneficial owners of Notes held through the Euroclear system will receive payments of principal, interest and any other amounts in respect of the Notes only through Euroclear participants.

### **Book-entry Ownership of and Payments in respect of Global Notes**

The Issuer has applied to each of Euroclear and Clearstream, Luxembourg to have Global Note(s) accepted in its book-entry settlement system. Upon the issue of any such Global Note, Euroclear and/or Clearstream, Luxembourg, as applicable, will credit, on its internal book-entry system, the respective nominal amounts of the interests represented by such Global Note to the accounts of persons who have accounts with Euroclear and/or Clearstream, Luxembourg, as applicable. Such accounts initially will be designated by or on behalf of the relevant Dealer or investor. Interests in such a Global Note through Euroclear and/or Clearstream, Luxembourg, as applicable, will be limited to accountholders of Euroclear and/or Clearstream, Luxembourg, as applicable. Interests in such a Global Note will be shown on, and the transfer of such interests will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg or its nominee (with respect to the interests of Euroclear and/or Clearstream, Luxembourg accountholders).

Payments with respect to interests in the Notes held through Euroclear and Clearstream, Luxembourg will be credited to cash accounts of Euroclear and Clearstream, Luxembourg accountholders in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg, respectively, to the extent received by each of them.

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer or investor. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. Dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. Dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. Dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC, subject to the receipt of funds and corresponding detail information from the Issuer or the relevant Paying Agent. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and

customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Fiscal Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

### **Transfers of Notes Represented by Registered Global Notes**

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear account holders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian ("Custodian") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Tranche, transfers of Notes of such Tranche between account holders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Tranche between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between account holders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg account holders and DTC participants cannot be made on a delivery-versus-payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and account holders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## **TAXATION**

### **General**

Prospective purchasers of Notes are advised to consult their tax advisers as to the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile, of a purchase of Notes, including, but not limited to, the consequences of receipt of payments under the Notes and their disposal or redemption.

### **Certain Turkish Tax Considerations**

The following discussion is a summary of certain Turkish tax considerations relating to an investment by a person who is a non-resident of Turkey in Notes of a Turkish company issued abroad. The discussion is based upon current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of the Notes that may be relevant to a decision to make an investment in the Notes. Furthermore, the discussion only relates to the beneficial interest of a person in the Notes where the Notes will not be held in connection with the conduct of a trade or business through a permanent establishment in Turkey. Each investor should consult its own tax advisers concerning the tax considerations applicable to its particular situation. This discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Base Prospectus, all of which are subject to change, possibly with a retroactive effect. In addition, it does not describe any tax consequences: (a) arising under the laws of any taxing jurisdiction other than Turkey or (b) applicable to a resident of Turkey or a permanent establishment in Turkey resulting either from the existence of a fixed place of business or appointment of a permanent representative.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its worldwide income, whereas a non-resident legal entity is only liable for Turkish taxes on its trading income made through a permanent establishment or on income otherwise sourced in Turkey.

An individual is a resident of Turkey if such individual has established domicile in Turkey or stays in Turkey more than six months in a calendar year. On the other hand, foreign individuals who stay in Turkey for six months or more for a specific job or business or particular purposes that are specified in the Turkish Income Tax Law may not be treated as a resident of Turkey, depending on the characteristics of their stay. A resident individual is liable for Turkish taxes on his or her worldwide income, whereas a non-resident individual is only liable for Turkish taxes on income sourced in Turkey.

Income from capital investment is sourced in Turkey when the principal is invested in Turkey. Capital gain is considered sourced in Turkey when the activity or transaction generating such income is performed or accounted for in Turkey. The term "accounted for" means that a payment is made in Turkey, or if the payment is made abroad, it is recorded in the books in Turkey or apportioned from the profits of the payer or the person on whose behalf the payment is made in Turkey.

Any withholding tax levied on income derived by a non-resident person is the final tax for the non-resident person and no further declaration is required. Any other income of a non-resident person sourced in Turkey that has not been subject to withholding tax will be subject to taxation through declaration where exemptions are reserved.

Interest paid on notes (such as the Notes) issued abroad by Turkish corporates is subject to withholding tax. Through the Tax Decrees, the withholding tax rates are set according to the original maturity of notes issued abroad as follows:

- 10 per cent. withholding tax for notes with an original maturity of less than one year,

- 7 per cent. withholding tax for notes with an original maturity of at least one year and less than three years,
- 3 per cent. withholding tax for notes with an original maturity of at least three years and less than five years, and
- 0 per cent. withholding tax for notes with an original maturity of five years and more.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Notes may be subject to declaration. However, pursuant to Provisional Article 67 of the Turkish Income Tax Law, as amended by the Law numbered 6111, special or separate tax returns will not be submitted for capital gains from the notes of a Turkish corporate issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on non-resident persons in respect of capital gains from the Notes and no declaration is required.

A non-resident holder will not be liable for Turkish estate, inheritance or similar tax with respect to its investment in the Notes, nor will it be liable for any Turkish stamp issue, registration or similar tax or duty relating thereto.

#### *Reduced Withholding Tax Rates*

Under current Turkish laws and regulations, interest payments on notes issued abroad by a Turkish corporate to a non-resident holder will be subject to a withholding tax at a rate between 10 per cent. and 0 per cent. in Turkey, as detailed above.

If a double taxation treaty is in effect between Turkey and the country of the holder of the notes (in some cases, for example, pursuant to the treaties with the United Kingdom and the United States, the term "beneficial owner" is used), which provides for the application of a lower withholding tax rate than the local rate to be applied by the corporation, then the lower rate may be applicable. For the application of withholding at a reduced rate that benefits from the provisions of a double tax treaty concluded between Turkey and the country where the investor is a resident, an original copy of the certificate of residence signed by the competent authority referred to in Article 3 of the Treaty is required, together with a translated copy translated by a translation office, to verify that the investor is subject to taxation over its worldwide gains in the relevant country on the basis of resident taxpayer status, as a resident of such country to the related tax office directly or through the banks and intermediary institutions prior to the application of withholding. In the event the certificate of residence is not delivered prior to the application of withholding tax, then upon the subsequent delivery of the certificate of residence, a refund of the excess tax shall be granted pursuant to the provisions of the relevant double taxation treaty and the Turkish tax legislation.

#### **U.S. Foreign Account Tax Compliance Act**

FATCA generally imposes a withholding tax of 30 per cent. on certain payments to and from certain non-U.S. financial institutions (including entities such as the Bank). Among other requirements, a "foreign financial institution" as defined under the Code (an "FFI"), such as the Bank, that opts in to comply with FATCA will be required to enter into an agreement (an "FFI Agreement") with the U.S. Internal Revenue Service (the "IRS"). Such an agreement will require the provision of certain information regarding the FFI's "U.S. account holders" (which could include holders of the Notes) to the IRS. The Bank may opt into the FATCA information reporting regime, and it may be required to collect information regarding the identities of holders of its Notes and deliver such information to the IRS.

In such case, holders of the Notes may be required to provide the Bank with certain information, including, but not limited to: (a) information for the Bank to determine whether the beneficial owner of a note is a United States person as defined in Section 7701(a)(30) of the Code or a United States owned foreign entity as described in Section 1471(d)(3) of the Code and any additional information that the Bank or its agent

requests in connection with FATCA and (b)(i) if the beneficial owner of a Note is a United States person, such United States person's name, address and U.S. taxpayer identification number, or (ii) if the beneficial owner of the note is a United States owned foreign entity, the name, address and taxpayer identification number of each of its substantial United States owners as defined in Section 1473(2) of the Code and any other information requested by the Bank or its agent upon request, and (c) updated information promptly upon learning that any such information previously provided is obsolete or incorrect.

The Bank may be required to withhold up to 30 per cent. of amounts payable with respect to Notes issued under the Program to holders of such Notes that do not provide the Bank with information required to comply with FATCA ("*Recalcitrant Holders*") or to FFIs that either do not enter into an FFI Agreement with the IRS under FATCA ("*Nonparticipating FFIs*") or are not otherwise exempt from or in deemed compliance with FATCA, if such amounts constitute foreign passthru payments ("*Foreign Passthru Payments*") under FATCA, which term is not yet defined. Such withholding is generally not required on payments made before the later of January 1, 2017 or the date of publication of final regulations defining Foreign Passthru Payments. Additionally, FATCA withholding on Foreign Passthru Payments will only apply to Notes that are issued after the date (the "*Grandfathering Date*") that is six months after the date of filing of final regulations defining Foreign Passthru Payments or are issued before and are significantly modified after the Grandfathering Date such that they are deemed to be reissued.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "*IGA*"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership" or "withholding foreign trust" regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

If FATCA were to require that an amount in respect of U.S. withholding tax were to be deducted or withheld from any payment on or with respect to any Notes, then neither the Bank nor any paying agent or other person would, pursuant to the conditions of such Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. Holders of Notes should consult their tax advisers regarding the effect, if any, of FATCA on their investment in such Notes.

## **EU Savings Directive**

Under EC Council Directive 2003/48/EC (the "*Directive*") on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.



## **The Proposed Financial Transactions Tax**

The European Commission has published a proposal for a Directive for a common financial transactions tax ("*FTT*") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes is, however, expected to be exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be materially altered prior to any implementation, the timing of which remains unclear, and the extent to which it may ultimately apply (if at all) to dealings in the Notes is uncertain. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## **CERTAIN CONSIDERATIONS FOR ERISA AND OTHER US EMPLOYEE BENEFIT PLANS**

Subject to the following discussion, the Notes may be acquired with assets of pension, profit-sharing or other employee benefit plans, as well as individual retirement accounts, Keogh plans and other plans and retirement arrangements, and any entity deemed to hold "plan assets" of the foregoing (each, a "*Plan*"). Section 406 of ERISA and Section 4975 of the Code prohibit a Plan subject to those provisions (each, a "*Benefit Plan Investor*") from engaging in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to such Benefit Plan Investor. A violation of these "prohibited transaction" rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of such Benefit Plan Investor. In addition, Title I of ERISA requires fiduciaries of a Benefit Plan Investor subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents. Employee benefit plans that are US governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) are not subject to the fiduciary and prohibited transaction provisions of ERISA or Section 4975 of the Code; however, such plans may be subject to similar restrictions under applicable state, local, other federal or non-U.S. law ("*Similar Law*").

An investment in the Notes by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if the 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 if the purchaser is a Plan, its fiduciary) is deemed to represent and warrant that either: (a) it is not acquiring the Note (or a beneficial interest therein) with the assets of a Benefit Plan Investor, a US governmental plan, church plan or non-U.S. plan that is subject to Similar Law, or (b) the acquisition, holding and disposition of the Note (or a beneficial interest therein) will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Law.

Prospective investors are advised to consult their advisers with respect to the consequences under ERISA and similar laws of the acquisition, ownership or disposition of the Notes (or a beneficial interests therein).

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a program agreement (the “*Program Agreement*”) dated July 19, 2013, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Program Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Program and the issue of Notes under the Program and to indemnify the Dealers against certain liabilities incurred by them in connection therewith, including liabilities under the Securities Act, or to contribute to payments that the Dealers may be required to make because of those liabilities.

Any offers and sales of the Notes in the United States may only be made by those Dealers or their affiliates that are registered broker-dealers under the Exchange Act, or in accordance with Rule 15a-6 thereunder. One or more Dealers participating in the offering of any Tranche of Notes issued under the Program may engage in transactions that stabilize, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilize or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilizing or other transactions. Such transactions, if commenced, may be discontinued at any time. Under U.K. laws and regulations stabilizing activities may only be carried on by the Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

The Issuer expects that delivery of interests in Notes will be made on the issue date for such Notes, as such date will be communicated in connection with the offer and sale of such Notes. Potential investors that are U.S. persons should note that the issue date may be more than three business days (this settlement cycle being referred to as “T+3”) following the trade date of such Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three New York business days, unless the parties to any such trade expressly agree otherwise. Accordingly, investors who wish to trade interests in Notes issued under the Program on the trade date relating to such Notes or the next New York business days will be required, by virtue of the fact that the Notes initially may settle on a settlement cycle longer than T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Investors in the Notes who wish to trade interests in Notes issued under the Program on their trade date or the next New York business days should consult their own adviser.

The Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Dealers or their respective affiliates may have performed investment banking and advisory services for the Issuer and its affiliates from time to time for which they may have received fees, expenses, reimbursements and/or other compensation. The Dealers or their respective affiliates may, from time to time, engage in transactions with and perform advisory and other services for the Issuer and its affiliates in the ordinary course of their business. Certain of the Dealers and/or their respective affiliates have acted and expect in the future to act as a lender to the Issuer and/or other members of the Group and/or otherwise participate in transactions with the Group.

In the ordinary course of their various business activities, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. In addition, certain of the Dealers and/or their respective affiliates hedge their credit exposure to the Issuer pursuant to their customary risk management policies. These hedging activities could have an adverse affect on the future trading prices of the Notes offered hereby from time to time.

The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

### **Transfer Restrictions**

***As a result of the following restrictions, purchasers of Notes are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.***

Each purchaser of Notes (other than a person purchasing an interest in a 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 Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that either: (i) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is an Institutional Accredited Investor which has delivered a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an “IAI Investment Letter”) or (iii) it is not a U.S. person and purchased the Notes in an “offshore transaction”;
- (b) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. Federal or State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (c) that, unless it holds an interest in a Regulation S Global Note and is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (i) to the Issuer or any affiliate thereof, (ii) to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. Federal and State securities laws;
- (d) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions, if then applicable;
- (e) that Notes initially offered to QIBs pursuant to Rule 144A will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors (other than pursuant to

Rule 144A) will be in the form of Definitive IAI Registered Notes or one or more IAI Global Notes and that Notes offered in offshore transactions in reliance on Regulation S will be represented by one or more Regulation S Global Notes, Definitive Regulation S Registered Notes or Bearer Global Notes;

- (f) that the Rule 144A Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD PLEDGED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION OF A BENEFICIAL INTEREST HEREIN, THE HOLDER 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 SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM ANY INTEREST IN THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THE SECURITY.

EACH PURCHASER AND TRANSFEREE OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WITH THE ASSETS OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE US EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, ANY "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE US INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" OF ANY OF THE FOREGOING OR A US GOVERNMENTAL PLAN, CHURCH PLAN OR NON-US PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL NOT GIVE RISE TO A NON-EXEMPT

PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY 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 SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFORE, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

- (g) The IAI Global Notes and the Definitive IAI Registered Notes (with appropriate revisions) will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3), OR (7) UNDER THE SECURITIES ACT (AN "INSTITUTIONAL ACCREDITED INVESTOR"); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT, THE TERMS OF THE IAI INVESTMENT LETTER IT EXECUTED IN CONNECTION WITH ITS PURCHASE OF THE SECURITIES AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) FOR SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION, PROVIDED THAT THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO (3) OR (4) ABOVE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO

THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE SECURITY.

EACH PURCHASER AND TRANSFEREE OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WITH THE ASSETS OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE US EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, ANY "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE US INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" OF ANY OF THE FOREGOING OR A US GOVERNMENTAL PLAN, CHURCH PLAN OR NON-US PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL NOT GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY 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 SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFORE, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON)."

- (h) if it holds an interest in a Regulation S Global Note, a Bearer Global Note or a Regulation S Definitive Note, that if it should resell or otherwise transfer such interest in the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (i) (A) in an offshore transaction in compliance with Rule 903 or 904 under the Securities Act or (B) other than with respect to a Bearer Global Note, to a QIB in compliance with Rule 144A, and (ii) in accordance with all applicable U.S. federal and State securities laws; and it acknowledges that the Regulation S Global Notes, the Bearer Global Notes and the Regulation S Definitive Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE

EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.

EACH PURCHASER AND TRANSFEREE OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WITH THE ASSETS OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE US EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, ANY "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE US INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" OF ANY OF THE FOREGOING OR A US GOVERNMENTAL PLAN, CHURCH PLAN OR NON-US PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL NOT GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW."; and

- (i) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Each purchaser and transferee of a Note (or a beneficial interest therein) will be deemed to represent and warrant that either: (i) it is not acquiring the Note (or a beneficial interest therein) with the assets of an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, any "plan" as defined in and subject to Section 4975 of the Code, any entity whose underlying assets include "plan assets" of any of the foregoing or a U.S. governmental plan, church plan or non-U.S. plan that is subject to any Similar Law, or (ii) the acquisition, holding and disposition of such Note will not give rise to a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of Similar Law.

Institutional Accredited Investors who purchase Registered Notes offered and sold in the United States as part of their original issuance in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter.

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of the Base Prospectus and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Base Prospectus and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;



- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
- (iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;
- (v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

Pursuant to the BRSA decision dated May 6, 2010 No. 3665, residents of Turkey are not permitted to purchase the Notes (or beneficial interests therein) denominated in a currency other than Turkish Lira in primary markets; *however*, in accordance with Article 15d(ii) of Decree 32 on the Protection of the Value of the Turkish Currency: (a) residents of Turkey are permitted to purchase or to sell the Notes (or beneficial interests therein) denominated in a currency other than Turkish Lira offshore on an unsolicited (reverse inquiry) basis in the secondary markets and (b) residents of Turkey are permitted to purchase or to sell the Notes (or beneficial interests therein) denominated in Turkish Lira offshore on an unsolicited (reverse inquiry) basis in the primary and secondary markets. Subject to the foregoing, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell the Notes (or beneficial interests therein); provided that such sale and purchase is made through banks or licensed brokerage institutions authorized pursuant to the CMB regulations and the purchase price is transferred through banks. As such, Turkish residents should use banks or licensed brokerage institutions while purchasing the Notes (or beneficial interests therein) and transfer the purchase price through banks.

## **Selling Restrictions**

### ***Turkey***

The Issuer has obtained the CMB Approvals from the CMB and the BRSA Approval from the BRSA required for the issuance of Notes under the Program. Pursuant to the CMB Approvals and the BRSA Approval, the offer, sale and issue of Notes under the Program has been authorized and approved in accordance with Decree 32, the Banking Law numbered 5411 and its related legislation, the Capital Markets Law numbered 6362 and its related regulations. In addition, Notes (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the CMB Approvals and the BRSA Approval. Under the CMB Approval, the CMB has authorized 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) by way of public offering or private placement in Turkey may be engaged in. Notwithstanding the foregoing, pursuant to the BRSA decision dated May 6, 2010 No. 3665, the BRSA decision dated September 30, 2010 No. 3875 and in accordance with Decree 32, residents of Turkey: (a) may purchase or sell Notes denominated in a currency other than Turkish Lira (or beneficial interests therein) offshore on an unsolicited (reverse inquiry) basis in the secondary markets only; and (b) may purchase or sell Notes denominated in Turkish Lira (or beneficial interests therein) offshore on an unsolicited (reverse inquiry) basis both in the primary and secondary markets.

Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes (or beneficial interests therein) offshore on an unsolicited basis provided that such purchase or sale is made through banks or licensed brokerage institutions authorized pursuant to the CMB regulations and the purchase price is transferred through banks.

An issuance certificate (*ihraç belgesi*) and/or a tranche issuance certificate (*tertip ihraç belgesi*) in respect of each Tranche of Notes shall be prepared by, and the CMB Approval thereof shall be obtained by, the Issuer prior to the issue date of each such Tranche of Notes. The Issuer shall maintain the authorization and approval of the CMB as necessary for the offer, sale and issue of Notes under the Program.

Monies paid for purchases of Notes are not protected by the insurance coverage provided by the SDIF.

### ***United States***

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. 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 Treasury regulations promulgated thereunder.

In connection with any Regulation S Notes each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, other than in an offshore transaction to, or for the account or benefit of, persons that are not U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Program will be required to agree, that it will send to each distributor to which it sells any Regulation S Notes during the applicable distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes other than in an offshore transaction to, or for the account or benefit of, persons that are not U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes other than in an offshore transaction to a person that is not a U.S. person by any distributor (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Registered Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in the Deed Poll to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

### ***Public Offer Selling Restriction under the Prospectus Directive***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “*Relevant Member State*”), each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “*Relevant Implementation Date*”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression “*an offer of Notes to the public*” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “*Prospectus Directive*” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “*2010 PD Amending Directive*” means Directive 2010/73/EU.

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) 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 Financial Services and Markets Act 2000 (“*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
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### ***People’s Republic of China***

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Program 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 to any person for reoffering or resale or redelivery, in any such case directly or indirectly, in the PRC (excluding Hong Kong Special Administrative Region of the PRC, the Macau Special Administration 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 Program will be required to represent and agree that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

## ***Switzerland***

In Switzerland, this Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations nor a simplified prospectus as such term is understood pursuant to article 5 of the Swiss Collective Investment Scheme Act, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Base Prospectus nor any other offering or marketing material relating to the offering of the Notes has been or will be filed with or approved by any Swiss regulatory authority. 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 (FINMA), 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 (Act No. 25 of 1948, as amended; the FIEA) and each Dealer has represented and agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan

## ***General***

Each Dealer has agreed and each further Dealer appointed under the Program will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in

force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefore.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## **GENERAL INFORMATION**

### **Authorization**

The establishment of the Program and the issue of Notes have been duly authorized by resolutions of the Board of Directors of the Issuer dated June 24, 2013 and November 27, 2012.

### **Listing of Notes**

This Base Prospectus has been approved by the Central Bank of Ireland as a base prospectus. Application has also been made to the Irish Stock Exchange for Notes issued under the Program to be admitted to the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive.

### **Listing Agent**

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

### **Documents Available**

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available in physical form for inspection from the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being in London:

- (a) the articles of association (with a certified English translation thereof) of the Issuer;
- (b) the independent auditors' audit reports and audited consolidated BRSA Financial Statements of the Group for the years ended December 31, 2012, 2011 and 2010;
- (c) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Bank for the years ended December 31, 2012, 2011 and 2010;
- (d) the independent auditors' audit reports and audited consolidated IFRS Financial Statements of the Group for the years ended December 31, 2012, 2011 and 2010;
- (e) the independent auditors' review report and unaudited interim consolidated BRSA Financial Statements of the Group for the three month period ended March 31, 2013 (with March 31, 2012 comparatives);
- (f) the independent auditors' review report and unaudited interim unconsolidated BRSA Financial Statements of the Bank for the three month period ended March 31, 2013 (with March 31, 2012 comparatives);
- (g) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer, in each case in English and together with any audit or review reports prepared in connection therewith. The Issuer currently prepares audited consolidated and unconsolidated financial statements in accordance with BRSA Principles on an annual basis, audited consolidated and unaudited unconsolidated financial statements in accordance with IFRS on an annual basis, unaudited consolidated and unconsolidated interim financial statements in accordance with BRSA Principles on a quarterly basis and consolidated interim financial statements in accordance with IFRS on a semi-annual basis;

- (h) the Agency Agreement, the Deed of Covenant and the Deed Poll, and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (i) a copy of this Base Prospectus; and
- (j) any future base prospectuses, prospectuses, information memoranda, supplements and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

In addition, copies of this Base Prospectus, each document incorporated by reference and the financial statements listed above will be available on the Issuer's website at:

- (i) [http://www.isbank.com.tr/English/content/EN/Offering\\_Circular.aspx](http://www.isbank.com.tr/English/content/EN/Offering_Circular.aspx) (with respect to the Base Prospectus);
- (ii) [http://www.isbank.com.tr/English/content/EN/Investor\\_Relations/Publications\\_and\\_Results/Financial\\_Statements/TAS\\_consolidated-407-401.aspx](http://www.isbank.com.tr/English/content/EN/Investor_Relations/Publications_and_Results/Financial_Statements/TAS_consolidated-407-401.aspx) (with respect to the consolidated BRSA Financial Statements);
- (iii) [http://www.isbank.com.tr/English/content/EN/Investor\\_Relations/Publications\\_and\\_Results/Financial\\_Statements/TAS\\_bank-only-406-401.aspx](http://www.isbank.com.tr/English/content/EN/Investor_Relations/Publications_and_Results/Financial_Statements/TAS_bank-only-406-401.aspx) (with respect to the unconsolidated BRSA Financial Statements); and
- (iv) [http://www.isbank.com.tr/English/content/EN/Investor\\_Relations/Publications\\_and\\_Results/Financial\\_Statements/IFRS\\_fully\\_consolidated-405-401.aspx](http://www.isbank.com.tr/English/content/EN/Investor_Relations/Publications_and_Results/Financial_Statements/IFRS_fully_consolidated-405-401.aspx) (with respect to the consolidated IFRS Financial Statements),

(such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Base Prospectus).

Each Final Terms relating to Notes which are admitted to trading on the Irish Stock Exchange's regulated market will also be available on the Issuer's website.

### **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) Common Code, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

### **Conditions for determining price**

The price and amount of Notes to be issued under the Program will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of either the Bank or the Group since March 31, 2013 and no material adverse change in the financial position or prospects of either the Bank or the Group since December 31, 2012.

### **Litigation**

Neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

### **Auditors**

The BRSA Financial Statements as of and for the years ended December 31, 2010, 2011 and 2012 incorporated by reference herein have been audited in accordance with the Regulation on Authorization and Activities of Institutions to Perform External Audit in Banks and International Standards on Auditing by KPMG, which is located at Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No 3, 34805 Beykoz, İstanbul, Turkey. The IFRS Financial Statements as of and for the years ended December 31, 2010, 2011 and 2012 incorporated by reference herein have been audited in accordance with International Standards on Auditing by KPMG. KPMG is an independent certified public accountant in Turkey and authorized by the BRSA to conduct independent audits of banks in Turkey. KPMG's audit reports on the BRSA Financial Statements and the IFRS Financial Statements contain a qualification. See "*Risk Factors – Risks Relating to the Group and its Business – Audit Qualification*" for further information.

The BRSA Interim Financial Statements as of and for the three month period ended March 31, 2013 incorporated by reference herein have been reviewed in accordance with the Regulation on Authorization and Activities of Institutions to Perform External Audit in Banks and International Standards on Auditing by KPMG. With respect to the unaudited BRSA Interim Financial Statements as of and for the three month period ended March 31, 2013, KPMG has reported that it applied limited procedures in accordance with professional standards for a review of such information; however, its report states that it did not audit and does not express an opinion on such interim financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied. KPMG's review report on the BRSA Interim Financial Statements contains a qualification. See "*Risk Factors – Risks Relating to the Group and its Business – Audit Qualification*" for further information.

### **Dealers transacting with the Issuer**

Certain of the Dealers, the Arrangers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer and its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Arrangers, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. The Arrangers, certain of the Dealers and their respective affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer



consistent with their customary risk management policies. Typically, the Arrangers, such Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Program. Any such short positions could adversely affect future trading prices of Notes issued under the Program. The Arrangers, the Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## APPENDIX 1

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

Certain of the financial statements and financial information included in this Offering Circular have been prepared in accordance with Turkish Accounting Standards (“TAS”), Turkish Financial Reporting Standards (“TFRS”) and the statements, communiqués and guidance published by the BRSA on accounting and financial reporting principles (i.e., the BRSA Principles). Although the TFRS is almost an exact translation of IFRS, the BRSA Principles, statements, communiqués and guidance differ from IFRS in some instances. Such differences primarily relate to presentation of financial statements, disclosure requirements and accounting policies. The following paragraphs summarize major areas in which the BRSA Principles and IFRS differ from each other.

#### *Consolidation*

Consolidation principles under the BRSA Principles and IFRS are based upon the concept of the power to control in determining whether a parent/subsidiary relationship exists and that consolidation is appropriate. Control is typically exhibited where an entity has the majority of the voting rights.

Under the BRSA Principles, only subsidiaries and associates operating in the financial services sector are required to be consolidated with a bank; the rest are carried at cost or at fair value. IFRS does not make such a sectoral distinction in terms of consolidation.

#### *Allowance for Loan Losses*

Under the BRSA Principles, specific and general reserves for possible loan losses are provided for in accordance with the Regulation on Provisions and Classification of Loans and Receivables issued by the BRSA. All loans are grouped into five categories mainly depending upon their past due status and creditworthiness of the borrower. The BRSA Principles have prescribed certain minimum provisioning rates for groups comprising non-performing loans after taking into account collateral (specific provision) and a separate rate for groups comprising performing loans (general provision - the general provision rate is specified by BRSA and applied consistently across the Turkish banking sector).

While the Bank’s policy was historically to provide fully (at a rate of 100%) for its non-performing loan portfolio, since the third quarter of the 2012 the Bank has allocated specific provisions in accordance with the minimum provision rates required by regulation; *it being understood* that such legal requirements impose minimum provisions depending upon the category of the non-performing loan, including special provisions in the amounts of at least 20%, 50% and 100%, respectively, being required to be set aside for loans and receivables in Groups III, IV and V (see “*Turkish Regulatory Environment – Loan Loss Reserves*”). As of December 31, 2012, 13.2%, 21.2% and 65.6% of the Bank’s non-performing loan portfolio was categorized in Groups III, IV and V, respectively, and thus this change of policy would (if in place as of such date) have had a limited effect (particularly for Group V, which by regulation requires 100% provisions).

Under IFRS, for loans that have been identified as impaired, the amount of the impairment loss is measured as the difference between the loan’s carrying amount and the present value of expected future cash flows discounted at the loan’s original effective interest rate. IFRS requires a form of individual assessment for loans that are individually significant and a collective assessment for loans that form part of a group of loans with similar credit characteristics.

### *Deferred Tax*

In accordance with IFRS, deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. On the other hand, under the BRSA Principles, it is not permitted to recognize deferred tax on a general provision allocated based upon BRSA rules although it constitutes a temporary difference based upon IAS 12 Income Taxes. Besides, under IFRS, it shall be calculated deferred tax base for the difference between allowances for loan losses calculated based upon the BRSA Principles and IFRS.

### *Presentation of Financial Statements*

Although presentation of the financial statements under both the BRSA Principles and IFRS are similar to each other, there are still differences (e.g., IFRS 7). BRSA financial statements are presented under a special format determined by the BRSA. Similarly, both cash flow and comprehensive income statements are presented using this specified format.

There are other similar differences in the accounting policies and disclosure requirements applied to subsidiaries and associates that are subject to consolidation. These differences vary based upon the sector that the related associate or subsidiary operates in, especially those providing life and non-life insurance services, which are subject to the undersecretariat of Treasury policies/requirements, and factoring and leasing services, which are subject to specific BRSA policies/requirements.

## ISSUER

**Türkiye İş Bankası A.Ş.**  
İş Kuleleri  
34330 Levent, İstanbul  
Turkey

## ARRANGERS

**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

**Standard Chartered Bank**  
One Basinghall Avenue  
London EC2V 5DD  
United Kingdom

## DEALERS

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**BNP Paribas**  
10 Harewood Avenue  
London NW1 6AA  
United Kingdom

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
London E14 5LB  
United Kingdom

**Commerzbank Aktiengesellschaft**  
Kaiserstraße 16 (Kaiserplatz)  
60311 Frankfurt am Main  
Germany

**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**HSBC Bank plc**  
8 Canada Square  
London E14 6HQ  
United Kingdom

**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

**Mitsubishi UFJ Securities International plc**  
Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9AJ  
United Kingdom

**Morgan Stanley & Co. International plc**  
25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

**National Bank of Abu Dhabi PJSC**  
One NBAD Tower  
Sheikh Khalifa Street  
PO Box 4  
Abu Dhabi  
United Arab Emirates

**Standard Chartered Bank**  
One Basinghall Avenue  
London EC2V 5DD  
United Kingdom

**FISCAL AGENT AND EXCHANGE AGENT****The Bank of New York Mellon, London Branch**

One Canada Square  
London E14 5AL  
United Kingdom

**REGISTRAR, TRANSFER AGENT AND PAYING AGENT****The Bank of New York Mellon (Luxembourg) S.A.**

Vertigo Building – Polaris  
2-4 rue Eugene Ruppert  
2453 Luxembourg

**TRANSFER AGENT****The Bank of New York Mellon, New York Branch**

101 Barclay Street  
New York, New York  
USA

**LEGAL ADVISERS***To the Issuer as to English and United States law***Mayer Brown International LLP**

201 Bishopsgate  
London EC2M 3AF  
United Kingdom

**Mayer Brown LLP**

71 South Wacker Drive  
Chicago, Illinois 60606  
USA

*To the Issuer as to Turkish law***YazıcıLegal**

Levent Mah. Yasemin Sok. No.13  
1. Levent Beşiktaş, 34340 İstanbul  
Turkey

*To the Dealers as to English and United States law***Allen & Overy LLP**

One Bishops Square  
London E1 6AD  
United Kingdom

**Allen & Overy LLP**

52 avenue Hoche  
75379 Paris – Cedex 08  
France

*To the Dealers as to Turkish law***Paksoy Ortak Avukat Bürosu**

Sun Plaza  
Bilim Sokak No: 5 K:14  
Maslak, 34398 İstanbul  
Turkey

**LISTING AGENT****Arthur Cox Listing Services Limited**

Earlsfort Centre  
Earlsfort Terrace  
Dublin 2  
Ireland

**AUDITORS TO THE BANK****KPMG**

**Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik AŞ**  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No:3  
34805 Beykoz-İstanbul  
Turkey