



**TÜRKİYE İŞ BANKASI A.Ş.**

**US\$7,000,000,000**

**Global Medium Term Note Program**

Under this US\$7,000,000,000 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 İstanbul 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(s) (as defined below) or investor(s).

Notes may be issued in bearer or registered form (respectively “Bearer Notes” and “Registered Notes”) provided that the Notes may be offered and sold in the United States only in registered form. The maximum aggregate nominal amount of all Notes from time to time outstanding under the Program will not exceed US\$7,000,000,000 (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(s) 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 investor(s) purchasing Notes (or beneficial interests therein) directly from the Issuer. References in this Base Prospectus to the “relevant Dealer” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

**An investment in Notes issued under the Program involves risks. For a discussion of certain 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 all other jurisdictions. See “Form of the Notes” for a description of the manner in which Notes will be issued. The Notes are subject to certain restrictions on transfer (see “Subscription and Sale and Transfer and Selling Restrictions”).

This base prospectus (this “Base Prospectus”) has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC as amended (including the amendments made by Directive 2010/73/EU) (the “Prospectus Directive”). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (the “EU”) law pursuant to the Prospectus Directive. Such approval relates only to Notes that are to be admitted to trading on the regulated market (the “Main Securities Market”) of the Irish Stock Exchange plc (the “Irish Stock Exchange”) or on another regulated market for the purposes of Directive 2004/39/EC (“MiFID”) and/or that are to be offered to the public in any member state of the European Economic Area (a “Member State”). Application has been made to the Irish Stock Exchange for Notes issued under the Program during the period of 12 months after the date of this Base Prospectus to be admitted to its official list (the “Official List”) and to 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 (the “CMB”) of the Republic of Turkey (“Turkey”), in its capacity as competent authority under Law No. 6362 (the “Capital Markets Law”) of Turkey relating to capital markets, for the issuance and sale of the Notes by the Bank outside of Turkey. The Notes cannot be sold before the necessary approvals (including the issuance certificate (*ihraç belgesi*) and, to the extent required by applicable laws or regulations, an approved tranche issuance certificate (*tertip ihraç belgesi*)) are obtained from the CMB. The CMB approval relating to the issuance of Notes based upon which any offering of the Notes will be conducted was obtained on February 16, 2016, and (to the extent required by applicable laws or regulations) an approved tranche issuance certificate is required to be obtained from the CMB before any sale and issuance of a Tranche of Notes. Unless the Bank obtains the necessary new approvals from the CMB, the aggregate debt instrument amount issued under such approval (whether issued under the Program or otherwise) cannot exceed US\$5,000,000,000 (or its equivalent in other currencies).

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

Notice of the aggregate nominal amount of 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 (for each Tranche, its “Final Terms”) which, with respect to Notes to be listed on the Irish Stock Exchange or any other European Economic Area regulated market, will be filed with the Central Bank of Ireland and delivered to the Irish Stock Exchange (and/or, to the extent required, such other stock exchange). Copies of such Final Terms will also be published on the Issuer’s website at <http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/prospectuses-and-offering-circulars/Pages/prospectuses-and-offering-circulars.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(s). The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Program has been rated “BBB-” (for long-term issuances) and “F3” (for short-term issuances) by Fitch Ratings Ltd. (“Fitch”) and Notes issued under the Program are expected to be rated “Baa3” (for long-term issuances) and “P-3” (for short-term issuances) by Moody’s Investors Service Limited (“Moody’s”) and, together with Fitch 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 156 of this Base Prospectus. Each of the Rating Agencies is established in the EU and is registered under Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”). As such, each of the Rating Agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority (the “ESMA”) on its website (at <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) in accordance with the CRA Regulation. Notes may either be rated (including by any one or more of the rating agencies referred to above) or unrated. Where a Tranche of Notes is rated (other than an unsolicited rating), such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Program and/or the Notes 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 revision, suspension or withdrawal at any time by the assigning rating agency.

**Arrangers**

**J.P. Morgan**

**Standard Chartered Bank**

**Dealers**

**Barclays  
Citigroup  
Goldman Sachs International  
J.P. Morgan  
National Bank of Abu Dhabi PJSC**

**BofA Merrill Lynch  
Commerzbank  
HSBC  
Mizuho Securities  
Société Générale**

**BNP PARIBAS  
Deutsche Bank  
ING  
MUFG  
Standard Chartered Bank**

**Corporate & Investment Banking**

The date of this Base Prospectus is June 16, 2016.

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

**To the fullest extent permitted by law, 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 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 by (or with the consent of) the Issuer 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: (a) is intended to provide the basis of any credit or other evaluation or (b) 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 invest in any Notes. Each investor contemplating investing in the 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 is correct at any time subsequent to the date hereof (or, if such information is stated to be as of an earlier date, subsequent to such earlier date) or that any other information supplied in connection with the 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/or the offer or sale of Notes (or beneficial interests therein) might 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 (or beneficial interests therein) may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume**

any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer which is intended to permit a public offering of any Notes (or beneficial interests therein) or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly: (a) no Notes (or beneficial interests therein) may be offered or sold, directly or indirectly, and (b) neither this Base Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction, in each case, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes (or beneficial interests therein) may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes (or beneficial interests therein). In particular, there are restrictions on the distribution of this Base Prospectus and the offer and/or sale of Notes (or beneficial interests therein) in (*inter alia*) Turkey, the United States, the European Economic Area (including the United Kingdom), Switzerland, Japan, Singapore, Thailand, the People's Republic of China (the "PRC") and the Hong Kong Special Administrative Region of 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 (or beneficial interests therein) with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Notes (or beneficial interests therein) in any Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "*Relevant Member State*") must be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes (or beneficial interests therein). Accordingly, any person making or intending to make an offer of Notes (or beneficial interests therein) in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer, any Arranger or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorized, nor do they authorize, the making of any offer of Notes (or beneficial interests therein) in circumstances in which an obligation arises for the Issuer, any Arranger or any Dealer to publish or supplement a prospectus for such offer.

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

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

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

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

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

The Issuer has obtained the CMB approval (dated February 16, 2016 No. 29833736-100-E.1848 (the “*CMB Approval*”) and the BRSA approval (dated January 14, 2016 and numbered 20008792-101.01[44]-E.531) (the “*BRSA Approval*” and, together with the CMB Approval, the “*Program Approvals*”) required for the issuance of Notes under the Program. Unless the Issuer obtains the necessary new approvals from the CMB, the aggregate debt instrument amount issued under the Program Approvals (whether issued under the Program or otherwise) cannot exceed US\$5,000,000,000 (or its equivalent in other currencies). In addition to the Program Approvals, (to the extent required by applicable law or regulation) an approved tranche issuance certificate (*tertip ihraç belgesi*) in respect of each Tranche of Notes is also required to be obtained by the Issuer from the CMB prior to the issue date (each, an “*Issue Date*”) of such Tranche of Notes, which date will be as specified in the applicable Final Terms. The Issuer shall maintain or obtain (as applicable) all authorizations and approvals of the BRSA and the CMB necessary for the offer, sale and issue of Notes under the Program. Consequently, the scope of the above-mentioned Program Approvals might be amended and/or new approvals from the CMB and/or the BRSA might be obtained from time to time. Pursuant to the Program Approvals, 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 No. 5411 (the “*Banking Law*”) and its related legislation and regulations, the Capital Markets Law and the Communiqué No: II-31.1 on Debt Instruments of the CMB (the “*Communiqué on Debt Instruments*”) or its related regulations. The Notes issued under the Program prior to the date of the CMB Approval were issued under previously existing CMB approvals.

In addition, the Notes (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the Program Approvals. Under the CMB Approval, the CMB has authorized the offering, sale and issue of Notes on the condition that no transaction that qualifies as a sale or offering of Notes (or beneficial interests therein) in Turkey may be engaged in. Notwithstanding the foregoing,

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

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

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Base Prospectus might 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”, “might”, “will”, “should” and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled “*Risk Factors*”, “*Business of the Group*” and other sections of this Base Prospectus and include, but are not limited to, statements regarding:

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

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

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

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

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

Potential investors should not place undue reliance upon any forward-looking statements. Any forward-looking statements contained in this Base Prospectus speak only as of 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.

## U.S. INFORMATION

This Base Prospectus may be 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 or by any U.S. person 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 by the Issuer or a Dealer.

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

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

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

## 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 June 16, 2016 (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 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 BRSA’s accounting and reporting regulations, which include the Regulation on Accounting Policies for Banks and Safeguarding of Documents, published in the Official Gazette dated November 1, 2006 and No. 26333, other regulations on accounting records of banks published by the Banking Regulation and Supervision Board (the “*BRSB*”), circulars and pronouncements published by the BRSA and requirements of the Turkish Auditing Standards for the matters not regulated by the aforementioned regulations (together, the “*BRSA Accounting and Reporting Regulations*”).

The Bank’s consolidated and unconsolidated annual statutory financial statements as of and for the years ended December 31, 2013, 2014 and 2015 (the “*BRSA Annual Financial Statements*”) and unaudited interim consolidated and unconsolidated financial statements for the three month period ended March 31, 2016 (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 the BRSA Accounting and Reporting Regulations. 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, real estate that is held for the Group’s own use and used for investment purposes, equity shares that are traded in an active market (*i.e.*, a stock exchange), which are recorded with their market prices, and equity shares that are not traded in an active market, which are recorded on a historical cost basis less impairment, 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, 2013, 2014 and 2015 have been audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International Cooperative, a Swiss entity) (“*KPMG*”) in accordance with the Regulation on Independent Audit of Banks, published by the BRSA in the Official Gazette dated April 2, 2015 and No. 29314, and the Independent Standards on Auditing, which is a component of the Turkish

Auditing Standards published by the Public Oversight, Accounting and Auditing Standards Authority (*Kamu Gözetimi Muhasebe ve Denetim Standartları Kurumu*) (together, the “*BRSA Auditing Standards*”). See KPMG’s reports incorporated by reference into this Base Prospectus. According to Turkish laws, the Bank is required to rotate its external auditors every seven years. KPMG was appointed as the Bank’s external auditors as of December 17, 2009 for three years starting with fiscal year 2010, as of March 29, 2013 KPMG was appointed for three additional years (*i.e.*, for the financial years of 2013, 2014 and 2015), and as of March 28, 2016 KPMG was appointed for one further year. See “*Risk Factors – Risks Relating to the Group and its Business – Audit Qualification.*”

The BRSA Interim Financial Statements as of and for the three month period ended March 31, 2016 have been reviewed in accordance with the BRSA Auditing Standards 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, 2016 (with March 31, 2015 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 Relating 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 incorporated by reference herein 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 according to the BRSA Accounting and Reporting Regulations, including under International Financial Reporting Standards (“*IFRS*”), the Bank’s management has elected to publish audited annual (consolidated and unconsolidated) and unaudited 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, 2015. IFRS financial statements are not used for any regulatory purposes and the Bank’s management uses the BRSA Financial Statements and the BRSA Accounting and Reporting Regulations 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, 2013, 2014 and 2015 (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 and companies with less than 250 employees (the “*BRSA SME Definition*”).

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 U.S. Dollar amounts have been rounded to the nearest million). Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Unless otherwise indicated, the sources for statements and data concerning the Bank and its business are based upon best estimates and assumptions of the Bank’s management. 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.

### *Accounting Policy Changes*

Accounting policy change regarding real estate classified under tangible assets. As of the third quarter of 2015, the Group changed its accounting policy for real estate that is classified under tangible assets from the historical cost method, which was applied in accordance with TAS 16 (Property, Plant and Equipment), to the revaluation method for real estate that is held for the Group’s own use.

Investment property accounting policy change. As of the third quarter of 2015, the Group changed its accounting policy for investment property from the historical cost method (*i.e.*, acquisition costs minus accumulated depreciation and impairment) to the fair value method, which is applied in accordance with TAS 40 (Investment Property). According to TAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the Group applied the accounting policy change retrospectively and restated certain financial information for 2013 and 2014.

The table below sets out the adjustments to certain financial information of the Group for 2013 and 2014:

As of December 31, 2014	Reported	Adjustments	Restated
	<i>(TL thousands, except where indicated)</i>		
<b>Assets</b> .....			
Tangible Assets <sup>(1)</sup> .....	2,386,849	(3,161)	2,383,688
Investment Property .....	1,387,651	1,310,661	2,698,312
Deferred Tax Asset .....	637,937	(10,701)	627,236
<b>Liabilities</b> .....			
Deferred Tax Liability .....	1,882	4,694	6,576
Prior Year’s Profit/Loss .....	(648,918)	540,777	(108,141)
Current Year Profit/Loss .....	3,351,828	171,891	3,523,719
Minority Shares .....	3,506,147	579,437	4,085,584
<b>Income Statement</b> .....			
Other Operating Income .....	4,836,167	273,813	5,109,980
Other Operating Expenses .....	9,515,404	(16,026)	9,499,378
Deferred Tax Income .....	287,857	(1,458)	286,399
Net Period Profit/Loss .....	3,732,036	288,381	4,020,417
Group’s Profit/Loss .....	3,351,828	171,891	3,523,719
Minority Shares .....	380,208	116,490	496,698
Earnings Per Share <sup>(2)</sup> .....	0.029793431	0.001527889	0.031321320

(1) The effect of reclassification of costs related to real estate that is held for the Group’s own use to tangible assets in the financial statements.

(2) Presented in Turkish Lira, instead of thousands of Turkish Lira.

As of December 31, 2013	Reported	Adjustments (TL thousands)	Restated
<b>Assets</b> .....			
Tangible Assets <sup>(1)</sup> .....	2,234,328	(3,161)	2,231,167
Investment Property .....	1,342,182	1,020,822	2,363,004
Deferred Tax Asset.....	666,543	(10,735)	655,808
<b>Liabilities</b> .....			
Deferred Tax Liability.....	2,599	3,202	5,801
Prior Year's Profit/Loss.....	2,621,162	540,777	3,161,939
Minority Shares.....	3,133,450	462,947	3,596,397

(1) The effect of reclassification of costs related to real estate that is held for the Group's own use to tangible assets in the financial statements.

Due to the accounting policy changes, the BRSA Financial Statements for 2015 include certain restatements of the financial information presented in the BRSA Financial Statements for 2014. Accordingly, the financial information of the Group set out in (or incorporated by reference into) this Base Prospectus for 2013 is not fully comparable to the financial information of the Group for 2014 and 2015.

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

To supplement the Group's consolidated financial statements presented in accordance with the BRSA Accounting and Reporting Regulations, the Group uses certain ratios and measures included in this Base Prospectus that would be considered non-GAAP financial measures as these measures are not defined under IFRS or the BRSA Accounting and Reporting Regulations. A body of generally accepted accounting principles such as IFRS or the BRSA Accounting and Reporting Regulations 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 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 (each an "NPL"), return on average total assets, return on average shareholders' equity excluding minority interest, 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 the BRSA Accounting and Reporting Regulations and may be different from similarly titled measures reported by other companies. The Bank's management believes that this information, along with comparable measures under the BRSA Accounting and Reporting Regulations, is useful to investors because it provides a basis for measuring the organic operating performance in the periods presented. These measures are used in internal management of the Group, along with the most directly comparable financial measures under the BRSA Accounting and Reporting Regulations, 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 the BRSA Accounting and Reporting Regulations.

The Bank's management believes that these non-GAAP measures, when considered in conjunction with measures under the BRSA Accounting and Reporting Regulations, enhance investors' and management's

overall understanding of the Group's financial performance. In addition, because the Group has historically reported certain non-GAAP results to investors, the Bank's management believes that the inclusion of non-GAAP measures provides consistency in the Group's financial reporting.

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

In this Base Prospectus, all references to:

- “*Turkish Lira*” and “*TL*” refer to the lawful currency for the time being of 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*”, “*US\$*” and “*\$*” refer to United States dollars;
- “*Renminbi*” and “*RMB*” refer to the lawful currency of the PRC, which, for the purposes of this Base Prospectus, excludes the Hong Kong Special Administrative Region of the PRC, the Macao Special Administration Region of the PRC and Taiwan; and
- “*Sterling*” and “*£*” refer to pounds sterling.

No representation is made that the Turkish Lira or Dollar amounts in this Base Prospectus could have been or could be converted into U.S. Dollars or Turkish Lira, as the case may be, at any particular rate or at all. For a discussion of the effects on the Group of fluctuating exchange rates, see “*Risk Factors – Risks 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 that are used but not defined in any particular section of this Base Prospectus have the meaning attributed thereto in “*Terms and Conditions of the Notes*” or any other section of this Base Prospectus.

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

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

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

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

All of the information contained in this Base Prospectus concerning the Turkish market and the 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 reproduced information inaccurate or misleading. Without prejudice to the generality of the foregoing statement, third-party information in this Base Prospectus, while believed to be reliable, has not been independently verified by the 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*) at [www.http://www.bkm.com.tr/bkm](http://www.bkm.com.tr/bkm), and all data relating to the Turkish economy, including statistical data, have been obtained from the website of the Turkish Statistical Institute (*Türkiye İstatistik Kurumu*) ("*TurkStat*") at [www.turkstat.gov.tr](http://www.turkstat.gov.tr), the website of the Central Bank of Turkey (*Türkiye Cumhuriyet Merkez Bankası*) (the "*Central Bank*") at [www.tcmb.gov.tr](http://www.tcmb.gov.tr), the website of the Turkish Treasury (the "*Undersecretariat of Treasury*") at [www.hazine.gov.tr](http://www.hazine.gov.tr) or the European Central Bank ("*ECB*") at [www.ecb.int](http://www.ecb.int). Such data have been extracted from such websites without material adjustment, but may not appear in the exact same form on such websites or elsewhere. Such websites do not, and should not be deemed to constitute a part of, or be incorporated into, this Base Prospectus.

In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, 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 this Base Prospectus has been based upon public filings and announcements by such shareholders.

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### STABILIZATION

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilization Manager(s) (or persons acting on behalf of any Stabilization 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 Stabilization Manager(s) (or persons acting on behalf of a Stabilization 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 Stabilization Manager(s) (or persons acting on behalf of any Stabilization Manager(s)) in accordance with all applicable laws and rules.**

## **RISK FACTORS**

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

*In addition, factors that are material for the purpose of assessing the market risks associated with 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 relating to the Notes as these risk factors cannot be deemed complete. Prospective investors should consult with an appropriate professional advisor to make their own legal, tax, accounting and financial evaluation of the merits and risks of investments in the Notes.*

### **Factors that might 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 or that other risks might not arise in the future.

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

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

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 global economic weakness. Although Turkey's growth dynamics are to some extent dependent upon domestic demand, Turkey is also dependent upon foreign trade and, thus, a significant decline in the economic growth of any of Turkey's major trading partners, such as the EU, could have an adverse impact on Turkey's balance of trade and adversely affect Turkey's economic growth. In 2015, exports to the EU decreased by 7% in U.S. Dollar terms due to the decline in the euro against the U.S. Dollar (source: *Turkstat*). Regional conflicts and sanctions implemented by Russia against Turkey as a result of the conflict in Syria have negatively affected Turkey's exports, with its exports to its neighboring countries in the south falling significantly. See “-*Terrorism and Conflicts*” below. While diversification in the export markets has partially offset the negative impact of declines in demand from certain countries, the EU remains Turkey's largest export market. A decline in demand for imports from the EU, Russia or neighboring countries 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.

Investors' interest in Turkey might be negatively affected by events in other emerging markets or the global economy in general (for example, volatility in the emerging markets, monetary policies in the United States and the eurozone, continued violence in Syria and Iraq or a slowdown in China's growth). In December 2015, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25%. While the impact of any future rate increase is uncertain, this initial step towards normalization reduced some volatility, permitting the Turkish Lira and certain other emerging market currencies to appreciate. In the first quarter of 2016, the Turkish Lira appreciated against the U.S. Dollar by 2.6% on a nominal basis. An increase in the perceived risks associated with investing in emerging economies could adversely affect the Turkish economy, and the investors' interests in the Notes (and thus their market price) might be subject to fluctuations that might 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 was relatively limited, Turkey has been adversely affected by such contagion effects on a number of occasions in the past, including following the financial crises in 1994 and 2000 to 2001. Similar developments can be expected to affect the Turkish economy in the future, which might, in turn, have an adverse impact on the prices of obligations of Turkish capital markets issuances, including the Notes.

*Political Developments – The Group's business, financial condition and/or results of operations are subject to changes in the government and political environment*

Negative changes in the government and political environment, including the inability of the Turkish government to devise or implement appropriate economic programs, might adversely affect the stability of the Turkish economy and, in turn, the Group's business, financial condition and/or results of operations. Unstable coalition governments have been common, and Turkey has had numerous, short-lived governments, with political disagreements frequently resulting in early elections, which has resulted in political and economic uncertainty.

Beginning in 2013, Turkish politics have been particularly volatile, with political protests and disputes affecting market and economic conditions. Such political instability and related events, including investigations, might have resulted in increased perceptions of political risk for investors and companies operating in Turkey. These circumstances, which coincided with the U.S. Federal Reserve's decision to reduce monthly asset purchases, contributed to significant declines in the value of the Turkish stock market and the Turkish Lira. While these circumstances have receded and the Bank's management does not believe that these events have had a material long-term negative impact on Turkey's economy or the Group's business, financial condition and/or results of operation, it is possible that these or other political circumstances might have such a result and/or a negative impact on investors' perception of Turkey, the strength of the Turkish economy and/or the value and/or price of an investment in the Notes.

Elections held on June 7, 2015 resulted in no party receiving a majority of the members of parliament. The parties with seats in parliament could not form a coalition within the period provided in the Turkish Constitution and, as a result, early elections were held on November 1, 2015. In this election, the Justice and Development Party (Adalet ve Kalkınma Partisi ("AKP")) received approximately 49% of the vote and a significant majority of the members of the parliament, thus enabling it to form a single-party government. Following the November 2015 elections, the AKP announced its intention to replace the existing constitution with a new constitution and to create an executive presidency. On May 5, 2016, the Central Executive Board of the AKP decided to hold an extraordinary convention on May 22, 2016, in which the AKP elected Mr. Binali Yıldırım as the new chairman of the AKP and the new prime minister of Turkey, replacing Mr. Ahmet Davutoğlu. The events surrounding future elections and/or the results of such elections could contribute to the volatility of Turkish financial markets and/or have an adverse effect on investors' perception of Turkey, including with respect to the independence of Turkey's financial institutions. Perceptions of political risk have also increased as a result of increased violence in Turkey, including relating to the terrorist attacks (see "*-Terrorism and Conflicts*"), refugee crisis, tensions with Russia and media reporting. There can be no assurance that the political situation in Turkey will not deteriorate. Furthermore,

certain regulatory actions, investigations, allegations of past or current wrongdoing and similar actions might increase perceptions of political conflict or instability. Actual or perceived political instability in Turkey and/or other political circumstances (and related actions, rumors and/or uncertainties) might have a material adverse effect on the Group's business, financial condition and/or results of operations and/or on the market price of the Notes.

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

As of March 31, 2016, approximately 95.5% (approximately 95.4% as of each of December 31, 2014 and 2015) 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 more open market system. Although the Turkish economy has generally responded positively to this transformation, it has experienced severe macro-economic imbalances, including significant current account deficits and high levels of unemployment. While the Turkish economy has been significantly stabilized due, in part, to support from the International Monetary Fund, Turkey might experience a further significant economic crisis in the future, which might have a material adverse effect on the Group's business, financial condition and/or results of operations.

Since the implementation of fiscal and monetary measures in 2009, Turkey's GDP has been growing, albeit at low levels in recent years (source: *Turkstat*). In January 2016, the government announced a three year medium-term economic program from 2016 to 2018. Under this program, the government set growth targets of 4.5% for 2016 and 5.0% for each of 2017 and 2018, as well as a gradual decrease in the net public debt to GDP ratio, according to the Ministry of Development. There can be no assurance that these targets will be reached, that the Turkish government will continue to implement its current and proposed economic and fiscal policies successfully or that the economic growth achieved in recent years will continue considering external and internal circumstances, including the Central Bank's efforts to curtail inflation and simplify monetary policy, the current account deficit and macroeconomic and political factors, such as changes in oil prices and uncertainty related with conflicts in Iraq and Syria (See “-*Terrorism and Conflicts*”). Any of these developments might cause Turkey's economy to experience macro-economic imbalances, which might impair the Group's business strategies and/or have a material adverse effect on the Group's business, financial condition and/or results of operations. For more details on recent developments in Turkey's economy, see “-*Global Financial Crisis and Eurozone Crisis*” below and the discussion of certain of the Central Bank's policies, “- *High Current Account Deficit*” below.

The Group's banking and other businesses are significantly dependent upon its customers' ability to make payments on their loans and meet their other obligations to the Group. If the Turkish economy suffers because of, among other factors, a reduction in the level of economic activity, devaluation of the Turkish Lira, inflation or an increase in domestic interest rates, then this might increase the number of the Group's customers who might not be able to repay loans when due or meet their other requirements to the Group, which would increase the Group's past due loan portfolio, require the Group to reserve additional specific provisions and reduce its net income and capital levels. In addition, a slowdown or downturn in the Turkish economy (including, in particular, any continued slowdown in economic growth or further foreign exchange volatility) would likely result in a decline in the demand for the Group's services and products. The tourism sector is particularly impacted by lower economic activity due to geopolitical conditions, which might result in a deterioration of the Group's asset quality and higher levels of NPLs and, as a result, higher levels of provisioning. See “-*Terrorism and Conflicts*.” The occurrence of any or all of the above might have a material adverse effect on the Group's business, financial condition and/or results of operations.



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

Turkey is located in a region that has been subject to ongoing political and security concerns, especially in recent years. 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 an investment in Turkish securities. In recent years, political instability has increased markedly in a number of countries in the Middle East, North Africa and Eastern Europe, such as Ukraine, Syria, Iraq, Libya, Tunisia, Jordan, Bahrain, Egypt and Yemen. Unrest in those countries might have political implications in Turkey or otherwise have a negative impact on the Turkish economy, including through both financial markets and the real economy. 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, North Africa and Eastern Europe and might experience material negative effects. Any of such circumstances could adversely affect the Group's business, financial condition and/or results of operations.

The ongoing conflict in Syria has been the subject of significant international attention and is inherently volatile, and its impact and resolution are difficult to predict. In early October 2012, Turkish territory was hit by shells launched from Syria, some of which killed Turkish civilians. On 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, which authorization has been periodically extended. Elevated levels of conflict have arisen in Iraq and Syria as militants of the Islamic State of Iraq and Syria ("ISIS") seized control of areas in Iraq and Syria, which has caused a significant displacement of people. Turkey has been one of the countries that have taken a significant number of Syrian refugees, which has had, and might continue to have, a negative economic, political and social impact on Turkey. In March 2016, Turkey signed an agreement with the EU in an effort to control the irregular flow of refugees from Turkey to the EU; *however*, such agreement might not be implemented in accordance with its terms, if at all. In August and September 2014, a U.S.-led coalition began an anti-ISIS aerial campaign in northern Iraq and Syria. Recent developments in Iraq also raise concerns as Iraq is one of Turkey's largest export markets, ranking third in 2015 according to TurkStat and the Energy Market Regulatory Board (*Enerji Piyasası Düzenleme Kurumu*). At the end of July 2015, Turkey joined the U.S.-led coalition and initiated air strikes against ISIS in Syria and against the People's Congress of Kurdistan (the "PKK") (an organization that is listed as a terrorist organization by states and organizations including Turkey, the EU and the United States) in northern Iraq.

In late 2015, Russian war planes started air strikes in Syria in support of the Syrian government. On November 24, 2015, Turkey shot down a Russian military aircraft near the Syrian border claiming a violation of Turkey's airspace, which has resulted in a deterioration in the relationship between Turkey and Russia and led to Russia implementing certain sanctions against Turkey. While the long-term impact of these events on Turkey's economic and geopolitical circumstances is unpredictable, heightened tensions between Turkey and Russia over Syria could materially negatively affect the Turkish economy, including through any negative impact on Turkey's tourism revenues or its access to Russian energy supplies. Russia was one of the largest trading partners of Turkey and one of its largest suppliers of natural gas in 2015 according to Turkstat. Any such negative impacts might have a material adverse effect on the Group's business, financial condition and/or results of operations and on the market price of the Notes.

In early 2014, political unrest and demonstrations in Ukraine led to a change in the national government. Escalating military activities in Ukraine and Russia's annexing of the Crimea combined with Ukraine's very weak economic conditions to create significant uncertainty in Ukraine and the global markets. In addition, the United States and the EU have implemented increasingly impactful sanctions against certain Russian entities, persons and sectors, including Russian financial, oil and defense companies, as a result of the conflict. While not directly impacting Turkey's territory, these disputes might materially negatively affect Turkey's economy, including through its impact on the global economy and the impact it might have on Turkey's access to Russian energy supplies.

Turkey has also experienced problems with domestic terrorist and ethnic separatist groups as well as other political unrest within its territory. Since July 2015, Turkey has been subject to a number of bombings by extremist groups, including ISIS and the PKK. Recent attacks have included attacks in tourist-focused and commercial centers in İstanbul, Ankara, Bursa, towns in the southeastern border of Turkey and various other towns, which have resulted in several casualties. In particular, Turkey has been in conflict for many years with the PKK. In July 2015, following a suicide bombing in a Turkish town bordering Syria, Turkey began air strikes against the PKK in northern Iraq, which marked the beginning of a period of elevated tension. The clashes between Turkish security forces and the PKK have intensified in the southeastern part of Turkey. The intensifying conflict might negatively impact political and social stability in Turkey, including as a result of the reduced revenues from tourism following heightened terrorist activity and its coverage in the international media.

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

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

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. Turkey has experienced a large number of earthquakes in recent years, some quite significant in magnitude. For example, in October 2011, the eastern part of the country was struck by an earthquake measuring 7.2 on the Richter scale, causing significant property damage and loss of life.

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 or could lead the government to take measures (such as imposition of taxes), which might 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 might become subject to significant inflationary pressures in the future*

The Turkish economy has experienced significant inflationary pressures in the past with year-over-year consumer price inflation rates as high as 73.2% in the early 2000s; *however*, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year consumer price index to decrease to 6.5% at the end of 2009 and 6.4% at the end of 2010, the lowest level in many years. Consumer price inflation was 10.4%, 6.2%, 7.4%, 8.2% and 8.8% in 2011, 2012, 2013, 2014 and 2015, respectively, with producer price inflation of 13.3%, 2.5%, 7.0%, 6.4% and 5.7% respectively in such years. The annual consumer price inflation, which rose almost to double-digit levels in January 2016 due to exchange rate pass-through, an increase in food prices, adjustments to administered prices and increases in taxes, declined to 6.58% in May 2016 due principally to a decline in food prices. Notwithstanding that the consumer price inflation exceeded the Central Bank's inflation target of 5.0%, the Central Bank has again set the inflation target at 5.0% for 2016. Inflation-related measures that may be taken by the Turkish government and the Central Bank could have an adverse effect on the Turkish economy. If the level of inflation in Turkey were to continue to fluctuate or increase significantly, then this might have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

In 2011, Turkey's current account deficit was US\$74.4 billion, which decreased to US\$48.0 billion in 2012, according to the Central Bank. The decline in the current account deficit in 2012 was largely the result of

coordinated measures initiated by the Central Bank, the BRSA and the Turkish Ministry of Finance to lengthen the maturity of deposits, reduce short-term capital inflows and curb domestic demand. The main aim of these measures was to slow growth in the current account deficit by controlling the rate of loan growth. Following these macro-prudential measures, the overall loan growth and retail loan growth in the banking sector declined, with annual loan growth rates and retail loan growth rates of 19.7% and 8.1%, respectively, in 2015 as compared to 29.9% and 29.7%, respectively, in 2011.

The decline in the current account deficit experienced in 2012 came to an end in early 2013, with the current account deficit increasing to US\$63.6 billion in 2013 due principally to a recovery in domestic demand; *however*, to combat this increase, a package of macro-prudential measures issued by the BRSA to limit domestic demand, the Central Bank's tight monetary policy and increases in taxes, combined with the depreciation of the Turkish Lira and reduced oil prices, contributed to a decrease in the current account deficit to US\$43.6 billion and US\$32.1 billion in 2014 and 2015, respectively. On a 12-month basis, Turkey's current account deficit declined further to US\$29.5 billion as of March 2016. Although these measures have been beneficial, various events including poor economic conditions in Turkey's primary export customers and geopolitical risks (such as recent tensions between Turkey and Russia), might result in an increase in the current account deficit, including due to the possible impact on Turkey's foreign trade and tourism revenues. See “-Emerging Market Risks.”

If the value of the Turkish Lira relative to the U.S. Dollar and other relevant trading currencies changes, then the cost of importing oil and other goods and services and the value of exports might both change in a corresponding fashion, resulting in potential increases or decreases in the current account deficit. As an increase in the current account deficit might erode financial stability in Turkey, the Central Bank closely monitors the U.S. Federal Reserve's actions and takes (and has taken) certain actions to maintain price and financial stability. In December 2015, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25%. While the impact of any future rate increase is uncertain, this initial step towards normalization reduced some volatility, permitting the Turkish Lira and certain other emerging market currencies to appreciate. In this context, instead of responding to the U.S. Federal Reserve's actions by changing the interest rates, the Central Bank tightened further the liquidity of the Turkish Lira. See “-Foreign Exchange and Currency Risk.”

Turkey is an energy import-dependent country and recorded US\$33.3 billion of net energy imports in 2015, which declined from US\$48.8 billion in 2014 due largely to the decline in the price of oil (source: *Turkstat*). It should be noted that energy imports, in general, approximate the country's total current account deficit. In 2015, Turkey's current account deficit benefited from the recent declines in the price of oil, which was partially offset by the weak performance of exports; *however*, this could be reversed. Although the government has been heavily promoting new domestic energy projects, these have not yet significantly decreased the need for imported energy. Even though the relatively low levels of oil prices support the current account balance, any geopolitical development concerning energy security and prices could have a material impact on Turkey's current account balance.

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

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. To that end, the BRSA from time to time introduces regulations to control loan growth, including measures that, among other things: (a) increased Turkish banks' general provision requirements in certain circumstances and (b) increased the risk-weighting for certain consumer loans in calculating capital adequacy ratios. For example, regulations on the measurement and evaluation of capital adequacy and on

maturity of customer loans were announced in 2013 and several measures were taken to limit credit card expenditures, which have reduced the growth in credit volumes. See “*Turkish Regulatory Environment.*” These regulations might have a material adverse effect on the Group’s business, financial condition and/or results of operations.

*Exchange Rates – The value of the Turkish Lira fluctuates against other currencies and such fluctuations might be significant*

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 consumer price index (“CPI”) increased by 6.2% while during the same period the Turkish Lira appreciated (in nominal terms) against the U.S. Dollar by 6.5%, according to the Central Bank. According to the Central Bank, the CPI-based real effective exchange rate decreased from 110.3 as of December 31, 2012 to 100.3 as of December 31, 2013, indicating a 9.1% real depreciation, then increased to 105.0 as of December 31, 2014, indicating a 4.7% real appreciation, and then decreased to 97.6 as of December 31, 2015, indicating a 7.0% real depreciation. The CPI-based real effective exchange rate slightly increased to 99.1 as of May 2016, indicating a limited appreciation in the Turkish Lira in 2016.

In nominal terms, between December 31, 2014 and December 31, 2015, the Turkish Lira depreciated against the U.S. Dollar by 25.4%. In particular, the value of the Turkish Lira depreciated against major currencies in 2015 largely due to the increased risk perception in global markets regarding the market’s expectation of the U.S. Federal Reserve’s increase of the U.S. federal funds rate and the uncertainty resulting from the general elections in Turkey and other political events described under “*Political, Economic and Legal Risks Relating to Turkey - Political Developments.*” Against these developments, the Central Bank prepared a roadmap to react to a possible rate hike by the U.S. Federal Reserve. The roadmap, which has as its base case a normalization process by the U.S. Federal Reserve, proposes the implementation of tight liquidity for the Turkish Lira, a balanced foreign exchange liquidity and financial sector policies that are supportive of a tighter monetary policy. In December 2015, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25%. While the impact of any future rate increase is uncertain, this initial step towards normalization reduced some volatility, permitting the Turkish Lira and certain other emerging market currencies to appreciate. In the first quarter of 2016, the Turkish Lira appreciated against the U.S. Dollar by 2.6% on a nominal basis. In this context, instead of responding to the U.S. Federal Reserve’s actions by changing the interest rates and implementing the roadmap, the Central Bank tightened further the liquidity of the Turkish Lira. Having declined to 7.6% in March 2015, the Central Bank’s average funding rate increased to 9.0% in September 2015, before declining to 8.8% as of the end of 2015. The Central Bank’s average funding rate further increased to 9.1% in February 2016, but then subsequently decreased to below 9.0% in March 2016 due to the U.S. Federal Reserve’s dovish stance in its March 2016 meeting. Even though the Turkish Lira appreciated by 2.6% in the first quarter of 2016, due to the uncertainty resulting from the domestic political developments, the Turkish Lira depreciated against the U.S. Dollar in April and May 2016, resulting in a 1.7% decline on a nominal basis in the first five months of 2016.

The Central Bank’s monetary policy is subject to a number of uncertainties, including global macroeconomic conditions and political conditions in Turkey. As global conditions have been volatile in the beginning of 2016, including as a result of, among other factors, expectations regarding slower growth in China and low commodity and oil prices, monetary policy remains subject to uncertainty. On March 24, 2016, the Central Bank took its first step towards normalization and reduced its upper limit of the interest rate corridor by 25 basis points to 10.50% due to the reduction in the need for a wide interest rate corridor in line with the easing of global volatility. The Central Bank held its one-week repo rate at 7.50% and its overnight borrowing rate at 7.25%. The Central Bank announced that it plans to maintain its tight liquidity stance as a result of the improving trend in the underlying core inflation rate. On April 20, 2016, following the appointment of the new Central Bank governor, the Central Bank reduced the upper limit of its interest rate corridor further by 50 basis points to 10.00% but left its one-week repo rate and overnight borrowing rate unchanged. The Central Bank’s average funding rate declined to approximately 8.5% after these decisions. The fluctuations of foreign currency exchange rates and increased volatility of the Turkish Lira might adversely affect the

Group's customers and the Turkish economy in general; thus these might have a negative effect on the value of the Group's assets and/or the Group's business, financial condition and/or results of operations.

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

*Potential Overdevelopment – Certain sectors of the Turkish economy might have been or become overdeveloped*

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

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

The Group has a significant exposure to Turkish governmental and state-controlled entities. As of March 31, 2016, 94.2% of the Group's total securities portfolio (15.7% of its total assets and equal to 134.8% of its shareholders' equity) was invested in securities issued by the Turkish government and 0.5% 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 a possible downgrade in Turkey's credit rating would likely have a significant negative impact on the value of the government debt held by the Group and the Turkish banking system generally and might have a material adverse effect on the Group's business, financial condition and/or results of operations. Similarly, enforcing rights against governmental entities might be subject to structural, political or practical limitations.

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

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

The recent 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 but, following the implementation of fiscal and monetary measures during 2009, began to recover in the fourth quarter of 2009 and has since continued to expand, albeit at moderate levels in recent years (source: *Turkstat*). While unemployment levels have also improved since the depth of the financial crisis, they remain elevated. There can be no assurance that the unemployment rate will continue to improve, or even that it will not increase in the future. Continuing high levels of unemployment might affect the Group's retail customers and business confidence, which could impair its business strategies and have a material adverse effect on its business, financial condition and/or results of operations.

Concerns about a sovereign debt crisis in Greece and certain other European countries have also undermined investor confidence in recent years and resulted, and might continue to result, in a general deterioration of the financial markets.

Although there has been a degree of economic recovery in some markets in the eurozone, recent economic performance in Europe has been weak and has prompted further European Central Bank (“ECB”) stimulus. Since the implementation of negative interest rates by the Danish Central Bank in July 2012 and the ECB in June 2014, an increasing number of central banks in Europe have taken their policy rates below zero. In January 2016, the Bank of Japan also adopted negative interest rates. There is uncertainty in the markets as to the impact of these policies.

Any deterioration in the condition of the global, European or Turkish economies, or continued uncertainty around the potential for such deterioration, might have a material adverse effect on the Group’s business and customers in a number of ways, including, among others, the income, wealth, employment, liquidity, business, prospects and/or financial condition of the Group’s customers, which, in turn, might reduce the Group’s asset quality and/or demand for the Group’s products and services and negatively impact the Group’s growth plans. The Group’s business, financial condition and/or results of operations might also continue to be adversely affected by conditions in the global and Turkish financial markets as long as they remain volatile and subject to disruption and uncertainty.

Any withdrawal by a Member State from the EU and/or the European Monetary Union, any significant changes to the structure of the EU or the European Monetary Union or any uncertainty as to whether such a withdrawal or change might occur (including the referendum to be held on June 23, 2016 in the United Kingdom to leave or remain in the EU and any uncertainty resulting from such referendum) might have a material adverse effect on the Group’s business, financial condition and/or results of operations, including as a result of decline in European economies, the euro and/or European institutions.

*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. Credit risk is the most significant risk to which the Group is exposed.

Changes in the credit quality of the Group’s customers and counterparties arising from systemic risks in the Turkish and global financial system might negatively affect the value of the Group’s assets. Such risks might 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. The ratio of NPLs to total loans in the Turkish banking sector was 2.7% as of December 31, 2013, 2.8% as of December 31, 2014, 3.1% as of December 31, 2015 and 3.3% as of March 31, 2016 (1.7%, 1.6%, 2.0% and 2.2%, respectively, with respect to the Group), with the Turkish banking sector’s statistics being as reported in the BRSA’s monthly statistical bulletin.

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 might have more limited credit histories, and existing customers. Although such new loans are subject to the Group’s credit review and monitoring practices, they might be subject to higher credit risks compared to borrowers with whom the Group has greater experience. Furthermore, the Group’s exposures to certain borrowers (particularly for loans for 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 Group faces significant and continuing competition from other participants in the Turkish banking sector, including both state-controlled and private banks in Turkey as well as many subsidiaries and branches of foreign banks and joint ventures between Turkish and foreign shareholders. A small number of these banks dominate the banking industry in Turkey. As of December 31, 2015, the top five banks by assets in Turkey (one of which is a state-controlled bank) held 55.8% of the banking sector’s total loan portfolio (excluding participation banks) and 57.6% of total bank assets (excluding participation banks) in Turkey, according to the Turkish Banks Association. As of March 31, 2016, the Bank: (a) was the largest bank in Turkey in terms of foreign currency-denominated loans, (b) was the largest private bank in Turkey in terms of shareholders’ equity and (c) had the largest market shares of total assets, total loans, Turkish Lira-denominated loans, total deposits, Turkish Lira-denominated deposits and demand deposits among private sector banks (source: BRSA), 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 might have access to low cost deposits (on which such institutions pay low or no interest) through “State Economic Enterprises” owned or administered by the Turkish government, which could result in a lower cost of funds that cannot be duplicated by private sector banks. Such actions by government-controlled financial institutions, in addition to 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, Qatar National Bank, Citigroup, ING, Sberbank, Bank Hapoalim, Bank Audi sal, Burgan Bank, Rabobank, Intesa Sanpaolo, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Commercial Bank of Qatar and Industrial and Commercial Bank of China are among the many non-Turkish financial institutions that have purchased or made investments in Turkish banks or opened their own Turkish offices; *however*, some of such institutions have (or might) put some or all of their investments in Turkish banks up for sale as a result of their own financial circumstances and/or priorities. The Bank’s management believes that further entries into the sector by foreign competitors, either directly or in collaboration with existing Turkish banks, could increase competition in the market. Similarly, the expansion of foreign banks’ presence in Turkey, in addition to direct investment, might lead to further competitive pressures. Foreign competitors might have greater resources and more cost-effective funding sources than the Group. If competitors can offer better lending rates to clients or higher interest rates on deposits, then the Group could lose customers, be forced to reduce its margins or be forced to look for more expensive funding sources, among other things. This, in turn, might 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 and operations, although at a slower pace compared to the expansion in recent years, and/or redistribute its existing branches while continuing its focus on financial strength and performance. Risks associated with the implementation of a growth strategy include the potential for 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 2014 (three

branches were consolidated with other branches during 2014), 26 domestic branches in 2015 (five branches were consolidated with other branches during 2015) and two domestic branches in the first five months of 2016 (two branches were consolidated with other branches during this period) and it is (as of the date of this Base Prospectus) planning on opening a total of 10 domestic branches during 2016. Moreover, as competition in the Turkish banking sector continues to intensify, the Group might seek to further expand internationally through acquisitions or the establishment of branches, which might lead to additional risks and uncertainties relating to the geographic, political, regulatory 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. From 2008 until early 2014, interest rates in Turkey declined substantially, which made holding government bonds a less profitable strategy, resulting in banks shifting funds towards higher-yielding assets, such as loans to customers. While the Central Bank increased its interest rates significantly in early 2014, through a series of Central Bank decisions beginning in May 2014, interest rates declined thereafter through the first two months of 2015 and then remained unchanged until the Central Bank's meeting held on March 25, 2016, in which meeting the Central Bank began to further reduce its interest rates. Increased competition for customers might reduce the margins the Group can achieve on its products, which in turn might 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 might 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 is dependent upon regulatory requirements, competition and other factors*

The Group's profitability might be negatively affected in the short-term and possibly in future periods as a result of a number of factors that generally impact the Turkish banking sector, including a slowdown of economic growth in Turkey and volatility in interest rates (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 governmental actions, including those that seek: (a) to limit the growth of Turkish banks and/or Turkish economy through various conventional and unconventional policy measures, including increased reserve requirements, increased general provisioning requirements and higher risk-weighting for general purpose loans, or (b) to impose limits or prohibitions on fees and commissions charged to customers or otherwise affect payments received by the Group from its customers (see “*-Banking Regulatory Matters*” and “*-High Current Account Deficit*”). For 2015, the Bank's return on average total assets (*i.e.*, net income for the period as a percentage of quarterly average total assets) was 1.2% (same as the sector) and the return on its average equity (*i.e.*, net income for the period as a percentage of quarterly average shareholders' equity) was 10.4% (compared to 11.3% for the sector) (1.4% and 11.8%, respectively, for the Bank and 1.1% and 10.5%, respectively, for the sector for the three months ended March 31, 2016).

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

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly U.S. Dollars and euro. For example, the Group had loans denominated in currencies other than the Turkish Lira totaling the equivalent of TL 56,328 million, TL 65,270 million, TL 77,693 million and TL 77,371 million as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively, representing 38.8%, 38.9%, 40.3% and 40.5%, 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 might have a negative effect on the value of the Group's assets and/or lead to operating losses, which might 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 might limit any benefit that the Group might otherwise receive from favorable movements in exchange rates.

*Interest Rate Risk – The Group's results of operations are dependent upon 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 53.4%, 52.8%, 57.3% and 63.0% of operating income for 2013, 2014 and 2015 and the first quarter of 2016, respectively, and net interest margin as measured on a Bank-only basis was 4.2%, 4.1%, 4.1% and 4.4%, respectively, over the same periods. Interest rates are highly sensitive to many factors beyond the Group's control, including monetary policies pursued by the Central Bank, domestic and international economic and political conditions and other factors. Income from financial operations is particularly vulnerable to interest rate volatility, such as occurred in January 2014 as a result of the Central Bank's significant increases of the interest rates. In addition, as of December 31, 2015, 94.1% of the Group's securities portfolio consisted of Turkish government debt securities, which accounted for 15.2% of the Group's total assets (94.2% and 15.7%, respectively, as of March 31, 2016). 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 (such as the large increases that the Central Bank implemented in its January 2014 meeting to combat the increase in Turkey's current account deficit) could cause interest expense on deposits (which are typically short-term and re-priced 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 decline 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 increase in interest rates on funding sources that is not fully matched by a rise in interest rates charged, to the extent such exposures are not hedged, might have a material adverse effect on the Group's business, financial condition 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 regulatory 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 might 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 might 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. The unemployment rate in Turkey was 10.9% as of February 2016, 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. Similarly, if corporate customers of the Group face liquidity problems, then they might withdraw their money from the Group, which might negatively affect the Group’s access to deposit-based funding. An inability on the Group’s part to access such funds or to access the markets from which it raises such funds might put the Group’s positions in liquid assets at risk and lead the Group to be unable to finance its operations and growth plans adequately.

In addition to deposits, the Group also relies upon non-deposit funding (which includes repos and money market, funds borrowed and marketable securities issued), which as of March 31, 2016 accounted for 27.2% of the Group’s total liabilities (28.9% as of December 31, 2015). 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 120.6% as of March 31, 2016 (125.1% as of December 31, 2015). If growth in the Group’s deposit portfolio continues to not keep pace with growth in its loan portfolio, then the Group will 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. If conditions in the international capital markets or interbank lending market, or the Group’s credit ratings, were to deteriorate, then 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.

A rising interest rate environment could compound the risk of the Group not being able to access funds at favorable rates or at all. As central banks unwind the expansive liquidity that has been provided during the recent global crisis, competition among banks and other borrowers for the reduced global liquidity might result in increased costs of funding. This and other factors could lead creditors to form a negative view of the Group’s liquidity, which could result in lower credit ratings, higher borrowing costs and/or less access to funds. In addition, the Group’s ability to raise or access funds might be impaired by factors that are not specific to its operations, such as general market conditions, 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) might 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 might adversely

affect borrowing using certain capital market instruments (such as “future flow” transactions and eurobonds). See also “*-Foreign Currency Borrowing and Refinancing Risk*” below.

Similarly, if the credit rating of Turkey is downgraded or put on negative watch, then the Group might 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 might 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 upon foreign currency-denominated debt, which might result in difficulty in refinancing or might increase its cost of funding, particularly if the Group and/or Turkey suffer(s) a 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 medium- and long-term assets. In addition, price competition for wholesale deposits has made such deposits less attractive. As a result, the Bank has raised (and likely will seek to continue to raise) longer term funds from syndicated loans, “future flow” transactions, bond issuances, bilateral loans and other transactions, many of which are denominated in foreign currencies. As of March 31, 2016, the Group’s total foreign currency-denominated borrowings constituted 18.6% of its consolidated assets (19.6% as of December 31, 2015). 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 (including if investor confidence in Turkey decreases as a result of political, economic or other factors). 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 might 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 might increase the costs of new indebtedness and/or the refinancing of the Group’s existing indebtedness, including to the extent that such a downgrade is perceived as a deterioration of the capacity of the Group to pay its foreign currency-denominated debt.

These risks might increase as the Group seeks to increase medium- and long-term lending to its customers, including mortgages and project financings, the funding for much of which is likely to be made through borrowings in foreign currency. As of March 31, 2016, approximately 97.0% (approximately 97.3% as of December 31, 2015) 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 might 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 might affect the Group’s business, financial condition and/or results of operations*

As of March 31, 2016, 50.0% 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 26.3% of the Bank’s total loan

portfolio, and loans to SMEs (as defined by the BRSA SME Definition) accounting for 23.7% (50.3%, 26.4% and 23.8%, respectively, as of December 31, 2015). 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 2013, 2014, 2015 and the first quarter of 2016 were 1.7%, 1.6%, 2.0% and 2.2%, respectively. On a Bank-only basis, SMEs (as defined by the BRSA SME Definition) accounted for 38.7%, 36.2%, 32.6% and 33.4% of total NPLs as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively. Retail loans (which consist of consumer loans, overdrafts and credit cards) accounted for 36.9%, 38.4%, 37.1% and 37.1%, respectively, as of such dates. The Bank's NPL ratios for SME loans were 2.3%, 2.3%, 2.7% and 3.1%, respectively, as of such dates, while its NPL ratios for retail loans were 2.2%, 2.3%, 2.8% and 3.1%, respectively, as of such dates. A negative impact on the financial condition of the Group's retail or SME customers might have a material adverse effect on the Group's business, financial condition and/or results of operations.

The general macro-economic conditions in Turkey might have a material adverse effect on the Group's retail and SME customers, both as borrowers and providers of deposits. For example, should the unemployment rate increase, the ability of the Group's 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 might significantly impact SMEs. Any material adverse effect on the Group's retail and SME customers resulting from macro-economic conditions might impair the Group's business strategies and have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

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

The Group also undertakes certain types of lending without tangible collateral, relying only on personal guarantees, which might 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 might have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

The Group has historically generated a significant portion of interest income from its securities portfolio, with interest and similar income derived from the Group's securities portfolio in 2013, 2014 and 2015 and the first quarter of 2016 accounting for 24.0%, 22.1%, 19.1% and 18.9%, respectively, of its total interest income (and 15.9%, 15.0%, 13.6% and 14.2%, 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 provided high real yields compared to other government securities until year-end 2014, benefiting

from the high inflation environment, but their impact on the Bank's earnings might vary as inflation rates change.

While the contribution of income from the Group's securities portfolio has been significant over recent years, such income might not be as large in coming years. As securities in its portfolio are repaid, the Group might not be able to re-invest in assets with a comparable return. In addition, 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 trend towards lower interest rates might result in lower nominal earnings on the Group's holdings of securities. As such, the Group might experience declining levels of earnings from its securities portfolio. If the Group is unable to sustain its high levels of earnings from its securities portfolio, then this might have a material adverse effect on its business, financial condition and/or results of operations. In addition, as the Group's investment portfolio is heavily concentrated in Turkish government securities, see also "*Political, Economic and Legal Risks Relating to Turkey - Government Default*" above.

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

The exposure of the Group's business to a market downturn in Turkey or the other markets in which it operates, or any other risks, 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 its access to liquidity and/or capital could be impaired. In addition, in conjunction with a market downturn, the Group's customers might incur substantial losses of their own, thereby weakening their financial condition and increasing the credit risk of the Group's exposure to such customers. If this or any other particular combination of risks occurs, then this might 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 the Group's business might be impacted by changes to applicable laws or regulations, the interpretation or enforcement of such laws or regulations or any failure to comply with such laws or regulations*

The Group is subject to a number of banking, consumer protection, competition, antitrust and other laws and regulations designed to maintain the safety and financial soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. These laws and regulations include Turkish laws and regulations (and in particular those of the BRSA), as well as laws and regulations of certain other countries in which the Group operates. These laws and regulations increase the cost of doing business and limit the Group's activities. See "*Turkish Regulatory Environment*" for a description of the Turkish banking regulatory environment and "*The Turkish Banking Sector*" below.

Turkish banks' capital adequacy requirements are (and will be further) affected by Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are being phased in through 2019. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated September 5, 2013 and numbered 28756, adopted the Regulation on Equities of Banks (the "*2013 Equity Regulation*") and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (the "*2012 Capital Adequacy Regulation*"), both of which entered into effect on January 1, 2014. The 2013 Equity Regulation introduced core Tier 1 capital and additional Tier 1 capital as components of Tier 1 capital, whereas the amendments to the 2012 Capital Adequacy Regulation: (a) introduced a minimum core capital adequacy standard ratio (4.5%) and a minimum Tier 1 capital adequacy standard ratio (6.0%) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0%) and (b) changed the risk weights of certain items that are categorized under "other assets." The 2013 Equity Regulation also introduced new Tier 2 rules and determined new criteria for debt instruments to be included in a bank's Tier 2 capital. The BRSA published a Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks in the Official Gazette dated October 23, 2015 and numbered 29511 (the "*2015 Capital Adequacy Regulation*"), which entered into force on March 31, 2016 and replaced the 2012 Capital Adequacy Regulation. The 2015 Capital

Adequacy Regulation sustains the capital adequacy ratios introduced by the former regulation, but changed the risk weights of certain items.

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

The Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), was published in the Official Gazette dated November 5, 2013 and numbered 28812 and entered into effect on January 1, 2014 (with the exception of certain provisions that entered into effect on January 1, 2015).

The Regulation on Measurement of Liquidity Coverage Ratio of Banks was published in the Official Gazette dated March 21, 2014 and numbered 28948 (the “*Regulation on Liquidity Coverage Ratios*”) in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. According to this regulation, starting from January 1, 2015, the liquidity coverage ratios of banks cannot fall below 100% on an aggregate basis and 80% on a foreign currency-only basis; *however*, pursuant to the BRSA decision dated December 26, 2014 No. 6143 (the “*BRSA Decision on Liquidity Ratios*”), for a period between January 5, 2015 and ending on December 31, 2015, such ratios were applied as 60% and 40%, respectively, and such ratios have (and shall be) applied as increased in increments of ten percentage points for each year from January 1, 2016 until January 1, 2019. If the Bank and/or the Group is unable to maintain its capital adequacy, leverage and liquidity ratios above the minimum levels required by the BRSA or other regulators (whether due to the inability to obtain additional capital on acceptable economic terms, if at all, sell assets (including subsidiaries) at commercially reasonable prices, or at all, or for any other reason), then this might have a material adverse effect on the Group’s business, financial condition and/or results of operations. See “*Turkish Regulatory Environment*” below for a further discussion on Basel III.

The BRSA also amended certain regulations and communiqués as published in the Official Gazette dated October 23, 2015 No. 29511 and January 20, 2016 No. 29599 in accordance with the Basel Committee’s Regulatory Consistency Assessment Programme (“*RCAP*”), which is conducted by the Bank for International Settlements (“*BIS*”), with a view to monitor Turkey’s compliance with Basel regulations. The amendments related to internal systems and internal capital adequacy ratios entered into force on January 20, 2016. These regulations impose requirements to enhance the effectiveness of internal risk management and internal capital adequacy assessments. Accordingly, the board of directors and senior management of a bank are required to ensure that such a bank has established appropriate risk management systems and applies an internal capital adequacy assessment process adequate to have capital for the risks incurred by such bank. The revisions to the 2013 Equity Regulation and the 2015 Capital Adequacy Regulation entered into force on March 31, 2016 (for further information, see “*Turkish Regulatory Environment – Capital Adequacy*”).

In February 2016, the BRSA published a regulation (the “*D-SIBs Regulation*”) regarding systemically important banks (“*D-SIBs*”), which introduced additional capital requirements for D-SIBs in line with the requirements of Basel III. As of March 31, 2016, the Bank has been classified as a D-SIB under the D-SIBs Regulation. See “*Capital Adequacy – Basel Committee – Basel III*” below.

As a result of the recent global financial crisis, policy makers in Turkey, the EU and other jurisdictions in which the Group operates have enacted or proposed various new laws and regulations, and there is still uncertainty as to what impact these changes might have. In addition, the Turkish government (including the BRSA or the Central Bank) has introduced (and might introduce in the future) new laws and regulations that impose limits with respect to fees and commissions charged to customers, increase the monthly minimum payments required to be paid by holders of credit cards, increase reserves, increase provision requirements for loans, limit mortgage loan-to-value ratios or otherwise introduce rules that will negatively affect the Group's business and/or profitability (e.g., see "*Turkish Regulatory Environment – Consumer Loan, Provisioning and Credit Card Regulations*"). The Group might not be able to pass on any increased costs associated with such regulatory changes to its customers, particularly given the high level of competition in the Turkish banking sector (see "*The Turkish Banking Sector – Competition*"). Accordingly, the Group might not be able to sustain its level of profitability in light of these regulatory changes and the Group's profitability might be materially adversely impacted until (if ever) such changes could be incorporated into the Group's pricing.

Such measures could also limit or reduce growth of the Turkish economy and consequently the demand for the Group's products and services. Furthermore, as a consequence of certain of these changes, the Group might be required to increase its capital reserves and might need to access more expensive sources of financing to meet its regulatory liquidity and capital requirements. Any failure by the Group to adopt adequate responses to these or future changes in the regulatory framework might have an adverse effect on the Group's business, financial condition and/or results of operations. Finally, non-compliance with regulatory requirements or laws could expose the Group to potential liabilities and fines and/or damage its reputation.

As applicable to all other enterprises in Turkey, the Bank is also subject to competition and antitrust laws. The Bank from time to time has been, and might in the future be, subject to investigations by the Turkish Competition Board (*Rekabet Kurulu*), some of which have resulted in material fines. For example, in March 2013, the Competition Board ruled for the Bank to be fined TL 147 million. The Bank paid this fine in August 2013, but such decision of the Competition Board is subject to appeal as of the date of this Base Prospectus.

*International Operations – The Group is subject to adverse changes in the regulatory and economic environment in the jurisdictions in which the Group operates*

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 ("*TRNC*"). 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 Sterling. Adverse changes in the regulatory environments, tax and other laws, economic conditions, relevant exchange rates and/or other circumstances in the jurisdictions in which the Group operates might have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

The Bank maintains equity participations in companies in various sectors, including financial services and non-financial services in sectors such as glass, software, shipping and health. 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) any divestitures, might result in losses to the Group, which might be material. In addition, the level of dividends received by the Bank from such investments might vary from year to year, potentially significantly, and affect the Bank's net income accordingly.

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

The Banking Law places limits on a Turkish bank's exposure to related parties. The Group enters into banking transactions with its affiliates, including 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 other Affiliates.*"

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

Although the Group 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 does not 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 might carry criminal or regulatory fines and sanctions and could severely harm the Group's reputation.

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

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

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

Historically, the reporting, accounting and financial practices applied by Turkish banks have differed in certain respects from those applicable to banks in the EU, the United States, the United Kingdom or in other similar economies. There is less publicly available information on businesses in Turkey than is regularly published by similar businesses in the EU, the United States or in other similar markets and any information that is published might only be presented in Turkish.

The BRSA's rules require Turkish banks to publish their annual and quarterly financial reports on their websites. Annual financial reports comprise audited financial statements and activity reports, and quarterly financial reports comprise reviewed financial statements, interim management reports and corporate governance compliance reports. 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 the BRSA Accounting and Reporting Regulations and subsequently being made available in IFRS financial statements. Most Turkish banks, including the Bank, have English versions of their financial statements available on their websites. In addition, banks that are listed on the Borsa İstanbul A.Ş. (“*Borsa İstanbul*”), such as the Bank, are also required to publish their financial statements on a quarterly basis and to disclose any significant development that is likely to have an impact on investors’ decisions and/or that would be likely to have a significant effect on the price of the issuer’s securities (both through the Turkish government’s Public Disclosure Platform’s (*Kamuyu Aydınlatma Platformu*) (“*Public Disclosure Platform*”) website and the bank’s own website). Nonetheless, investors might not have access to the same depth of disclosure relating to the Bank as they would for investments in banks in the EU, the United States, the United Kingdom and certain other markets.

The Group maintains its accounting systems and prepares its accounts in accordance with the relevant legislation and publishes quarterly financial results in accordance with the BRSA Accounting and Reporting Regulations. 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 might materially affect the Group’s results of operations and financial position (see Appendix 1 - “Overview of Significant Differences between IFRS and the BRSA Accounting and Reporting Regulations”). 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 the BRSA Accounting and Reporting Regulations for 2013, 2014, 2015 and the first quarter of 2016 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 might arise from any changes in economic or market conditions. The Group might 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 independent auditors’ 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 or review reports for both consolidated and unconsolidated financial statements prepared in accordance with the BRSA Accounting and Reporting Regulations for the first quarter of 2016 and the full years ended December 31, 2015, 2014 and 2013 include: (a) a qualification related to the free provision as of March 31, 2016 amounting to TL 800 million allocated by the Bank’s management, all of which had been recognized as an expense in prior periods, (b) a qualification related to the free provision as of December 31, 2015 amounting to TL 800 million allocated by the Bank’s management, all of which had been recognized as an expense in prior periods, (c) a qualification related to the free provision as of December 31, 2014 amounting to TL 1,000 million allocated by the Bank’s management, all of which had been recognized as an expense in prior periods, and (d) a qualification related to the free provision as of December 31, 2013 amounting to TL 1,000 million allocated by the Bank’s management, all of which had been recognized as an expense in prior periods. See also the audit or review reports for the consolidated and unconsolidated BRSA Financial Statements in the BRSA Financial Statements incorporated by reference herein. The Bank’s management expects that similar qualifications will be included in the corresponding audit or review reports for future fiscal periods.

Such provisions might be reversed, re-allocated or increased by the Group in future periods, which might cause the Group’s net profit to be higher or lower in future periods than it otherwise would be in the absence of such reversal, re-allocation or increase. These provisions do not impact the Group’s level of tax.

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

The Group employs substantial resources to develop and operate its risk management processes and procedures; *however*, similar to other banking groups, the Group is susceptible to, among other things, fraud by employees, customers or other third parties, failure of internal processes and systems (including to detect fraud or unlawful transactions), unauthorized transactions by 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 caused by third party service providers (such as telecommunications operators) or other service interruptions resulting from events such as natural disasters. Such events might result in interruption to services to the Group's branches and/or impact customer service. Given the Group's high volume of transactions, fraud or errors might be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which might further increase the risk that human error or employee tampering will result in losses that might be difficult for the Group to detect quickly or at all. If the Group is unable to successfully monitor and prevent these or any other operational risks, or obtain sufficient insurance to cover these risks, then this might have a material adverse effect on the Group's reputation, 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 are subject to 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 might 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*, while the Bank's entire branch infrastructure is connected to the İzmir disaster recovery site to ensure operational continuity, business critical applications might only function with limited capacity 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 might materially adversely affect the Group's growth strategy.

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

The non-deposit obligations of the Group companies are generally not guaranteed or otherwise supported by the Turkish or any other government; *however*, some of the Bank's subsidiaries might be entitled to receive

governmental or other support in certain instances due to their status, such as the Bank's financial participation Türkiye Sınai Kalkınma Bankası A.Ş. ("TSKB"), an investment and development bank that benefits from a governmental guarantee of certain loans made to it. 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 might not be the case for Turkey in general or the Group companies in particular. Investors in the Notes should not place any reliance upon the possibility of the Group companies 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 might become over-leveraged*

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

*Personnel – The Group's 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 is very high and requires the Group to continually reassess its compensation and employment policies. Accordingly, compensation and employment policies are reviewed every two years by collective bargaining with the trade union of which almost all of the Bank's Turkish employees are members. If members of the Group's senior management were to leave, particularly if they were to join competitors, then those employees' relationships that have benefited the Group might not continue with the Group. In addition, the Group's success depends, in part, upon its ability to attract, retain and motivate qualified and experienced banking and management personnel. The Group's failure to recruit and retain necessary personnel or manage its personnel successfully might have a material adverse effect on the Group's business, financial condition and/or results of operations.

On March 22, 2016, a court in İstanbul accepted a prosecutor's indictment against the current Chairman and certain senior managers of the Bank. See "*Management – Recent Developments - POAŞ Proceedings.*" As of the date of this Base Prospectus, the Bank's management does not believe that this proceeding will have any material impact on the Bank; *however*, any adverse decision of the court against the current Chairman and/or such members of senior management might negatively impact their ability to perform their duties.

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

As of March 31, 2016, the Bank had 25,079 employees. Almost all of the Bank's Turkish employees are members of the Turkish union for the banking and insurance industries Banking and Insurance Labor Union (*Banka ve Sigorta İşçileri Sendikası*) ("*Basisen*"). Basisen and the Bank are parties to a collective bargaining agreement, which was signed on June 26, 2014 and was effective until March 2016. In May 2016, the Bank started negotiations with Basisen to sign a new collective bargaining agreement. While the Bank's management believes that the Bank's relationships with its employees and Basisen are satisfactory, the

collective bargaining agreement with Basisen might not be extended or renewed at recent 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 to date, 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 might be negatively affected.

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

The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several financial institutions. Following this crisis, the government made structural changes to the Turkish banking system to strengthen the private (*i.e.*, non-governmental) banking sector and allow it to compete more effectively against the state-controlled banks. 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, then this might result in further bank failures, reduced liquidity and weaker public confidence in the Turkish banking system, which might have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

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

*Large Shareholders – The interests of the İşbank Personnel Supplementary Pension Fund and the CHP, which together held 68.24% of the Bank's outstanding share capital as of March 31, 2016, might not be aligned with the interests of the investors in the Notes*

As of March 31, 2016, 40.15% of the Bank's shares were held by the İşbank Personnel Supplementary Pension Fund and 28.09% (Atatürk's shares) were owned by the CHP. The interests of such shareholders might not be aligned with the interests of the investor in the Notes.

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

### ***Risks Relating to the Structure of a Particular Issue of Notes***

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

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

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

To the extent Notes have an optional redemption feature, the Issuer can be expected to redeem Notes when its cost of borrowing is lower than the interest rate on such Notes. At those times, an investor 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 might only be able to do so at a significantly lower rate (or through taking on a greater credit risk). Reinvestment risk should be an important element of an investor's consideration in investing in Notes with a redemption feature.

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

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

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

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 might need to open and maintain a Turkish Lira- denominated bank account, and no assurance can be given that Noteholders will be able to do so either in or outside of Turkey. For so long as such Notes are in global form, any Noteholder who does not maintain such a bank account will be unable to transfer Turkish Lira funds (whether from payments on, or the proceeds of any sale of, such Notes) from its account at a clearing system to which any such payment is made.

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

Under Condition 7.8, if the Fiscal Agent receives cleared funds from the Bank in respect of Turkish Lira- denominated Notes held other than through DTC after the relevant time on the Relevant Payment Date, then the Fiscal Agent will use reasonable efforts to pay any U.S. Dollar amounts Noteholders have elected to

receive in respect of such funds as soon as reasonably practicable thereafter. 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 might (at least temporarily) affect the liquidity of the applicable Notes, (b) a Noteholder would not be permitted to change its election notwithstanding changes in exchange rates or other market conditions and (c) if the Fiscal Agent cannot, for any reason, effect the conversion of the amount paid by the Issuer in Turkish Lira, then Noteholders will receive the relevant amount in Turkish Lira.

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

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

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

### ***Risks Relating to Notes Denominated in Renminbi***

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

*Renminbi Convertibility - Renminbi is not freely convertible, there are significant restrictions on remittance of Renminbi into and outside the PRC and the liquidity of investments in Renminbi Notes is subject to such restrictions*

Renminbi is not freely convertible as of the date of this Base Prospectus. The government of the PRC (the “*PRC Government*”) continues to regulate conversion between Renminbi and foreign currencies despite significant reduction over the years by the PRC Government in recent years over trade transactions involving the import and export of goods and services and other frequent routine foreign exchange transactions. These transactions are known as current account items. Currently, participating banks in Hong Kong and a number of other jurisdictions (the “*Applicable Jurisdictions*”) have been permitted to engage in the settlement of Renminbi current account trade transactions.

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 foreign direct investment (“*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, which provide more detailed rules relating to cross-border Renminbi direct investments and settlement. 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.

On July 5, 2013, the PBoC promulgated the “Circular on Policies related to Simplifying and Improving Cross-Border Renminbi Business Procedures,” which sought to improve the efficiency of the cross-border Renminbi settlement process and facilitate the use of cross-border Renminbi settlement by banks and enterprises.

On December 3, 2013, the Ministry of Commerce of the PRC (“MOFCOM”) promulgated the “Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment” (the “MOFCOM Circular”), which became effective on January 1, 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying “Renminbi Foreign Direct Investment” and the permitted capital contribution amount is required for each FDI transaction.

Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

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.

Renminbi is to be added from October 1, 2016 to the Special Drawing Rights basket created by the International Monetary Fund; *however*, there is no assurance that: (a) the PRC Government will continue to liberalize control over cross-border remittance of Renminbi in the future, (b) any pilot schemes for Renminbi cross-border utilization will not be discontinued or (c) 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.

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

As a result of the restrictions imposed by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. The PBoC has established a Renminbi clearing and settlement mechanism for participating banks in the Applicable Jurisdictions through settlement agreements with certain banks (each an “RMB Clearing Bank”) to act as the RMB clearing bank in the Applicable Jurisdictions. Notwithstanding these arrangements, the current size of Renminbi-denominated financial assets outside the PRC is limited.

There are restrictions imposed by the PBoC on Renminbi business participating banks in relation to cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBoC. These banks are only allowed to square their open positions with the relevant RMB Clearing Bank after consolidating the Renminbi trade position of banks outside the Applicable Jurisdictions 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 for the purpose of squaring open positions of participating banks for limited types of transactions. 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. Where onshore liquidity support from the PBoC is not available, 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 investments in the Renminbi Notes. To the extent that the Issuer is required to source Renminbi outside the PRC to service the Renminbi Notes, there is no assurance that the Issuer will be able to source Renminbi on satisfactory terms, if at all.

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

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

The value of the Renminbi against the U.S. Dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions and by many other factors. In August 2015, the PBoC implemented changes to the way it calculates the midpoint against the U.S. Dollar to take into account market-maker quotes before announcing the daily midpoint. This change, and others that might be implemented in the future, might increase the volatility in the value of the Renminbi against other currencies. All payments of interest and principal with respect to Renminbi Notes will be made in Renminbi unless 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. Dollars or other foreign currency terms might vary with the prevailing exchange rates in the marketplace. If the value of the Renminbi depreciates against the U.S. Dollar or other foreign currencies, then the value of any investment in Renminbi Notes in terms of the U.S. Dollar or other applicable foreign currency will decline.

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

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

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

Investors might 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 center(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 a common depository (a "Common Depository") or common safekeeper (a "Common Safekeeper"), as the case may be, for Euroclear and Clearstream, Luxembourg or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or any such other RMB settlement center(s) in accordance with prevailing Euroclear and/or Clearstream, Luxembourg rules and procedures or the rules and procedures of such alternative clearing system, or (b) for so long as the Renminbi Notes are in definitive



form, by transfer to a Renminbi bank account maintained in Hong Kong or such other RMB settlement center(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).

### **Risks Relating 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 effectively subordinated to those of certain other creditors*

While Notes issued with the Conditions will rank equally with all of the Bank's other unsecured and unsubordinated indebtedness, they will be effectively subordinated to the Bank's secured indebtedness and securitizations, if any, to the extent of the value of the assets securing such transactions, and will be subject to certain preferential obligations under Turkish law (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 might have against the Bank and claims that the Central Bank might have against the Bank with respect to certain loans made by it to the Bank). In addition: (a) creditors of the Bank benefiting from collateral provided by the Bank will have preferential rights with respect to such collateral (*e.g.*, creditors in a covered bond program) and (b) creditors of a foreign branch of the Bank might have preferential rights with respect to the assets of such branch. Any such preferential claims might reduce the amount recoverable by the Noteholders on any dissolution, winding up or liquidation of the Bank and might result in an investor in the Notes losing all or some of its investment.

*Redemption for Taxation Reasons – Unless provided otherwise in the applicable Final Terms, the Bank will have the right to redeem a Series of Notes as a result of certain changes requiring it to pay withholding taxes in excess of levels, if any applicable, to interest or other payments on such Series on the original Issue Date of such Series*

The withholding tax rate on interest payments in respect of bonds issued by Turkish legal entities outside of Turkey varies depending upon the original maturity of such bonds as specified under Decree No. 2009/14592 dated January 12, 2009, which was 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%, (b) with respect to bonds with a maturity of at least one year and less than three years, the withholding tax rate on interest is 7%, (c) with respect to bonds with a maturity of at least three and less than five years, the withholding tax rate on interest is 3%, and (d) with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0%.

Unless provided otherwise in the applicable Final Terms, the Bank will have the right to redeem a Series of Notes at any time (including in the case of Floating Rate Notes) at the Early Redemption Amount specified in the applicable Final Terms prior to their maturity date if: (i) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9.1) or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective on or after the date on which agreement is reached to issue the most recently issued Tranche of the relevant Series of Notes (which shall, for the avoidance of doubt, be the date on which the applicable Final Terms is signed by the Bank) on the next Interest Payment Date the Bank would be required to: (A) pay additional amounts in respect of such Series of Notes as provided or referred to in Condition 9 on account of any Taxes (as defined in Condition 9.1) and (B) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on such date on which agreement is reached to issue the most

recently issued Tranche of the relevant Series of Notes, and (ii) 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 an equivalent rate of return as their investment in the redeemed Notes and, in the case of any Floating Rate Notes, the redemption could take place on any day during an Interest Period.

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

*Majority Decisions - The Conditions of the Notes contain provisions that may permit their modification without the consent of all of the investors in the applicable Series*

The Conditions of the Notes contain provisions for calling meetings of Noteholders (or written resolutions to be adopted by Noteholders) to consider matters affecting their interests generally. These provisions permit defined majorities of those voting at the relevant meeting (or, for written resolutions, defined majorities of the outstanding amount of the applicable Notes) to bind all holders of the Notes of a Series, including Noteholders who did not attend and vote at the relevant meeting (or did not sign such written resolution) and Noteholders who voted in a manner contrary to such majority. As a result, decisions might be taken by the Noteholders of a Series that are contrary to the preferences of any particular Noteholder.

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

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

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

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

As permitted by Condition 17, the Bank may from time to time without the consent of the Noteholders of a Series create and issue further Notes of that Series; *provided* that such further Notes will be required to be fungible with the existing Notes of such Series for U.S. federal income tax purposes as a result of their issuance being a "qualified reopening" under U.S. Treasury Regulation §1.1275-2(k). To the extent that the

Bank issues further Notes of a Series, the interests of an existing holder of the Notes of such Series (e.g., in respect of any meeting of holders of the Notes of that Series (see “*Majority Decisions*” above) will be diluted.

*Enforcement of Judgments – It might 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 applicable laws and regulations of Turkey (specifically under the Banking Law). All of the directors and officers of the Bank reside inside Turkey and all or a substantial portion of the assets of such persons might be, and substantially all of the assets of the Bank are, located in Turkey. As a result, it might not be possible for investors in the Notes to effect service of process upon such persons outside Turkey or to enforce against them in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the applicable laws and regulations of such other jurisdictions.

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

*FATCA Withholding - FATCA withholding might affect payments on the Notes*

Sections 1471 through 1474 of the Code, any regulations or agreements thereunder (including any agreement described in Section 1471(b) of the Code) or official interpretations thereof, intergovernmental agreements between the United States and other jurisdictions facilitating the implementation thereof (each such agreement, an “IGA”) and any law, rule or official practice implementing such an IGA (together, “FATCA”) impose a reporting regime and, potentially, a 30% withholding tax with respect to: (a) certain payments from sources within the United States and (b) “foreign passthru payments” (“*Foreign Passthru Payments*”) (a term not yet defined as of the date of this Base Prospectus) made to certain non-U.S. financial institutions that do not comply with the FATCA reporting regime and certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. 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 might receive less interest or principal than expected.

If the Notes are in global form and held within a Clearing System, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the Clearing Systems; *however*, FATCA might affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also might affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose their custodians or intermediaries with care (to ensure that such custodian or intermediary is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA

and how FATCA might affect them. The Issuer's obligations under the Notes are discharged once it makes a payment to, or to the order of, the Common Depositary, the Common Safekeeper or other nominee for a Clearing System (as bearer or registered holder of Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the Clearing Systems, their nominees, custodians or other intermediaries. Further, in a jurisdiction (such as Turkey) that has entered into an IGA with the United States, foreign financial institutions are generally not expected to be required to withhold from payments they make under FATCA.

Prospective investors should refer to the section "*Taxation – FATCA.*"

*Change in Law - The value or market price of the Notes is subject to changes in the laws of England or administrative practice*

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

*Definitive Notes might need to be Issued - Investors who hold interests in Bearer Global Notes in denominations that are not a Specified Denomination might be adversely affected if definitive bearer Notes are subsequently required to be issued*

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

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

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

Unless issued in definitive form, Notes 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 for Euroclear and/or Clearstream, Luxembourg or may be deposited with or registered in the name of a nominee for DTC. Except in the circumstances described in the applicable Global Note, investors in a Global Note will not be entitled to receive Notes in definitive form. Each of 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 therein only through the relevant clearing systems and their respective participants.

Except in the case of a Registered Global Note denominated in a Specified Currency other than U.S. Dollars and registered in the name of DTC or its nominee and in respect of which a participant in DTC has elected to receive any part of such payment in that Specified Currency, for so long as the Notes are represented by

Global Notes, the Issuer will discharge its payment obligation thereunder by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely upon the procedures of the relevant clearing system and its participants to receive payments in respect of their interests in the related 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 or persons 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 might 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 might similarly incur the risk of indirect contacts with sanction targets. In addition, there can be no assurance that current counterparties will not become sanction targets in the future.

## **Risks Relating 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 might never be established or might be illiquid and this would adversely affect the value at which an investor could sell the Notes*

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

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

The market price of an investment in the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank’s operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale by the Group of other Notes or debt securities, as well as other factors, including the trading market for notes issued by Turkey. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, might

adversely affect the market price of an investment in the Notes without regard to the Bank's financial condition or results of operations.

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

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

Except as described otherwise herein, the Issuer will pay principal and interest on the Notes in the Specified Currency, which presents certain risks 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 might significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that the Turkish government and/or authorities with jurisdiction over the Investor's Currency might impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (a) the Investor's Currency-equivalent yield on the Notes, (b) the Investor's Currency-equivalent value of the interest and principal payable on the Notes and (c) the Investor's Currency-equivalent market price of the Notes.

Government and monetary authorities might impose (as some have done in the past) exchange controls that might adversely affect an applicable exchange rate and/or the ability of the Issuer to convert and/or transfer currency. If this occurs, particularly if it directly affects the Bank's payments on the Notes, then any investor in the Notes might receive less interest or principal than expected, or no interest or principal, and/or might receive payment in a currency other than the applicable Specified Currency. An investor might also not be able to convert (at a reasonable exchange rate or at all) amounts received in the applicable Specified Currency into the Investor's Currency, which might materially adversely affect the market price of the Notes. There might also be tax consequences for investors of any such currency changes.

*Interest Rate Risk – The market price of Notes is subject to 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 market price of the Fixed Rate Notes. Investment in any Floating Rate Notes involves the risk of adverse changes in the market price of such Notes if the interest rate or (for Floating Rate Notes) margin of new similar Notes of the Issuer would be higher.

*Credit Ratings – Credit ratings assigned to the Issuer or any Notes might not reflect all risks associated with an investment in those Notes and might be lowered, suspended or withdrawn*

The expected initial credit rating(s) (if any) of a Tranche of Notes will be set out in Part B of the Final Terms for such Tranche. Any rating agency assigning a rating to a Tranche of Notes may lower, suspend or withdraw its ratings if, in the sole judgment of such relevant rating agency, the credit quality of the applicable Notes or the Bank has declined or is in question. If any credit rating assigned to a Tranche of Notes or the Bank is lowered, suspended or withdrawn, then the market price of the applicable Notes might decline.

In addition to the ratings of the Programme and/or the Notes provided by Moody's and Fitch, and the ratings of the Bank by Moody's, Fitch and S&P, one or more other independent credit rating agency(ies) might assign credit ratings to the Issuer or a Tranche of Notes. In addition, the ratings might not reflect the potential impact of all risks relating to the structure, market, additional factors discussed above and other factors that might affect the value or market price of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and might be revised, suspended or withdrawn by the rating agency at any time by the assigning rating organization. Similar ratings on different types of securities do not necessarily mean the same thing. Ratings also do not address the marketability of investments in the Notes or any market price. Any change in the credit ratings of any Notes or the Bank might adversely affect the price that a subsequent purchaser will be willing to pay for investments in such Notes. The significance of each rating should be analyzed independently from any other rating.

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

#### *Financial Transaction Tax*

On February 14, 2013, the European Commission published a proposal (the "*Commission's Proposal*") for a Directive for a common financial transaction tax ("*FTT*") in certain Member States (the "*Participating Member States*"). The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution and at least one party is established in a Participating Member State. A financial institution might 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 that is subject to the dealings is issued in a Participating Member State; *however*, the FTT proposal remains subject to negotiation among the Participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear as of the date of this Base Prospectus. Participating Member States may decide to withdraw and additional EU Member States might decide to participate. Prospective investors in the Notes are advised to seek their own professional advice in relation to the FTT and its potential impact on the Notes.

## ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

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

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

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

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

- (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 into, and form part of, this Base Prospectus:

- (a) the independent auditors' audit reports and audited consolidated BRSA Financial Statements of the Group as of and for the years ended December 31, 2013, 2014 and 2015;
- (b) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Bank as of and for the years ended December 31, 2013, 2014 and 2015;
- (c) the independent auditors' audit reports and audited consolidated IFRS Financial Statements of the Group as of and for the years ended December 31, 2013, 2014 and 2015;
- (d) the independent auditors' review report and unaudited interim consolidated BRSA Financial Statements of the Group as of and for the three month period ended March 31, 2016 (with March 31, 2015 comparatives);
- (e) the independent auditors' review report and unaudited interim unconsolidated BRSA Financial Statements of the Bank as of and for the three month period ended March 31, 2016 (with March 31, 2015 comparatives);
- (f) the terms and conditions of the Notes contained in the previous base prospectus dated July 19, 2013 (on pages 72 to 104 (inclusive)) prepared by the Issuer in connection with the Program (the "*2013 Conditions*");
- (g) the terms and conditions of the Notes contained in the previous base prospectus dated July 17, 2014 (on pages 79 to 114 (inclusive)) prepared by the Issuer in connection with the Program (the "*2014 Conditions*"); and
- (h) the terms and conditions of the Notes contained in the previous base prospectus dated June 16, 2015 (on pages 79 to 114 (inclusive)) prepared by the Issuer in connection with the Program (the "*2015 Conditions*").

**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 into this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.**

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

Copies of documents incorporated (or portions of which have been incorporated) by reference into this Base Prospectus are available on the Bank's website at: (a) <http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/financial-statements/Pages/financial-statements.aspx> (with respect to the Group's consolidated BRSA Financial Statements), (b) <http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/financial-statements/Pages/financial-statements.aspx> (with respect to the Bank's unconsolidated BRSA Financial Statements), (c) <http://www.isbank.com.tr/EN/about->

[isbank/investor-relations/publications-and-results/financial-statements/Pages/financial-statements.aspx](http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/financial-statements/Pages/financial-statements.aspx) (with respect to the Group's consolidated IFRS Financial Statements), (d) <http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/prospectuses-and-offering-circulars/global-medium-term/Pages/global-medium-term.aspx> (with respect to the 2013 Conditions), (e) <http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/prospectuses-and-offering-circulars/global-medium-term-note-program/Pages/global-medium-term-note-program.aspx> (with respect to the 2014 Conditions) and (f) <http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/prospectuses-and-offering-circulars/usd-7billion-global-medium-term-note-program/Pages/usd-7billion-global-medium-term-note-program.aspx> (with respect to the 2015 Conditions). The information set out in any parts of the documents listed above that is not incorporated by reference into this Base Prospectus is either not relevant to prospective investors in the Notes or is elsewhere set out in this Base Prospectus, in each case, subject to and in accordance with the provisions of the Prospectus Directive.

Any documents (or portions thereof) themselves incorporated by reference into the documents incorporated by reference into this Base Prospectus do not (and shall not be deemed to) form part of (and are not incorporated into) this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Tranche of Notes at the time of its issuance, prepare a supplement to this Base Prospectus or publish a new Base Prospectus or other 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 (except for the documents incorporated by reference into this Base Prospectus to the extent set out on any such website) referenced in this Base Prospectus do not (and shall not be deemed to) 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 Turkey in 1924 at the initiative of Mustafa Kemal Atatürk as the first national bank 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 Undersecretariat of 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 most of these companies. As of March 31, 2016, the Bank's direct equity interests were in companies operating in finance, glass, telecommunications and other industrial and services sectors. As of such date, the total book value of the Bank's equity participations (including the shares of T. Şişe ve Cam Fabrikaları A.Ş., TSKB, Anadolu Hayat Emeklilik A.Ş. ("*Anadolu Hayat*"), İş Finansal Kiralama A.Ş. ("*İş Leasing*"), İş Gayrimenkul Yatırım Ortaklığı A.Ş. ("*İş REIT*") and İş Yatırım Menkul Değerler A.Ş. booked under financial assets held for trading account) was TL 10,362 million.

As of March 31, 2016, the Bank: (a) was the largest bank in Turkey in terms of foreign currency-denominated loans, (b) was the largest private bank in Turkey in terms of shareholders' equity and (c) had the largest market shares of total assets, total loans, Turkish Lira-denominated loans, total deposits, Turkish Lira-denominated deposits and demand deposits among private sector banks (source: *BRSA*). The Bank had approximately 11.8 million retail customers, nearly 7,000 corporate customers and over 1.2 million commercial customers as of March 31, 2016. The Bank had the largest deposit base among private sector banks with TL 157,795 million in deposits as of such date (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 78 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, 2016, the Bank's customers have held deposit accounts with the Bank for an average of 7.7 years. The Bank provides a full range of banking services, including but not limited to the following five business lines:

- *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, bank payment obligations, point-of-sales agreements, automatic payment instructions, tax collection, internet banking, foreign trade operations, sector-specific packages, cash management, payment system facilities and packages of tariffs for certain banking transactions,
- *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), structured products and portfolio management services in collaboration with İş Portföy Yönetimi A.Ş. ("*İş Portföy*"), the Group's subsidiary engaged in portfolio management activities, and
- *capital market operations activities:* investment account system, mutual funds distribution, equity brokerage, fixed income brokerage and trading, gold trading, exchange-traded and OTC derivatives 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. The Bank's delivery channels have been combined under the umbrella "Instant Banking" (*Anında Bankacılık*), with all channels utilizing similar log-in procedures and providing a consistent customer experience. In 2015, approximately 82.3% of the Bank's total comparable banking transactions took place via this "Instant Banking" platform and the remaining total comparable banking transactions were executed at the Bank's branches. 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, 2016, the Group's capital adequacy ratio was 14.6% (13.0% when calculated using Tier 1 capital only) calculated in accordance with the Basel III rules. As of the same date, the Group's shareholders' equity was TL 38,061 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 27.2% and its Cash Loan-to-Deposit ratio was 120.6%. The Group's net operating income was TL 4,420 million in 2013, TL 5,012 million in 2014, TL 4,575 million in 2015 and TL 1,187 million for the three months ended March 31, 2016 (TL 1,261 million for the three months ended March 31, 2015), while its net period profit from continuing operations was TL 3,607 million in 2013, TL 4,020 million in 2014, TL 3,740 million in 2015 and TL 998 million for the three months ended March 31, 2016 (TL 1,010 million for the three months ended March 31, 2015).

As of March 31, 2016, the Group had total assets of TL 326,873 million, total deposits of TL 158,493 million and a loan portfolio of TL 191,162 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 global macro-economic conditions,

- 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 and focusing on cross-selling,
- 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 for its customers, shareholders and employees by maintaining its leading, pioneering and reliable position as a regional financial power. The Bank's goal is to consistently increase the value it creates for its shareholders by responding to its customers' needs quickly, effectively and with high-quality solutions and encouraging its employees to achieve a high-level performance in their jobs. The Bank's strategy is to achieve sustainable and profitable growth based upon "the bank closest to its customers" philosophy, in an effort to fulfill the vision and objectives. 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. In the medium term, the Bank plans to focus on retail and continue growing in commercial, corporate and private business lines, while managing the market shares and improving profitability, asset quality, cost-efficiency and capital utilization. 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 Conditions of any particular Tranche of Notes, the applicable Final Terms. This overview only relates to the Conditions of the Notes as set out in this Base Prospectus. Notes may be issued under the Program in a form other than that contemplated in such conditions, and where any such Notes are to be: (a) admitted to trading on the Main Securities Market or another regulated market for the purposes of MiFID or (b) offered to the public in the European Economic Area in circumstances that require the publication of a prospectus under the Prospectus Directive, a supplement to this Base Prospectus or a new prospectus will be prepared and published by the Issuer.*

This Overview constitutes a general description of the 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.

<b><i>Issuer:</i></b>	Türkiye İş Bankası A.Ş.
<b><i>Risk Factors:</i></b>	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.
<b><i>Description:</i></b>	Global Medium Term Note Program
<b><i>Arrangers:</i></b>	J.P. Morgan Securities plc Standard Chartered Bank
<b><i>Dealers:</i></b>	Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Commerzbank Aktiengesellschaft Deutsche Bank AG, London Branch Goldman Sachs International HSBC Bank plc ING Bank N.V., London Branch J.P. Morgan Securities plc Merrill Lynch International Mitsubishi UFJ Securities International plc Mizuho International plc National Bank of Abu Dhabi PJSC Société Générale

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 US\$7,000,000,000 (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:***

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.

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 “*Terms and Conditions of the Notes – Condition 7.10.*”

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 “*Terms and Conditions of the Notes – Condition 7.11.*”

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 “*Terms and Conditions of the*



*Notes – Condition 7.9.”*

***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(s) or investor(s) 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(s) or investor(s).

***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(s) or investor(s).

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(s) or investor(s), will be payable on such

Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

***Zero Coupon Notes:***

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

***Redemption:***

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

***Denomination of Notes:***

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

The minimum denomination of each Definitive IAI Registered Note, and of Notes sold to Institutional Accredited Investors in the form of a Global IAI Note, will be not less than US\$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, as provided in Condition 7.1 and, in accordance with Condition 9.1, no additional amount will be payable by the Issuer in respect of any such withholding or deduction.

***Negative Pledge:***

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

***Certain Covenants:***

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

***Events of Default:***

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

***Status of the Notes:***

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

***Rating:***

The Program has been rated “BBB-” (for long-term issuances) and “F3” (for short-term issuances) by Fitch and Notes issued under the Program are expected to be rated “Baa3” (for long-term issuances) and “P-3” (for short-term issuances) by Moody's. Series of Notes issued under the 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 revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

***ERISA:***

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

***Listing and Admission to Trading:***

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

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

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

***Governing Law:***

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

***Selling Restrictions:***

There are restrictions on the offer, sale and transfer of the Notes in Turkey, the United States, the European Economic Area (including the United Kingdom), Switzerland, Japan, Singapore, Thailand, the PRC and the Hong Kong Special Administrative Region of 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 to non-U.S. persons in reliance on Regulation S under the Securities Act (“*Regulation S*”) and Registered Notes will be issued both in “offshore transactions” to non-U.S. persons in reliance on the exemption from registration provided by Regulation S, to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“*QIBs*”) in reliance on Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

### **Bearer Notes**

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

- (a) if the Bearer Global Notes are 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 for Euroclear and Clearstream Luxembourg; and
- (b) if the Bearer Global Notes are issued in NGN Form, be delivered on or prior to the original Issue Date of the Tranche to a 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 a Bearer Global Note is 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 such Notes due prior to the applicable Exchange Date (as defined below) will be made (against presentation of such Temporary Bearer Global Note if such Temporary Bearer Global Note is not issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Temporary Bearer Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has/have given a like certification (based upon the certifications it has received) to the Fiscal Agent.

For any Temporary Bearer Global Note, on and after the date (the “*Exchange Date*”) which is 40 days after such 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: (a) interests in a Permanent Bearer Global Note of the same Series or (b) definitive Bearer Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above 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 (or beneficial interests therein) will not be entitled to collect any payment of interest, principal or other amount due on or after the

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

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 the applicable 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) that 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

Each Tranche of Registered Notes 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 Registered Global Note*”) or, if so specified in the applicable Final Terms, by a registered note in definitive form (a “*Definitive Regulation S Registered Note*” and, together with each Regulation S Registered Global Note and each Bearer Note, being a “*Regulation S 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 upon 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 except as otherwise provided in Condition 2, and such beneficial interests in a Regulation S Registered 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 by the Issuer or any person acting on its behalf in transactions exempt from the registration requirements of the Securities Act: (a) to QIBs or (b) 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 to the Issuer 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: (a) deposited with a custodian for, and registered in the name of a nominee of, the DTC or (b) deposited with a common depository or, if the Registered Global 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 depository or common safekeeper, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Where the Registered Global Notes issued in respect of any Tranche are to be held under the NSS, the applicable Final Terms will also indicate whether such Registered Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that a Registered Global Note is 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 New Safekeeping Structure (“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 Registered Global Note, each a “*Registered Global Note*”). An interest in an IAI Global Note sold to an Institutional Accredited Investor will, for so long as such remain restricted securities within the meaning of Rule 144(a)(3) under the Securities Act, only be transferable to QIBs or to non-U.S. persons in offshore transactions, in accordance with the legends regarding restrictions on transfer set out under “*Subscription and Sale and Transfer and Selling Restrictions.*” Unless otherwise set forth in the applicable Final Terms, Definitive IAI Registered Notes will be issued, and interests in an IAI Global Note may be purchased, only in minimum denominations of at least US\$500,000 and integral multiples of US\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes and interests in Global Notes will be subject to the restrictions on transfer set forth therein and will bear the

restrictive legend described under “*Subscription and Sale and Transfer and Selling Restrictions.*” Institutional Accredited Investors that hold Definitive IAI Registered Notes may not elect to hold such Notes through DTC, Euroclear or Clearstream, Luxembourg.

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

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

### **Transfer of Interests**

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

### **General**

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



A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note, then from 8.00 p.m. (London time) on the day immediately following the applicable due date, 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 June 16, 2016 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 prospectus or a supplement to this 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 US\$7,000,000,000  
Global Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “Conditions”) set forth in the base prospectus dated 16 June 2016 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus [for the purposes of the Prospectus Directive]<sup>1</sup> (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]<sup>1</sup> and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Issuer’s website ([http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/prospectuses-and-offering-circulars.aspx](http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/prospectuses-and-offering-circulars/Pages/prospectuses-and-offering-circulars.aspx)).

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “Conditions”) set forth in the base prospectus dated [[19 July 2013]/[17 July 2014]/[16 June 2015]] [and the supplement[s] to it dated [date] [and [date]]] which are incorporated by reference in the base prospectus dated 16 June 2016. This document constitutes the Final Terms of the Notes described herein [for the purposes of Article 5.4 of the Prospectus Directive]<sup>1</sup> and must be read in conjunction with the base prospectus dated 16 June 2016 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus [for the purposes of the Prospectus Directive]<sup>1</sup> (the “Base Prospectus”), including the Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Issuer’s website ([http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/prospectuses-and-offering-circulars.aspx](http://www.isbank.com.tr/EN/about-isbank/investor-relations/publications-and-results/prospectuses-and-offering-circulars/Pages/prospectuses-and-offering-circulars.aspx)).

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

1. Issuer: Türkiye İş Bankası A.Ş.
2. (a) Series Number: [ ]

<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 in which a prospectus is required to be published under the Prospectus Directive.

- (b) Tranche Number: [ ]
- (c) Date on which the Notes will be consolidated and form a single Series: [The Notes will be consolidated and form a single Series with *[identify earlier Tranches]* on [the Issue Date/exchange of the Temporary Bearer Global Note for interests in the Permanent Bearer Global Note, as referred to in paragraph 22 below, which is expected to occur on or about *[date]*][Not Applicable]
3. Specified Currency: [ ]
4. Aggregate Nominal Amount:
- (a) Series: [ ]
- (b) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount of the Tranche [plus accrued interest from *[insert date]* (if applicable)]
6. (a) Specified Denomination(s): [ ] [and integral multiples of [ ] in excess thereof]
- (N.B. Notes must have a minimum denomination of €100,000 (or equivalent))*
- (Note – where multiple denominations above [€100,000] or equivalent are being used, the following sample wording should be followed:*
- “[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”)*
- (b) Calculation Amount: [ ]
- (If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7. (a) Issue Date: [ ]
- (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]
- (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8. Maturity Date: [Fixed rate - specify date/Floating rate - Interest Payment Date [falling in][nearest to] [specify month

and year]]<sup>2</sup>

9. Interest Basis: [ ] per cent. Fixed Rate]
- [ ] month  
[[*currency*]LIBOR/EURIBOR/TRLIBOR/ROBOR/  
PRIBOR/HIBOR/SIBOR/NIBOR/WIBOR/CNH  
HIBOR]] +/- [ ] per cent. Floating Rate]
- [Zero coupon]
- (see 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) authorisation is required for the particular Tranche of Notes*)

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

14. Fixed Rate Note Provisions: [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Rate(s) of Interest: [ ] per cent. per annum payable in arrear on [the/each] Interest Payment Date
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date/[specify other]<sup>3</sup>

<sup>2</sup> For Renminbi-denominated Fixed Rate Notes and Modified Fixed Rate Notes where Interest Periods and Interest Amounts are subject to adjustment it will be necessary to use the second option here.

<sup>3</sup> For certain Renminbi-denominated Fixed Rate Notes, Interest Periods and Interest Amounts are subject to adjustment and the following proviso should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, such Interest Payment Date shall be

*(Amend appropriately in the case of irregular coupons. In the case of Modified Fixed Rate Notes, insert regular interest payment dates and also complete paragraph (g) below as applicable. Paragraph (g) is not relevant to Fixed Rate Notes where Interest Periods and Interest Amounts are not subject to adjustment and either (a) a customary Following Business Day Convention is to apply in accordance with Condition 7.6 to any date for payment that is not a Payment Business Day or (b) such payment dates are not otherwise to be subject to adjustment by reference to any other Business Day Convention.)*

- (c) Fixed Coupon Amount(s):  per Calculation Amount] [Not Applicable]  
*(Applicable only to Notes in definitive form. Not applicable to Renminbi-denominated Fixed Rate Notes and Modified Fixed Rate Notes where Interest Periods and Interest Amounts are subject to adjustment)*
- (d) Broken Amount(s):  per Calculation Amount, payable on the Interest Payment Date falling [in/on]  [Not Applicable]  
*(Applicable only to Notes in definitive form. Not applicable to Renminbi-denominated Fixed Rate Notes and Modified Fixed Rate Notes where Interest Periods and Interest Amounts are subject to adjustment)*
- (e) [Day Count Fraction:  [30/360] [Actual/Actual (ICMA)]  
 [Actual/365 (Fixed)]<sup>4</sup>  
*(Delete this sub-paragraph in the case of Modified Fixed Rate Notes)*
- (f) [Determination Date(s):  in each year][Not Applicable]]  
*(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*  
*(Delete this sub-paragraph in the case of Modified Fixed Rate Notes)*

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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.”

<sup>4</sup> Applicable to Renminbi-denominated Fixed Rate Notes.

- (g) Modified Fixed Rate Notes: [Applicable/Not Applicable]  
*(Modified Fixed Rate Notes are Fixed Rate Notes: (i) the terms of which provide for Interest Periods and Interest Amounts to be subject to adjustment or (ii) for which Interest Periods and Interest Amounts are not subject to adjustment but a specified Payment Business Day Convention is to apply to any date for payment that is not a Payment Business Day. If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Periods and Interest Amounts subject to adjustment: [Applicable/Not Applicable]
- (ii) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]  
*(Only applicable where Interest Periods and Interest Amounts are subject to adjustment)*
- (iii) Specified Business Centre(s): [ /Not Applicable]  
*(Only applicable where Interest Periods and Interest Amounts are subject to adjustment. This paragraph relates to Interest Period end dates and not the date of payment to which sub-paragraph (vi) below relates)*
- (iv) Day Count Fraction: [Actual/Actual (ICMA)]  
[Actual/Actual (ISDA)] [Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360][360/360][Bond Basis]  
[30E/360] [Eurobond Basis]  
[30E/360 (ISDA)]
- (v) Payment Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]  
*(Only applicable where Interest Periods and Interest Amounts are not subject to adjustment and a specified Payment Business Day Convention is to apply to any date for payment that is not a Payment Business Day)*
- (vi) Specified Financial Centre(s): [ /Not Applicable]

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

15. Floating Rate Note Provisions:

[Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

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

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

- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention][Not Applicable]<sup>5</sup>

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

- (c) Specified Business Centre(s): [ ] [Not Applicable]<sup>6</sup>

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

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

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

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

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

<sup>5</sup> Only not applicable in the case of Modified Floating Rate Notes.

<sup>6</sup> Only not applicable in the case of Modified Floating Rate Notes.

- Specified Time: [11.00 a.m.] [11.15 a.m.] [11.30 a.m.] [12.00 p.m.] [other]  
  
*(11.00 a.m. in the case of LIBOR, EURIBOR, ROBOR, PRIBOR, SIBOR, WIBOR and HIBOR, 11.15 a.m. in the case of CNH HIBOR, 11.30 a.m. in the case of TRLIBOR and 12.00 p.m. in the case of NIBOR)*
  - Relevant Financial Centre: [London] [Brussels] [Bucharest] [İstanbul] [Prague] [Singapore] [Oslo] [Warsaw] [Hong Kong] [other]
  - Interest Determination Date(s): [      ]  
  
*(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR, the second day on which the TARGET 2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR, the second İstanbul business day prior to the start of each Interest Period if TRLIBOR, the second Bucharest business day prior to the start of each Interest Period if ROBOR, the second Prague business day prior to the start of each Interest Period if PRIBOR, the first day of each Interest Period if HIBOR, the second Singapore business day prior to the start of each Interest Period if SIBOR, the second Oslo business day prior to the start of each Interest Period if NIBOR, the second Warsaw business day prior to the start of each Interest Period if WIBOR and the second Hong Kong business day prior to the start of each Interest Period if CNH HIBOR)*
  - Relevant Screen Page: [      ]  
*(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (g) ISDA Determination: [Applicable][Not Applicable]
- Floating Rate Option: [      ]
  - Designated Maturity: [      ]
  - Reset Date: [      ]  
  
*(In the case of a LIBOR or EURIBOR-based option, the first day of the Interest Period)*
- (h) Linear Interpolation: [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for



*each short or long interest period)]*

- (i) Margin(s): [ +/- ] [ ] *per cent. per annum*
- (j) Minimum Rate of Interest: [[ ] *per cent. per annum*][Not Applicable]
- (k) Maximum Rate of Interest: [[ ] *per cent. per annum*][Not Applicable]
- (l) Day Count Fraction: [Actual/Actual (ICMA)]  
[Actual/Actual (ISDA)][Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360][360/360][Bond Basis]  
[30E/360][Eurobond Basis]  
[30E/360 (ISDA)]
- (m) Modified Floating Rate Notes: [Applicable/Not Applicable]

*(Modified Floating Rate Notes are Floating Rate Notes: (i) the terms of which provide that Interest Periods and Interest Amounts are not subject to adjustment as provided in the italicised directions for completing paragraph (a) and the paragraphs that follow above and (ii) for which a specified Payment Business Day Convention is to apply to any date for payment that is not a Payment Business Day. If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Payment Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (ii) Specified Financial Centre(s): [ /Not Applicable]

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

- (a) Accrual Yield: [ ] *per cent. per annum*
- (b) Reference Price: [ ]
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
[Actual/360]  
[Actual/365]

## PROVISIONS RELATING TO REDEMPTION

17. Notice periods for Condition 8.2: Minimum period: [ ] days  
Maximum period: [ ] days

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

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

### 22. Form of Notes:

#### (a) Form:

[Bearer Notes:]

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

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

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

[Definitive Bearer Notes]

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

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

[Registered Notes:]

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

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

[Definitive Regulation S Registered Note]

[Rule 144A Definitive Registered Note]

[Definitive IAI Registered Notes]

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

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

(b) [New Global Note:

[Yes][No]]

23. Specified Financial Centre(s):

[ /Not Applicable]

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

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

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

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

25. USD Payment Election:

[Applicable/Not Applicable]

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

## PROVISIONS APPLICABLE TO RMB NOTES

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

## [THIRD PARTY INFORMATION]

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

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

By: .....

*Duly authorised*

By: .....

*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

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

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

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

### 2. RATINGS

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

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

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

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

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

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

*Regulation”).]*

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

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

*(The above additional disclosure in respect of the relevant credit rating agencies is only generally required in Final Terms for Notes that are to be admitted to the Irish Stock Exchange's regulated market.)*

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

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

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

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

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

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

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

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

### **6. OPERATIONAL INFORMATION**

- (a) ISIN: [ ][Not Applicable]
- (b) Common Code: [ ][Not Applicable]
- (c) CUSIP: [ ][Not Applicable]

- (d) Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (e) Delivery: Delivery [against/free of] payment
- (f) Names and addresses of additional Paying Agent(s) (if any): [ ] [Not Applicable]
- (g) Deemed delivery of clearing system notices for the purposes of Condition 15: [Any notice delivered to Noteholders of Notes held through a clearing system will be deemed to have been given on the [first] [second] [business] day after the day on which it was given to the relevant clearing system.] [Not Applicable]
- (h) Intended to be held in a manner which would allow Eurosystem eligibility:
- [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] *[include this text for Registered Notes that are to be held under the NSS]* and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]
- [No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] *[include this text for Registered Notes that are to be held under the NSS]*. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## 7. DISTRIBUTION

- (a) Method of distribution: [Syndicated/Non-syndicated]
- (b) If syndicated, names of Managers: [Not Applicable/give name(s)]



- (c) Stabilisation Manager(s) (if any): [Not Applicable/give name(s)]
- (d) If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
- (e) U.S. Selling Restrictions: [Reg. S Compliance Category 2][Rule 144A][Section 4(a)(2)] [Rules identical to those provided in [TEFRA C][TEFRA D] applicable][TEFRA not applicable]

## 8. REASONS FOR THE OFFER

[ ] [The net proceeds from the issue of the Notes will be applied by the Issuer for its general corporate purposes].

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

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes that, unless otherwise agreed by the Issuer and the relevant Dealer(s) or investor(s) at the time of issue, will be incorporated by reference into, or attached to, each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) or investor(s) at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Applicable Final Terms” and “Form of the Notes” for a description of the content of Final Terms 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 Bearer Notes (as defined in Condition 1.1 below) issued in exchange for a Global Note in bearer form; and
- (d) any definitive Registered Notes (as defined in Condition 1.1 below) (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 amended and restated agency agreement dated 16 June 2015, as supplemented by a supplemental agency agreement dated 16 June 2016 (such agency agreement as further amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) and made among the Issuer, 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 complete these Terms and Conditions (the “Conditions”). References to the “applicable Final Terms” are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. The expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

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 and, in certain circumstances, Interest Commencement Dates (unless this is a Zero Coupon Note) and/or Issue Prices, each as specified in the applicable Final Terms.

The Noteholders and the Couponholders are entitled to the benefit of a deed of covenant dated 16 June 2016 (such deed of covenant as modified and/or supplemented and/or restated from time to time, the “*Deed of Covenant*”) 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 dated 16 June 2016 (such deed poll as modified and/or supplemented and/or restated from time to time, the “*Deed Poll*”) 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 other Paying Agents, the Registrar, 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/EN/about-isbank/investor-relations/publications-and-results/prospectuses-and-offering-circulars/Pages/prospectuses-and-offering-circulars.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, 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 (“*Bearer Notes*”) or in registered form (“*Registered Notes*”) 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 the Republic of Turkey (“*Turkey*”) and the Communiqué

Serial: II. No: 31.1 on Debt Instruments of the Turkish Capital Markets Board (in Turkish: *Sermaye Piyasası Kurulu*) (the “CMB”).

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

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

## **1.2 Title**

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

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

For so long as the Depository Trust Company (“*DTC*”) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through its 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 direct and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes of the same Series in definitive form or for a beneficial interest in another Registered Global Note of the same Series, in each case only in the Specified Denomination(s) set out in the applicable Final Terms (and provided that the aggregate nominal amount of any balance of such beneficial interest of the transferor not so transferred is an amount of at least the Specified Denomination) and only in accordance with the 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 and the applicable Final Terms. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

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

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

### **2.3 Costs of registration**

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

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

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

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

### **4. NEGATIVE PLEDGE**

#### **4.1 Negative Pledge**

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

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

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

## 4.2 Interpretation

For the purposes of these Conditions:

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

“*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 organised securities market and having a maturity in excess of 365 days or any loan disbursed to the Issuer as a borrower under a loan participation note or similar transaction and (b) any guarantee or indemnity of any such indebtedness.

## 5. COVENANTS

### 5.1 Maintenance of Authorisations

So long as any of the Notes remains outstanding, the Issuer shall take all necessary action to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, permissions, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in Turkey (including, without limitation, with the CMB and the Banking Regulation and Supervision 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, the Deed Poll 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 favourable to the Issuer or the relevant Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or such Subsidiary with an unrelated Person.

### 5.3 Financial Reporting

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

- (a) not later than six months after the end of each financial year of the Issuer, English language copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied and BRSA accounting standards ("BRSAAS"), together with the corresponding financial statements for the preceding financial year, and all such annual financial statements of the Issuer shall be accompanied by the report of the auditors thereon; and
- (b) not later than four months after the end of the first six months of each financial year of the Issuer, English language copies of its unaudited consolidated financial statements for such six month period, prepared in accordance with 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 IFRS financial statements 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 organisation or other entity and (b) its successors and assigns.

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

## **6. INTEREST**

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

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

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

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

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

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

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

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

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

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

(a) **Interest Payment Dates**

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

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

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

(b) **Rate of Interest**

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

(i) ISDA Determination for Floating Rate Notes

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

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

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

(ii) Screen Rate Determination for Floating Rate Notes

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

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(e) **Linear Interpolation**

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

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

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

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

**6.4 Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.4 and Condition 7.9 whether by the Fiscal Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Fiscal Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

## 6.5 Accrual of interest

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

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

## 6.6 Day Count Fraction and Business Day Convention

### (a) Day Count Fraction

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

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

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

- (ii) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period or the Relevant Period, as the case may be, divided by 360, calculated as follows:

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

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

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

where:

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

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

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

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

“ $D_1$ ” is the first calendar day, expressed as a number, of such 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 such period, unless such number would be 31 and  $D_1$  is greater than 29, in which case  $D_2$  will be 30;

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



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

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

where:

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

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

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

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

“ $D_1$ ” is the first calendar day, expressed as a number, of such 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 such period, unless such number would be 31, in which case  $D_2$  will be 30; and

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

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

where:

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

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

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

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

“ $D_1$ ” is the first calendar day, expressed as a number, of such period, unless: (i) that day is the last day of February or (ii) such number would be 31, in which case  $D_1$  will be 30; and

“ $D_2$ ” is the calendar day, expressed as a number, immediately following the last day included in such period, unless: (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case  $D_2$  will be 30.

(b) **Business Day Convention**

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

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

**6.7 Interpretation**

In these Conditions:

“*Business Day*” means a day which is:

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

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

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

“*Reference Banks*” means:

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

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

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

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

“*Specified Time*” means, unless otherwise specified in the applicable Final Terms: (a) 11.00 a.m. (London time, in the case of a determination of LIBOR, Brussels time, in the case of a determination of EURIBOR, Romanian time, in the case of a determination of ROBOR, Prague time, in the case of a determination of PRIBOR, Hong Kong time, in the case of a determination of HIBOR, Singapore time, in the case of a determination of SIBOR and Warsaw time, in the case of a determination of WIBOR), (b) 11.15 a.m. (Hong Kong time, in the case of a determination of CNH HIBOR), (c)

11.30 a.m. (Istanbul time, in the case of a determination of TRLIBOR), and (d) 12.00 p.m. (Oslo time, in the case of a determination of NIBOR); and

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

## **7. PAYMENTS**

### **7.1 Method of payment**

Except as provided below, payments in a Specified Currency will be made by credit or transfer to an account in the relevant Specified Currency (or any account to which such Specified Currency may be credited or transferred) maintained by the payee, or, at the option of the payee, by a cheque in such Specified Currency drawn on a bank that processes payments in the Specified Currency.

Payments in respect of principal and interest on the Notes are subject in all cases to: (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9, and (b) any withholding or deduction imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the “*Code*”), any regulations or agreements thereunder (including any agreement described in Section 1471(b) of the Code), any official interpretations thereof, intergovernmental agreements between the United States and other jurisdictions facilitating the implementation thereof and any law, rule or official practice implementing such an intergovernmental agreement, in each case, as amended from time to time (“*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 only against surrender (or, in the case of part payment of any sum due, presentation and endorsement) of such definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against surrender (or, in the case of part payment of any sum due, presentation and endorsement) of the applicable Coupon(s), in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

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

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

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

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

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

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

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

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

Except as set forth in the final sentence of this paragraph, payments of interest in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the relevant Record Date at the address of such holder shown in the Register on such Record Date and at that holder’s risk. Upon application of that holder to the specified office of the

Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment will be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Notes 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**

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

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

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and

- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

## **7.6 Payment Business Day**

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

For these purposes, “*Payment Business Day*” means any day (other than a Saturday or Sunday) which (subject to Condition 10) is:

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

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

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

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

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

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).

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

## **7.9 RMB Currency Event**

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

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

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



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

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

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

*“Rate Calculation Date”* means the day 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, of 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 most recently issued 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 most recently issued 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 “USD Payment Election” is specified as being applicable in the applicable Final Terms, the Specified Currency is Turkish Lira and interests in the Notes are not represented by a Registered Global Note registered in the name of DTC or its nominee, then a Noteholder (in the case of a Series of Notes in registered form, as of the applicable Record Date) may, not more than 10 and not less than five Business Days before the due date (the “*Relevant Payment Date*”) for the next payment of interest and/or principal on a Note (such period, the “*USD Election Period*”), give an irrevocable election to any Agent to receive such payment in U.S. Dollars instead of Turkish Lira (each, a “*USD Payment Election*”). Each Agent to which such an election is given shall notify the Fiscal Agent on the Business Day following each USD Election Period of the USD Payment Elections made by the Noteholders during such USD Election Period and upon its receipt of such notification the Fiscal Agent shall notify the Exchange Agent of the total amount of Turkish Lira (the “*Lira Amount*”) to be paid by the Issuer in respect of the Notes the subject of such USD Payment Elections and which is to be converted into U.S. Dollars and paid to the holders of such Notes on the Relevant Payment Date in accordance with the provisions of this Condition 7.10 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 U.S. Dollars. If the Fiscal Agent receives cleared funds from the Issuer after such time, then the Fiscal Agent will use reasonable efforts to pay the funds (including any so converted U.S. Dollar amounts) as soon as reasonably practicable thereafter.*

- (d) If, for illegality or any other reason, it is not possible for the Exchange Agent to purchase U.S. Dollars with the Lira Amount, then the Exchange Agent will promptly notify the Fiscal Agent, which shall, as soon as practicable after receipt of such notification from the Exchange Agent, 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 7.10, irrespective of any USD Payment Election made.
- (e) To give a USD Payment Election:
  - (i) in the case of Notes in definitive form, a Noteholder must deliver at the specified office of any Agent, on any Business Day falling within the USD Election Period, a duly signed and completed USD Payment Election in the form (for the time being current) obtainable from any specified office of any Agent and in which the holder must specify a USD bank account to which payment is to be made under this Condition 7.8 accompanied by the relevant Notes or evidence satisfactory to the Agent concerned that such Notes will, following the delivery of the USD Payment Election, be held to the Agent's order or under its control until the applicable U.S. Dollar payment is made; and
  - (ii) in the case of Notes in global form, a Noteholder must, on any Business Day falling within the USD Election Period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or DTC, as applicable (which may include notice being given on such holder's instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for any of them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg or DTC, as applicable, from time to time.
- (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.
- (g) Notwithstanding any provisions of these Conditions or the applicable Final Terms, in respect of any Notes that are the subject of a USD Payment Election in respect of any payment, the definition of Payment Business Day shall, for the purposes of such payment on the Relevant

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

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

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

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

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

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

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

If:

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

then the Issuer may at its option, having given not less than 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 of redemption), redeem all, but not some only, of the Notes at any time at their Early Redemption Amount together (if appropriate) with interest accrued and unpaid to (but excluding) the date fixed for redemption. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent: (i) a certificate signed by two authorised signatories of the Issuer stating that the requirement referred to in sub-paragraph (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

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

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

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

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

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

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

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

To exercise the right to require redemption of this Note:

- (a) if this Note is in definitive form and held outside Euroclear, Clearstream, Luxembourg or DTC, then the holder of this Note must deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form

(for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 8.4 and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Note is in definitive bearer form, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to such Paying Agent’s order or under its control, and

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

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

## 8.5 Early Redemption Amounts

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

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

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

where:

“RP” means the Reference Price;

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

“y” is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days

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

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

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

#### **8.7 Cancellation**

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

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

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

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

## **9. TAXATION**

### **9.1 Payment without Withholding**

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

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

Notwithstanding any other provision of these Conditions, in no event will the Issuer be required to pay any additional amounts in respect of the Notes for, or on account of, any withholding or deduction required pursuant to FATCA.

In these Conditions:

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

### **9.2 Additional Amounts**

Any reference in these Conditions to any amounts payable in respect of the Notes shall be deemed also to refer to any additional amounts 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) after the Relevant Date 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 and unpaid to (but excluding) the date of repayment, if any of the following events (each, an “*Event of Default*”) shall have occurred and be continuing:

- (a) if default is made by the Issuer in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 14 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or
- (c) if (i) any Indebtedness for Borrowed Money of the Issuer or any of its Material Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Material Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment, subject to any originally applicable grace period; (iii) any security given by the Issuer or any of its Material Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer or any of its Material Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person, subject to any applicable grace period; *provided* that the aggregate principal amount of: (A) such Indebtedness for Borrowed Money of the Issuer or such Material Subsidiary in the case of sub-paragraphs (i), (ii) and/or (iii) above, and/or (B) the maximum amount payable by the Issuer or such Material Subsidiary under such guarantee and/or indemnity of the Issuer or such Material Subsidiary 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 ceases or threatens to cease to carry on the whole or a substantial part, or any Material Subsidiary ceases or threatens to cease to carry on the whole or substantially the whole, in each case, of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any of its Material Subsidiaries suspends or threatens to suspend payment of, or is unable to (or admits inability to) pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated, declared or found by a competent authority to be (or becomes) bankrupt or insolvent; or

- (iii) the Issuer or any of its Material Subsidiaries commences negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of all or a substantial part of its indebtedness; or
- (iv) the Issuer or any of its Material Subsidiaries: (A) takes any corporate action or other steps are taken or legal proceedings are started: (x) for its winding-up, dissolution, administration, bankruptcy or re-organisation (other than for the purposes of and followed by a reconstruction while solvent upon terms previously approved by an Extraordinary Resolution of Noteholders) or (y) for the appointment of a liquidator, receiver, administrator, administrative receiver, trustee or similar officer of it or any substantial part or all of its revenues and assets or (B) shall or propose to make a general assignment for the benefit of its creditors or shall enter into any general arrangement or composition with its creditors,

in each case in sub-paragraphs (i) to (iv) above, save for the solvent voluntary winding-up, dissolution or re-organisation of any Material Subsidiary in connection with any combination with, or transfer of the whole or substantially the whole of its business and/or assets to, the Issuer or one or more other Subsidiaries of the Issuer; or

- (e) if the banking licence of the Issuer is temporarily or permanently revoked or the Issuer is transferred to the Savings Deposit Insurance Fund under the provisions of the Banking Law (Law No. 5411) of Turkey.

## **11.2 Interpretation**

For the purposes of this Condition 11:

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

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

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

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

## **13. AGENTS**

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

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

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

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

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

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

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

#### **15. NOTICES**

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

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

authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

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

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

### **16.1 Meetings of Noteholders**

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

The Agency Agreement provides that: (a) a resolution in writing signed on behalf of the Noteholders of not less than 75 per cent. in principal amount of the Notes for the time being outstanding (whether such resolution in writing is contained in one document or several documents in the same form, each

signed on behalf of one or more Noteholders) or (b) consent given by way of electronic consents through the relevant clearing systems by or on behalf of Noteholders of not less than 75 per cent. in principal amount of the Notes for the time being outstanding will, in each case, take effect as if it were an Extraordinary Resolution and shall be binding upon all Noteholders.

## **16.2 Modification**

The Fiscal Agent and the Issuer may agree in writing, without the consent of the Noteholders or Couponholders, to any modification (except such modifications in respect of which an increased quorum is required as mentioned in Condition 16.1) of any of these Conditions, the Deed of Covenant or 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 those of the Notes, or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue, and so that the same shall be consolidated and form a single Series with the outstanding Notes; *provided* that the Issuer shall ensure that such further notes will be fungible for U.S. federal income tax purposes as a result of their issuance being a “qualified reopening” under U.S. Treasury Regulation §1.1275-2(k).

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

No person shall have any right to enforce any term or condition of this Note 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 High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of justice of England and Wales) is to have exclusive jurisdiction to settle any disputes 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 High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of justice of England and Wales). The

Issuer waives any objection to the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of justice of England and Wales) on the grounds that they are an inconvenient or inappropriate forum.

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

### **19.3 Consent to Enforcement**

The Issuer agrees, without prejudice to the enforcement of a judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of justice of England and Wales) according to the provisions of Article 54 of the International Private and 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 such courts 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 High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of justice of England and Wales) and appointed an agent in England for service of process, in terms substantially similar to those set out above.

## **USE OF PROCEEDS**

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

## **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 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 the BRSA Accounting and Reporting Regulations 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 as of and for the: (a) years ended December 31, 2013, 2014 and 2015 have been audited and (b) three-month periods ended March 31, 2015 and 2016 have been reviewed by KPMG. 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.



	As of December 31,			As of March 31
	2013 <sup>(1)</sup>	2014	2015	2016
<b>Balance Sheet Data:</b>	<i>(TL thousands)</i>			
Cash and balances with the Central Bank.....	23,409,741	25,143,547	32,489,976	31,184,273
Financial assets at fair value through profit or loss (net) .....	2,936,025	2,260,170	2,503,449	2,390,430
Banks.....	5,186,011	6,006,457	6,376,094	6,420,042
Money Market Placements .....	140,375	263,559	1,308,203	1,634,585
Financial Assets Available For Sale (Net).....	34,275,403	45,677,129	47,009,342	48,705,818
Loans .....	145,736,271	168,328,088	193,937,827	192,225,883
Factoring Receivables .....	946,111	1,433,209	1,951,278	1,551,444
Held To Maturity Investments (Net) .....	7,728,447	1,391,860	4,497,417	4,752,337
Investments In Associates (Net) .....	768,110	800,199	166,792	170,261
Investments In Subsidiaries (Net).....	3,406,441	4,810,446	4,779,842	5,425,157
Investments in Joint Ventures (Net) .....	-	510	2,260	2,260
Lease Receivables .....	2,034,122	2,746,199	3,199,311	3,093,117
Derivative Financial Assets Held for Risk Management .....	-	-	4,093	46,689
Tangible Assets (Net) .....	2,234,328	2,383,688	5,868,662	5,870,788
Intangible Assets (Net) .....	293,017	381,497	506,761	509,974
Investment Property (Net) .....	1,342,182	2,698,312	2,962,675	2,998,942
Tax Assets .....	692,764	660,972	653,987	792,838
Assets Held For Sale And Discontinued Operations (Net) ..	68,649	65,993	67,319	78,655
Other assets .....	10,421,143	12,021,397	17,213,684	19,019,046
<b>Total Assets .....</b>	<b>241,619,140</b>	<b>277,073,232</b>	<b>325,498,972</b>	<b>326,872,539</b>
Deposits from the Bank's Risk Group.....	2,369,051	3,199,237	3,496,383	3,709,422
Other deposits.....	119,468,747	131,301,989	150,704,907	154,783,737
Derivative Financial Liabilities Held for Trading.....	1,197,345	749,841	1,206,148	1,480,273
Funds Borrowed .....	27,223,696	34,060,007	45,468,534	44,496,039
Money Market Funds .....	24,999,875	22,304,769	24,624,433	22,007,842
Marketable Securities Issued (Net).....	10,076,844	18,597,092	24,079,558	22,267,422
Funds .....	5,954	39,081	30,677	4,830
Sundry creditors .....	11,150,140	14,395,500	17,841,623	19,541,971
Other liabilities .....	4,817,122	3,197,979	2,869,727	3,011,602
Derivative Financial Liabilities Held for Risk Management .....	-	-	5,799	-
Provisions .....	10,918,968	12,083,515	13,562,294	13,591,932
Tax liabilities.....	405,870	754,807	732,394	930,976
Subordinated Loans .....	3,090,902	3,384,849	4,192,969	2,985,297
<b>Total Liabilities .....</b>	<b>215,724,514</b>	<b>244,068,666</b>	<b>288,815,446</b>	<b>288,811,343</b>
Paid-in Capital.....	4,500,000	4,500,000	4,500,000	4,500,000
Share Premium .....	33,940	33,941	33,941	33,941
Marketable Securities Revaluation Reserve .....	680,397	3,439,122	1,236,211	2,541,325
Tangible Assets Revaluation Reserve .....	-	-	2,709,044	2,707,553
Bonus Shares obtained from Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures) .....	(1,179)	(1,179)	(1,179)	(1,179)
Other Capital Reserves .....	1,648,834	1,606,464	1,584,617	1,584,617
Profit Reserves .....	13,278,022	15,925,056	18,748,096	21,184,935
Profit or Loss .....	2,621,162	3,415,578	3,311,612	947,882
Minority Shares .....	3,133,450	4,085,584	4,561,184	4,562,122
<b>Total Equity .....</b>	<b>25,894,626</b>	<b>33,004,566</b>	<b>36,683,526</b>	<b>38,061,196</b>
<b>Total Liabilities and Equity .....</b>	<b>241,619,140</b>	<b>277,073,232</b>	<b>325,498,972</b>	<b>326,872,539</b>

(1) The figures for 2013 are not comparable with the figures for 2014, 2015 and March 31, 2016 due to a change in the Group's accounting policy. See "Presentation of Financial and Other Information – Presentation of Financial Information – Accounting Policy Changes."

	For the year ended December 31,			For the three month period ended March 31,	
	2013 <sup>(1)</sup>	2014	2015	2015	2016
<b>Income Statement Data:</b>					
Net Interest Income .....	7,681,894	8,470,409	10,195,865	2,243,648	2,865,504
<i>Interest Income</i> .....	14,853,908	17,752,690	21,406,966	4,899,272	5,908,295
<i>Interest Expense</i> .....	(7,172,014)	(9,282,281)	(11,211,101)	(2,655,624)	(3,042,791)
Net Fees and Commissions Income .....	1,468,946	1,505,183	1,807,881	423,635	499,094
Dividend Income .....	238,057	292,047	256,696	41,025	194,722
Trading Income (net) .....	378,591	664,128	(325,160)	178,887	(474,408)
Other Operating Income .....	4,615,411	5,109,980	5,869,814	1,460,357	1,463,372
<b>Total Operating Income</b> .....	<b>14,382,899</b>	<b>16,041,747</b>	<b>17,805,096</b>	<b>4,347,552</b>	<b>4,548,284</b>
Provision for Loans and Other Receivables .....	(1,654,701)	(1,530,113)	(2,289,722)	(687,895)	(694,818)
Other Operating Expenses .....	(8,308,239)	(9,499,378)	(10,940,293)	(2,398,883)	(2,666,769)
<b>Net Operating Income</b> .....	<b>4,419,959</b>	<b>5,012,256</b>	<b>4,575,081</b>	<b>1,260,774</b>	<b>1,186,697</b>
Profit/Loss from Associates Accounted for using the Equity Method.....	9,922	14,778	14,818	3,374	3,469
<b>Profit/Loss on Continuing Operations before Tax</b> .....	<b>4,429,881</b>	<b>5,027,034</b>	<b>4,589,899</b>	<b>1,264,148</b>	<b>1,190,166</b>
Tax Provision for Continuing Operations..	(823,022)	(1,006,617)	(850,228)	(254,114)	(191,936)
<b>Net Period Profit/Loss</b> .....	<b>3,606,859</b>	<b>4,020,417</b>	<b>3,739,671</b>	<b>1,010,034</b>	<b>998,230</b>

(1) The figures for 2013 are not comparable with the figures for 2014, 2015 and March 31, 2016 due to a change in the Group's accounting policy. See "Presentation of Financial and Other Information – Presentation of Financial Information – Accounting Policy Changes."

	As of (or for the year ended) December 31,			As of (or for the three-month period ended) March 31,
	2013	2014	2015	2016
<b>Key Ratios<sup>(1)</sup>:</b>				
Return on average shareholders' equity excluding minority interest <sup>(2)(3)</sup> .....	14.6%	13.6%	10.9%	10.9%
Net interest margin <sup>(2)(4)</sup> .....	4.2%	4.1%	4.1%	4.4%
Cost-to-income ratio <sup>(5)</sup> .....	49.2%	50.2%	51.6%	49.1%
Free capital ratio <sup>(6)</sup> .....	7.1%	7.6%	6.5%	6.7%
NPL ratio .....	1.7%	1.6%	2.0%	2.2%
Cost to average total assets <sup>(2)(7)</sup> .....	2.7%	2.5%	2.4%	2.2%
<b>Capital Adequacy:</b>				
Tier 1 ratio <sup>(1)(8)</sup> .....	12.0%	13.3%	12.8%	13.0%
Capital adequacy ratio <sup>(1)(8)</sup> .....	14.3%	15.7%	15.1%	14.6%
<b>Other Information:</b>				
Average employees during the period .....	24,173	24,076	24,753	25,101
Branches at period end .....	1,309	1,358	1,377	1,378
<b>Inflation rate/GDP %:</b>				
Producer price index inflation <sup>(9)</sup> .....	7.0%	6.4%	5.7%	2.9%
Gross Domestic Product (% change) <sup>(10)</sup> .....	4.2%	3.0%	4.0%	NA

(1) The ratios for 2013 are not comparable with the ratios for 2014, 2015 and March 31, 2016 due to a change in the Group's accounting policy. See "Presentation of Financial and Other Information – Presentation of Financial Information – Accounting Policy Changes."

(2) Calculated on quarterly averages for 2013 and March 31, 2016 and on annual averages for each of 2014 and 2015 due to a change in the Group's accounting policy. See "Presentation of Financial and Other Information – Presentation of Financial Information – Accounting Policy Changes."

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

(4) 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 and net interest income does not include interest income from the Central Bank.

(5) "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.

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

(7) Total operating expense does not include insurance expense. Expense items as of and for the three months ended March 31, 2016 are annualized.

(8) Calculated in accordance with BRSA regulations.

(9) Base year –2003 annual producer price inflation as of April 2016.

(10) As published by TurkStat.

## CAPITALIZATION OF THE GROUP

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

	As of December 31,			As of
	2013	2014	2015	March 31,
	(TL thousands)			2016
Capital stock; legal reserves, retained earnings and other equity accounts .....	19,525,255	25,395,263	28,791,602	32,606,270
Current period net income attributable to equity holders of the Bank....	3,235,921	3,523,719	3,330,740	892,804
<b>Total shareholders' equity</b> .....	<b>22,761,176</b>	<b>28,918,982</b>	<b>32,122,342</b>	<b>33,499,074</b>
Long-term debt <sup>(1)</sup> .....	24,924,606	35,206,505	57,683,850	55,517,507
<b>Total capitalization</b> .....	<b>47,685,782</b>	<b>64,125,487</b>	<b>89,806,192</b>	<b>89,016,581</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, 2016, the Bank: (a) was the largest bank in Turkey in terms of foreign currency-denominated loans, (b) was the largest private bank in Turkey in terms of shareholders' equity and (c) had the largest market shares of total assets, total loans, Turkish Lira-denominated loans, total deposits, Turkish Lira-denominated deposits and demand deposits among private sector banks (source: BRSA). The Bank was the market leader in mutual funds distribution as of March 31, 2016 (source: Central Registry Agency). 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, 2016, the Group had total assets of TL 326,873 million, an increase of 0.4% from TL 325,499 million as of December 31, 2015, itself a 17.5% increase from TL 277,073 million as of December 31, 2014. As of March 31, 2016, the Group had total deposits of TL 158,493 million, an increase of 2.8% from TL 154,201 million as of December 31, 2015, itself an increase of 14.6% from TL 134,501 million as of December 31, 2014, which was an increase of 10.4% from TL 121,838 million as of December 31, 2013.

As of March 31, 2016, the Group had total shareholders' equity of TL 38,061 million, an increase of 3.8% from TL 36,684 million as of December 31, 2015, itself an increase of 11.1% from TL 33,005 million as of December 31, 2014.

For the three months ended March 31, 2016, the Group's net profit was TL 998 million, a 1.2% decrease from TL 1,010 million for the three months ended March 31, 2015. In 2015, the Group's net profit was TL 3,740 million, a 7.0% decrease from TL 4,020 million for 2014. For the three months ended March 31, 2016, the Group's net interest income was TL 2,866 million, a 27.7% increase from TL 2,244 million for the three months ended March 31, 2015. In 2015, the Group's net interest income was TL 10,196 million, a 20.4% increase compared to TL 8,470 million for 2014.

As of the date of this Base Prospectus, the Bank's shares are quoted on Borsa İstanbul (which replaced the former İstanbul Stock Exchange and Gold Exchange) operating as the stock exchange as well as the gold exchange in Turkey 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, 2016, 40.15% 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 31.76% was traded publicly on the Borsa İstanbul and the London Stock Exchange.

As of March 31, 2016, the Bank had the largest network of branches among private sector banks in Turkey, with 1,355 domestic branches covering every city (source: Turkish Banks Association). The Bank also has an international presence through its own London, Edmonton-London (England), Arbil (Iraq), Baghdad (Iraq), Bahrain, Pristina (Kosovo) and Prizren (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; through Moscow based JSC İşbank, a wholly-owned subsidiary with seven branches in Russia and through Tbilisi-based JSC İşbank Georgia, a wholly-owned subsidiary with two branches in Georgia. Besides these, as of such date the Bank had 16 branches in the TRNC 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, 2016, the Bank had a direct equity interest in 25 companies,

six of which were then classified under available-for-sale securities. These companies are active in a wide range of sectors including finance, glass 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, 2016, among private sector banks in Turkey, the Bank was the largest bank in Turkey in terms of its total assets and 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 distribution as of such date, with the net asset value of mutual funds distributed amounting to TL 7,783 billion (source: Central Registry Agency). As of March 31, 2016, the Bank supported its market-leading position by having the largest nationwide branch and ATM network among private sector banks in Turkey, with 1,355 domestic branches, 23 international branches and over 6,575 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 26 domestic branches in 2015 and two domestic branches in the first five months of 2016 (two branches were consolidated with another branch during this period), and the Bank is (as of the date of this Base Prospectus) planning on opening a total of 10 domestic branches during 2016.

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 due to the global financial crisis. The Bank's loan portfolio grew from TL 134,843 million as of December 31, 2013 to TL 155,315 million as of December 31, 2014, TL 177,037 million as of December 31, 2015 and TL 175,312 million as of March 31, 2016, a compound annual growth rate ("CAGR")<sup>7</sup> of 12.4%. The Bank's total deposits grew from TL 120,975 million as of December 31, 2013 to TL 133,551 million as of December 31, 2014, TL 153,802 million as of December 31, 2015 and TL 157,795 million as of March 31, 2016, resulting in a CAGR of 12.5%.

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

The Group has a strong capital structure, with shareholders' equity of TL 38,061 million and a capital adequacy ratio of 14.6% as of March 31, 2016 (under BRSA) (13.0% calculated using Tier 1 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 27.2% and Cash Loan-to-Deposit ratio of 120.6% as of March 31, 2016 (27.1% and 125.1%, respectively, as of December 31, 2015). 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 7.7 years as of March 31, 2016). On June 6, 2016, a majority of the holders of the Bank's US\$400 million subordinated notes consented to certain amendments to the terms and conditions of such notes. As a result, such notes are fully eligible for inclusion as Tier 2 capital of the Bank and these amendments are expected to have a positive impact on the Group's capital adequacy ratio.

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

<sup>7</sup> The CAGR is calculated by taking the 2nd root of the total percentage growth rate, in which 2.25 is the number of years in the period being considered. For the period between December 31, 2013 and March 31, 2016, the CAGR is calculated as follows:  $CAGR = [(value\ as\ of\ March\ 31,\ 2016 / value\ as\ of\ December\ 31,\ 2013)^{(1/2.25)}] - 1$ .

that occurred during the recent global financial crisis. Accordingly, the Bank's management believes that the Bank's strong balance sheet has supported its ability to attract a strong deposit base and that the Bank has benefitted from a "flight to quality" during difficult market conditions, with deposits of TL 157,795 million as of March 31, 2016, an increase of 2.6% from TL 153,802 million as of December 31, 2015, itself an increase of 15.2% from TL 133,551 million as of December 31, 2014, which was an increase of 10.4% from TL 120,975 million as of December 31, 2013. Overall, the Bank's total assets grew from TL 210,500 million as of December 31, 2013 to TL 237,772 million as of December 31, 2014, TL 275,718 million as of December 31, 2015 and TL 276,020 million as of March 31, 2016 resulting in a CAGR of 8.7%. The Bank's return on average total assets\* was 1.6% in 2013, 1.6% in 2014, 1.2% in 2015 and 1.4% in the three months ended March 31, 2016 and the return on its average equity\*\* was 13.7%, 13.1%, 10.4% and 11.8% 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 Turkey at the initiative of Mustafa Kemal Atatürk as the first national bank 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.

#### *Large Customer Base in Turkey*

The Bank had approximately 11.8 million retail customers, nearly 7,000 corporate customers and over 1.2 million commercial customers as of March 31, 2016. The Bank had the largest deposit base among private sector banks with TL 157,795 million in deposits as of March 31, 2016 (Source: BRSA). The Bank's broad network of branches and alternative distribution channels provides the Bank 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 78 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, 2016, the Bank's customers have held deposit accounts with the Bank for an average of 7.7 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 "propensity to buy" models, 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.

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 (10 as of March 31, 2016), one specialized branch for multinationals operating in Turkey and specialized commercial branches (53 as of March 31, 2016). The Bank has

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\* Calculated as Net Income/Average Total Assets. Averages are based upon year-end and period-end figures.

\*\* Calculated as Net Income/Average Shareholders' Equity. Averages are based upon year-end and period-end figures.

developed numerous targeted products and services, ranging from tailor-made solutions for large corporations to sector-specific service packages, such as for energy efficiency and environment, exports support, the plastics industry support, logistics sector support, machinery production industry support, automotive by-products industry support and tourism sector support.

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, 2016 at a CAGR of 19.4%. 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, 2016, 73.7% of the Bank's total loan portfolio was comprised of loans to corporate (as defined by the Corporate Definition) customers, with 23.7%, 5.9% and 20.0% 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 53.6%, 44.3% and 2.1% of total consumer loans, respectively, as of March 31, 2016. The Bank's loan portfolio is also diversified among sectors, with the largest share (in energy) representing no more than 12.3% of the Bank's loan portfolio as of March 31, 2016. In addition, the Bank has sought to limit exposure to any single borrower and no exposure to a single borrower was greater than 0.8% 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 21.8% as of March 31, 2016. Moreover, as of March 31, 2016, 47.1% 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 2015, the Bank grew its loan portfolio by 14.0% (total loans decreased by 1.0% in the first three months of 2016) and maintained NPL ratios of 2.2%, 2.0%, 1.5% and 1.6% as of March 31, 2016 and December 31, 2015, 2014 and 2013, respectively, in line with the Turkish banking sector's NPL ratios of 3.3%, 3.1%, 2.8% and 2.7%, respectively. (source: BRSA).

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

#### *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 2.24% during 2015). The Group's dedicated and well-trained employees form a cornerstone of its focus on superior customer service and long-standing customer relationships and also 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 ("*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, Bada, Windows Phone 8 and Blackberry 10 and works on more than 2,000 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 then was re-named "İşTablet", which is also compatible with tablets running the Android and Windows 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. In 2015, the Bank introduced the "Instant Loan," which provides customers the option to apply for a consumer loan of up to TL 15,000 at all times via their Personal Internet Branch or İşCep. Once the application is approved, the amount requested is transferred instantly into the customer's account. In 2015, the Bank also introduced the "İşCepMatik," which is a new generation ATM device designed for its customers, allowing them to withdraw cash through Bluetooth or QR code technologies without the need to carry an ATM card or enter a passcode. The Bank successfully integrated the Invoice Registry Center System (*Merkezi Fatura Kayıt Sistemi*) with the "Supplier Financing" application, allowing customers to obtain funding by discounting invoices.. The Bank has also provided its customers with the opportunity to merge their Facebook and/or Twitter accounts with their banking customer accounts via the Bank's social media application "Fırsatla." This application makes it easier for customers to take advantage of the Bank's special campaigns and promotions via their Facebook and/or Twitter accounts.

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 for its customers, shareholders and employees by maintaining its leading, pioneering and reliable position as a regional financial power. The Bank's goal is to consistently increase the value it creates for its shareholders by responding to its customers' needs quickly, effectively and with high-quality solutions and encouraging its employees to achieve a high-level performance in their jobs. The Bank's strategy is to achieve sustainable and profitable growth based upon "the bank closest to its customers" philosophy, in an effort to fulfill its vision and objectives. The Bank plans to reach these targets by maintaining its 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. In the medium term, the Bank plans to focus on retail and continue growing in the commercial, corporate and private business lines, while managing its market shares and improving profitability, asset quality, cost-efficiency and capital utilization. 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 59 new branches across Turkey in 2013 (one branch was consolidated with another branch during 2013), 47 domestic branches in 2014 (three branches were consolidated with another branch during 2014) 26 domestic branches in 2015 (five branches were consolidated with another branch during 2015) and two domestic branches in the first five months of 2016 (two branches were consolidated with another branch during this period), and is continuing to seek opportunities to deploy new branches and ATMs. To the date of this Base Prospectus, Turkey has been under-banked compared to the euro area, with a total loans-to-GDP ratio in 2015 of 76% compared to the euro area average of 166% and total assets-to-GDP ratio of 121% compared to the euro area average of 296% (source: *Eurostat, ECB, 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 "Maksimum Hesap" (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" 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 ([www.istekobi.com.tr](http://www.istekobi.com.tr)) that includes current news, articles and industry-specific and economic reports for SMEs and the SUNUMATIK ([www.sunumatik.com.tr](http://www.sunumatik.com.tr)), an application that allows non-English-speaking SMEs to produce their company's 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, 2016, approximately 9.2 million customers were actively using the Bank's alternative delivery channels, accounting for approximately 83.2% of the Bank's total comparable banking transactions and the remaining total comparable banking transactions were executed at the Bank's branches during the three months ended March 31, 2016.

#### *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, 2016) 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.

## History and Development

The Bank was established under the laws of Turkey in 1924 at the initiative of Mustafa Kemal Atatürk as the first national bank 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 Undersecretariat of 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 association 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, bank payment obligations, point-of-sales agreements, automatic payment instructions, tax collection, internet banking, foreign trade operations, sector-specific packages, cash management, payment system facilities and packages of tariffs for certain banking transactions,
- *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) structured products, and portfolio management services in collaboration with İş Portföy, and

- *capital market operations activities*: investment account system, mutual funds distribution, equity brokerage, fixed income brokerage and trading, gold trading, exchange-traded and OTC derivatives 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 other 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 other Affiliates – Financial Participations*” below.

The Bank does not consolidate the results of its non-financial participations (principally its glass business) 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 Bank’s 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. For a list of the “non-financial participations, see “*Subsidiaries and other Affiliates – Non-Financial Participations*.”

As of March 31, 2016, 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	Others
Retail Banking	Reinsurance	
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, 2016, the Corporate Banking business unit accounted for TL 70.8 billion (36.9% of the Group's total loans) and TL 23.7 billion (14.9% of the Group's total deposits). As of March 31, 2016, the Corporate Banking business unit operated through 11 specialized branches; four corporate branches and one "multinationals' branch" in İstanbul and one corporate branch in each of Kocaeli, Ankara, İzmir, Antalya, Bursa and Gaziantep. 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, 2016, the Bank had approximately 7,000 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 Undersecretariat of 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 16 projects with an estimated total loan value of US\$2.8 billion in 2015, loans related to financing 24 projects with an estimated total loan value of US\$3.0 billion in 2014 and loans related to financing 55 projects with an estimated total loan value of US\$4.1 billion in 2013.

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 since 2013: Euromoney's "*EMEA Region Project Finance Deal of the Year*" in 2013 for the Zetes III Thermal Power Plant, "*European Power Deal of the Year*" in 2013 for the privatization of Seyitömer Thermal Power Plant, EMEA Finance International's "*Best PPP Deal in Europe, Middle East and Africa*" in 2013 for the Third Bosphorus Bridge and Odayeri-Paşaköy Section of the Northern Marmara Motorway, "*Best Transport Infrastructure Deal in Central and Eastern Europe*" both in 2013 and 2015, Bonds & Loans Awards "*Syndicated Loan Deal of the Year*" and "*Project Finance Deal of the Year*" in 2015 for Gebze-İzmir Motorway Project, Bonds & Loans Awards "*Natural Resource Finance Deal of the Year*" and EMEA Finance International's "*Best Privatization Deal*" in 2015 for privatization of the Yeniköy and Kemerköy power plants, Bonds & Loans Awards "*Infrastructure Finance Deal of the Year*," Project Finance International's "*Turkish Deal of the Year*" in 2015, EMEA Finance International's "*Best Health Care Deal*" and "*Best Social Development Deal*" in 2015 for the Bilkent Integrated Health Campus, Bonds & Loans Awards "*Structured Finance Deal of the Year*" in 2015 for the Ankara Etlik Integrated Health Campus and EMEA Finance International's "*Best Energy Infrastructure Deal*" in 2015 for the Kızıldere 3 geothermal power plant.

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 (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, 2016, the Bank had more than 1.2 million commercial banking customers.

As of March 31, 2016, the Commercial Banking business unit accounted for TL 77.9 billion (or 40.5%) of the Group's total loans and TL 31.6 billion (or 20.0%) 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, commercial credit cards and specialized packages of banking services and support solutions for SMEs' information needs. In addition, the Bank offers cash management and payment system products to its commercial banking customers.

The Bank has designed its commercial marketing activities to take into consideration seasonality and sectoral differences as well as its customers' needs and attitudes. 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 24.8% as of March 31, 2016 (excluding participation banks) (source: BRSA).

In 2008, the Bank introduced a network of commercial branches to offer high quality service to commercial customers of a certain size that are also in good standing with the Bank. As of March 31, 2016, 53 of these specialized commercial branches were in operation. For further information as to how the Bank's branches are categorized, see "*Channel Management*."

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. In this context, the Bank established specific service points for agricultural banking in 14 branches. The Bank also supports the agricultural sector through specially designed credit products, such as tractor and agricultural equipment loans and business credit cards such as the "İşbank Agricultural Product Card" and "İmece Card."

The Bank also launched packages of tariffs that allow SMEs to choose a tariff that best suits their banking transaction mix in exchange for a single fixed fee, which also led to an increase in the Bank's commission income.

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. On the other hand, through its arrangement with the TMO, the Bank extends loans against TMO receipts to its depositors who have delivered their products (wheat, barley, corn and rice) to the TMO.

The Bank also finances SMEs through funds obtained from international financial institutions. In cooperation with the European Bank for Reconstruction and Development (EBRD), the Bank supports investments in renewable energy and energy efficiency with Turkey Sustainable Energy Financing Facility program (TURSEFF), agricultural SMEs with Turkey Agribusiness Financing Facility (TurAFF) program, and women entrepreneurs and women-led SMEs with Women in Business (WIB) and The Finance and

Advice for Woman in Business programs. Additionally, the Bank allocates funds provided by Overseas Private Investment Corporation (OPIC) and European Investment Bank (EIB) to meet the financing needs of SMEs, including women entrepreneurs and those operating in priority development regions.

### ***Retail Banking***

As of March 31, 2016, the Bank had approximately 11.8 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, 2016, the Retail Banking business unit accounted for TL 40.4 billion (or 21.0%) of the Group's total loans and TL 73.5 billion (or 46.4%) 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, life-stage and channel preferences 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, behavior-based segmentation, customer churn analysis and lifetime value analysis in order to gain insight into customer needs and then seeks to provide new products to meet those needs. The Bank uses a platform called "Marketing Optimization" that aims to deliver the best offers based upon a mathematical analysis of different constraints and decision variables, such as channel capacities, propensities, customer contact rules, customer preferences and business objectives to be achieved.

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 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 over 29,720 employers providing for the direct deposit of paychecks to approximately 1.2 million employee accounts maintained with the Bank, as of March 31, 2016. 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 over six million during the first three months of 2016. 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, 2016, the value of funds held in the Bank's retail overdraft accounts was TL 581 million.

*Consumer Lending.* As of March 31, 2016, the Group's total consumer loans (excluding overdrafts), which are composed of general purpose loans, auto loans and housing loans, amounted to TL 35,343 million. General purpose loans amounted to TL 19,044 million (53.9%), auto loans amounted to TL 741 million (2.1%) and housing loans amounted to TL 15,558 million (44.0%).

As of March 31, 2016, according to BRSA data, on a bank-only basis, the Bank's market share of the consumer loan market was 12.1%, with a market share of 11.5% related to housing loans, 13.1% related to auto loans and 12.5% 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 158,493 million as of March 31, 2016. Deposits accounted for 48.5% of the Group's total liabilities as of March 31, 2016. As of March 31, 2016, Turkish Lira-denominated deposits accounted for approximately 48.1% 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 12.3% of total deposits as of March 31, 2016 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, 2016, the Bank had the largest market share among private sector banks in Turkey in terms of total deposits, Turkish Lira deposits, demand deposits (excluding deposits from banks) and Turkish Lira savings deposits with market shares of 12.3%, 10.9%, 15.1% and 12.7%, respectively, on a bank-only basis.

As of March 31, 2016, the total value of the Group’s deposits reached TL 158,493 million, with demand deposits accounting for 23.0% and all other deposits accounting for the remaining amounts. In terms of Turkish Lira-denominated saving deposit accounts, the Bank’s market share was 12.7% as of March 31, 2016 on a bank-only basis according to the BRSA. In terms of Turkish Lira-denominated demand saving deposits, the Bank’s market share was 15.9% as of March 31, 2016, 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, 2016, the Bank had the second largest market share in terms of volume of debit card transactions 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, 2016, the Bank had more than 6.8 million credit cards in issue to its own customers, representing approximately 13.3% of the total Turkish credit card market by total issuance volume and approximately 11.6% by number of cards outstanding; 9.7 million debit cards, representing approximately 8.6% of the Turkish debit card market; and 221,755 point-of-sale terminals, representing approximately 11.1% of the total Turkish market, each according to the Interbank Card Center. As of March 31, 2016, the Bank, with a 15.7% market share of the Turkish credit card market in terms of the number of transactions on a bank-only basis, managed two different credit card brands, “Maximum Card” and “Maximiles,” and was the third largest participant in the market in terms of total transaction volume (not including cash withdrawal 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, 2016, the Bank provided eight types of MaxiPara Cards from branches: 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), MaxiPara Goldcard (for depositing gold) and MaxiPara Cinema Card (to buy movie tickets). Also, the Bank can design different types of MaxiPara cards for firms according to their needs.

The Maximum Card and Maximum loyalty program award customers with installment advantages and reward points, which can be redeemed in various stores. As of March 31, 2016, cardholders were able take advantage of the Maximum loyalty program at over 328,000 member merchant points. 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. 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 44.5%, 43.3%, 45.6% and 37.9% of total gross fees and commissions income in the three months ended March 31, 2016 and the full year 2015, 2014 and 2013, 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 1 million of assets under management held with the Bank.

As of March 31, 2016, the Private Banking business unit accounted for TL 0.2 billion (or 0.1%) of the Group’s total loans and TL 15.8 billion (or 10.0%) 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, 15 total located in İstanbul, Ankara, İzmir, Antalya and Adana), and through private banking divisions set up at branches (as of the date hereof, six total located in İstanbul, Bursa and Mersin). In addition, in six of the Bank’s branches, customer relationship managers provide dedicated services solely for private banking customers. In order for its dedicated private banking branches to provide high-level financial services, the Bank, by means of the agency contract signed with İş Portföy, also provides portfolio management services in its private banking branches in collaboration with İş Portföy’s personnel.

### ***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, 2016, the total value of the securities portfolio that the Bank manages for its customers was valued at TL 29,421 million (TL 31,283 million as of December 31, 2015).

*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 Borsa İstanbul

Derivatives Market (*Borsa İstanbul A.Ş. Vadeli İşlem ve Opsiyon Piyasası*) (the “VIOP”) 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, 2016, the Bank had 11.5 million investment accounts.

*Fixed Income.* The Bank was the leading provider of fixed-income trading services to investors in Turkey as of March 31, 2016, with 9.7% of the Turkish market on a bank-only basis, totaling TL 9,925 million in sovereign bonds under custody (source: BRSA). According to Borsa İstanbul data, as of March 31, 2016, the Bank held second place in the Borsa İstanbul, with a 13.5% market share in transaction volume.

The Undersecretariat of Treasury issues bonds both domestically and internationally. Its domestic issuances include zero coupon bonds and coupon bonds. Coupon bonds include inflation-linked bonds, fixed coupon bonds, floating rate notes and lease certificates. All types of Undersecretariat of 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 Debt Securities Market. OTC reverse repo transactions are also offered to all of the Bank’s customers. The Bank also acts as an intermediary institution for corporate bond offerings, which are executed by İş Yatırım Menkul Değerler A.Ş. (“İş Yatırım”), a brokerage house of the Group.

*Mutual Funds.* The Bank was the leading Turkish bank in the mutual funds distribution as of March 31, 2016 with a market share of 20.4%, the net asset value of mutual funds distributed totaling TL 7,783 billion (source: Central Registry Agency). The Bank distributes numerous mutual funds catering to a wide range of risk and return profiles. As of March 31, 2016, the Bank had over 716,000 investors in mutual funds.

*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, 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.

In July 2014, the CMB authorized the Bank to act as a “Portfolio Custodian” for collective investment schemes. As a portfolio custodian, the Bank is authorized to provide portfolio depository services to investment funds and investment companies, such as safekeeping and/or record keeping of assets owned by collective investment schemes, controlling transactions related to assets and cash movements of these and providing other services specified under the Communiqué No III-56.1 of the CMB on Portfolio Depository Services and their Providers.

*Gold Trading.* The Bank is an active gold trader on the Borsa İstanbul. The Bank’s management believes that, as of March 31, 2016, the Bank had the largest market share among all banks in Turkey in terms of the total gold balance of its deposits. As of March 31, 2016, the Bank held a total of TL 1.8 billion-equivalent deposits in gold. 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 and İş

Portföy. 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 three financial subsidiaries having a total of 49 branches and two representative offices. As of March 31, 2016, the Bank had 16 branches in the TRNC, two branches in each of England, Iraq and Kosovo and one branch in Bahrain. As of March 31, 2016, the Bank's representative offices are located in Cairo and Shanghai.

As of March 31, 2016, the Bank's network of correspondent banks comprised approximately 1,500 banks in over 120 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\$134.5 billion and outgoing foreign currency transfers of US\$116.4 billion during 2015. 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 11.5% according to December 2015 data from TurkStat. As part of its international banking activities, the Bank acted as the financial intermediary in connection with approximately US\$21.8 billion of import and US\$18.7 billion of export transactions in 2015. 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, 2016, the Group's total securities portfolio was valued at TL 54,464 million. As of such date, the Bank's securities portfolio was comprised of Turkish Lira-denominated floating rate securities (47.3%), Turkish Lira-denominated discount and fixed securities (31.6%), foreign currency-denominated discount and fixed securities (19.4%) and foreign currency-denominated floating securities (1.6%). Turkish government bonds and Turkish government treasury bills constituted 96.7% of the Bank's total securities portfolio as of such date. Moreover, 91.1% of the Bank's total securities portfolio was classified as "available for sale" as of such date.

### **Subsidiaries and other 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 most of these companies. As of March 31, 2016, the Bank's direct equity interests were in companies operating in finance, glass and other industrial and services sectors, of which the shares in six companies were classified as available-for-sale securities. As of March 31, 2016, the total book value of the Bank's equity participations (including the shares of T. Şişe ve Cam Fabrikaları A.Ş., TSKB, Anadolu Hayat, İş Leasing, İş REIT and İş Yatırım Menkul Değerler A.Ş. booked under financial assets held for trading account) was TL 10,362 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 regularly 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, 2016:

Group Company	Field of Activity	Bank’s Direct Share	Group’s Share	Assets <sup>(1)</sup>	Shareholders’ Equity	Market Share
(US\$ thousands)						
Türkiye Sınai Kalkınma Bankası A.Ş. <sup>(2)</sup>	Investment Banking	40.52%	50.00%	7,825,527	1,039,247	19.34% <sup>(1)</sup>
İşbank AG	Banking	100.00%	100.00%	1,313,658	151,574	N/A
İşbank Russia JSC İşbank <sup>(4)</sup>	Banking	100.00%	100.00%	174,090	87,278	N/A
JSC Isbank Georgia <sup>(4)</sup>	Banking	100.00%	100.00%	92,775	13,469	0.89% <sup>(1)</sup>
Anadolu Anonim Türk Sigorta Şirketi <sup>(2)</sup>	Non-Life Insurance	-	64.31%	1,677,123	313,859	11.3% <sup>(3)</sup>
Anadolu Hayat Emeklilik A.Ş. <sup>(2)</sup>	Life Insurance & Private Pension	62.00%	83.00%	4,513,767	267,866	8.8% <sup>(3)</sup>
Milli Reasürans T.A.Ş. <sup>(6)</sup>	Reinsurance	76.64%	77.06%	985,706	431,294	18.6% <sup>(5)</sup>
İş Yatırım Menkul Değerler A.Ş. <sup>(2)</sup>	Brokerage	-	-	-	-	10.3% <sup>(7) (8)</sup>
Yatırım Finansman Menkul Değerler A.Ş. <sup>(2)</sup>	House Brokerage	65.65%	70.69%	2,158,106	311,829	7.7% <sup>(12)</sup>
İş Yatırım Ortaklığı A.Ş.	House	-	98.42%	358,578	26,697	4.0% <sup>(12)</sup>
İş Portföy Yönetimi A.Ş.	Securities	-	38.66%	81,188	80,054	51.8% <sup>(10)</sup>
İş Finansal Kiralama A.Ş. <sup>(2)</sup>	Investment Trust Asset Management	-	100.00%	36,916	28,973	20.6% <sup>(11)</sup>
İş Faktoring A.Ş.	Leasing	27.79%	57.39%	1,797,245	268,881	6.05% <sup>(9)</sup>
İş Gayrimenkul Yatırım Ortaklığı A.Ş. <sup>(2)</sup>	Factoring	-	100.00%	567,623	37,270	4.75% <sup>(9)</sup>
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	REIT	42.23%	58.04%	1,537,309	984,241	5.7% <sup>(13)</sup>
Total	Venture Capital Inv.Trust	-	57.67%	93,737	92,762	N/A
				<b>23,213,348</b>	<b>4,135,294</b>	

(1) Total Assets (derived from the BRSA’s website).

(2) Consolidated amounts.

(3) Gross written premiums (derived from data published by The Insurance Association of Turkey).

(4) According to the respective National Accounting Standards.

(5) Total amounts of participants’ funds (source: Pension Monitoring Center).

(6) Unconsolidated amounts.

(7) Gross domestic written premiums as of December 31, 2015.

(8) Milli Reasürans T.A.Ş. is the sole Turkish reinsurance company operating in Turkish insurance sector with a domestic market share of 10%. The remaining amount is shared by foreign reinsurance companies as of December 31, 2015.

(9) Transaction volume (derived from the Association of Financial Leasing, Factoring and Financing Companies (*Finansal Kiralama, Faktoring ve Finansman Şirketleri Birliği*)).

(10) NAV (derived from the CMB’s website and the Public Disclosure Platform of the Borsa İstanbul).

(11) Funds under management (derived from the CMB’s website).

(12) Transaction volume (derived from the Borsa İstanbul’s website).

(13) Market value (derived from the Public Disclosure Platform of the Borsa İstanbul).

**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. 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, 2016, 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 11.3% market share in terms of gross written premiums in the non-life insurance market as of March 31, 2016 (source: The Insurance Association of Turkey). Anadolu Sigorta had gross written premiums of TL 1,088 million and TL 3,610 million for the three months ended March 31, 2016 and for the year ended December 31, 2015, respectively.

For 2015 and the three months ended March 31, 2016, Anadolu Sigorta recorded net profit of TL 75 million and net loss of TL 9.9 million, respectively, on a consolidated basis. Anadolu Sigorta’s products are distributed through its over 2,587 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, 2016, Anadolu Hayat was the third largest life insurance company in Turkey with a 8.8% 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 18.6% 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, 2016. For the three months ended March 31, 2016, Anadolu Hayat had gross written premiums of TL 97 million and for the year ended December 31, 2015 it had gross written premiums of TL 402 million. For the three months ended March 31, 2016, Anadolu Hayat collected TL 272 million in net pension contributions and for the year ended December 31, 2015 it collected TL 1,334 million in net pension contributions. For the year ended December 31, 2015 and the three months ended March 31, 2016, Anadolu Hayat recorded a net profit of TL 146 million and TL 40 million, respectively, on a consolidated basis. Anadolu Hayat insurance and pension products are distributed through its approximately 286 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 hereof, is the only active reinsurance company resident in Turkey. The company fulfilled approximately 10.3% of the domestic industry’s need for reinsurance coverage as of December 31, 2015 (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, 2016, 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 261 million for the three months ended March 31, 2016 and TL 997 million for the year ended December 31, 2015. For the three months ended March 31, 2016, the company recorded net profit of TL 5 million on an unconsolidated basis (TL 130 million on an unconsolidated basis for the year ended December 31, 2015). In June 2015, A.M. Best affirmed Milli Reasürans’ financial strength rating as “B+” and revised its outlook to stable from negative, while S&P affirmed Milli Reasürans’ national scale rating as “trAA+” in July 2015.

*Investment Banking.* TSKB is an equity participation in which the Bank held a 40.52% direct interest and a 50.00% group share as of March 31, 2016. TSKB’s ordinary shares have been listed on the Borsa İstanbul (and its predecessor, the İSE) since 1986. Founded in 1950, TSKB was the first investment bank of Turkey. As of March 31, 2016, TSKB is the largest privately owned investment and development bank in Turkey in terms of total assets (source: Turkish Banks Association). In consolidated figures, TSKB has total assets of TL 21,677 million and total equity of TL 2,879 million as of March 31, 2016. 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 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 REIT is a real estate investment trust in which the Bank had a direct equity shareholding of 42.23% as of March 31, 2016. According to the Public Disclosure Platform of the Borsa İstanbul, İş REIT was the fourth largest real estate investment trust in Turkey with an asset value of US\$479 million as of March 31, 2016. 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 (Tower 2, Tower 3 and Kule Çarşı Shopping Mall). İş REIT has also been developing the Bank's "Technology and Operation Center Project" and two residential projects (*i.e.*, Kartal Manzara Adalar and Topkapı İnistanbul projects) in İstanbul and a mixed-use project (*i.e.*, Ege Perla Project) comprised of a shopping mall and residential and home-office units in İzmir. Furthermore, İş REIT has also been developing a mixed-use project comprised of office and commercial units in the İstanbul International Financial Center (*İstanbul Uluslararası Finans Merkezi*).

**Leasing.** 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, 2016, 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, 2016, the consolidated total assets and equity of İş Leasing amounted to TL 4,978 million and TL 745 million, respectively. Net current leasing receivables amounted to TL 3,189 million as of the same date. As of March 31, 2016, the distribution of leased assets by equipment categories as a percentage of total leased assets in the company's portfolio are as follows: real estate (35%), machinery (26%), construction equipment (15%) and other sectors (24%).

**Brokerage and Custody.** The Bank owned 65.65% of the share capital of İş Yatırım as of March 31, 2016, 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 Investments Ltd.

As of March 31, 2016, according to data provided by the Borsa İstanbul, İş Yatırım had the following market shares in organized exchange transactions: 7.7% in Borsa İstanbul equity transactions, 3.4% in the "Outright Purchases and Sales" market of the "Bills & Bonds" market among brokerage houses and 9.2% in the stock futures market of the VIOP. According to data provided by the Borsa İstanbul, İş Yatırım was the second largest licensed brokerage firm in Turkey in terms of equity trading volume as of March 31, 2016. İş Yatırım was one of the founding partners of the VIOP, which commenced its operations in February 2005, and as of March 31, 2016 it continued to be one of the leading brokerage firms in terms of trading volume realized since the foundation of the market. İş Yatırım's consolidated net sales and net profit figures for March 2016 were TL 12.0 billion and TL 10.9 million, respectively, while its consolidated assets and equity amounted to TL 5.9 billion and TL 864 million, respectively. In addition, as of December 31, 2015, İş Yatırım was the largest licensed brokerage firm in Turkey in terms of its paid-in capital, which was TL 355 million (source: Union of Turkish Brokerage Firms). In June 2015, Fitch Ratings Ltd. confirmed İş Yatırım's national long-term rating as "AA+."



**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, 2016, total assets and equity figures for İşbank AG were €1,160 million and €134 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 and (due to amendments in the applicable law) to JSC İşbank in September 2015. Headquartered in Moscow, the bank (as of the date hereof) has one branch and six affiliate branches in Moscow, St. Petersburg, Novosibirsk, Volga and Tatarstan. As of March 31, 2016, the bank had over 200 employees and its total assets and equity amounted to 11,767 million Russian Rubles and 5,899 million Russian Rubles, respectively according to the bank's preliminary financials for the three month period ended March 31, 2016. 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.

The Bank's Georgian entity, operating through branches in Batumi and Tbilisi, began to operate under the umbrella of "JSC Isbank Georgia" as of August 3, 2015. JSC Isbank Georgia's capital is fully owned by the Bank. The bank's total assets and equity amounted to 220 million Georgian Lari and 32 million Georgian Lari, respectively, according to the bank's financials for the three month period ended March 31, 2016.

**Other Financial Participations.** The following table sets forth certain information, as of March 31, 2016, 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.

Company	Bank's Share	Shares owned by the Bank and the Bank's affiliates	Sector
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. ....	-	38.66%	Securities Investment Trust
Efes Varlık Yönetim A.Ş. ....	-	100.00%	Asset Management
İş Investment Gulf Ltd. ....	-	100.00%	Representative Office
Maxis Investments Ltd. ....	-	100.00%	Brokerage House
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ..	-	60.63%	REIT

**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, 2016, which also indicates the Group's group share in the bank. As of March 31, 2016, consolidated total assets and equity of the bank amounted to TL 4,306 million and TL 630 million, respectively.

**Factoring.** The Bank had a 100% indirect group share in İş Faktoring A.Ş. ("İş Faktoring") as of March 31, 2016. The company had TL 1,572 million in total assets and TL 103 million in equity as of March 31, 2016, while its net factoring receivables amounted to TL 1,551 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, 2016,

the Bank held a group share of 57.67% in the company through its subsidiaries, holding a paid-in capital amount of TL 74.7 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 net profit for 2015 was TL 0.8 million (for the first quarter of 2016, a net profit of TL 1.8 million). The company's assets and equity as of March 31, 2016 amounted to TL 260 million and TL 257 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 mostly 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 21.5 billion as of March 31, 2016. As of such date, İş Portföy managed 26 of the Bank's mutual funds from various risk categories and had a market share of assets under management of 21% in a market size of TL 104 billion according to the CMB. Also, together with various pension funds that it manages for Anadolu Hayat, as of such date İş Portföy captured an 18% market share out of a market size of TL 51.7 billion according to the CMB.

İş Portföy's operating income and net profit figures for 2015 were TL 7.6 million and TL 13 million, respectively (TL 0.8 million and TL 3.9 million, respectively, for the first quarter of 2016). The company's assets and equity as of March 31, 2016 amounted to TL 102 million and TL 80 million, respectively.

*Securities Investment Trust.* İş 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 51.8% according to data derived from the Public Disclosure Platform of the Borsa İstanbul, and the company had a net asset value of TL 225 million as of March 31, 2016. İş Yatırım Ortaklığı's net profit for 2015 was TL 5.9 million (TL 6.3 million for the first quarter of 2016) while, as of March 31, 2016, its assets and equity amounted to TL 225 million and TL 222 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) 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 1.7% and 1.9% of its total assets as of December 31, 2015 and March 31, 2016, respectively. For the full year 2015 and the three months ended March 31, 2016, total dividend income received from its non-financial participations constituted 8.05% and 19.4%, respectively, of the Bank's net income. As of March 31, 2016, significant strategic non-financial equity participation of the Bank was the Şişecam Group. Investments in the Şişecam Group, a non-financial equity participation, are strategic in the sense that it has been a long-term investment of the Bank in a company with a strong market position in Turkey and neighboring areas. The Bank's 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, 2016, the Bank held a 65.47% stake in the Şişecam Group, which was founded in 1935. With total assets of TL 16,187 million and total equity of TL 9,628 million as of March 31, 2016, the Şişecam Group operates mainly in the area of glass manufacturing (including flat glass, glassware and glass packaging) and the production of glass fiber, soda ash and chromium chemicals. The Şişecam Group's production facilities are located in 13 countries, namely Turkey, Egypt, Russia, Georgia, Bulgaria, Bosnia Herzegovina, Italy, Ukraine, Romania, Germany, Hungary, Slovakia and India. As of the date hereof, Şişecam's ranking in terms of glass production capacity varies by product category from third to fifth globally and from second to fourth within Europe according to company-specific analysis derived from various external sources.

*Others.* The following table sets forth certain information, as of March 31, 2016, 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 0.16% of the Bank's assets as of such date.

Company	Bank's Share	Shares owned by the Bank and the Bank's affiliates	Sector
Bayek Tedavi Sağlık Hizm. ve İşl. A.Ş. ....	-	99.13%	Health Care Services
Camiş Yatırım 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. <sup>(1)</sup> .....	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
Nemtaş Nemrut Liman İşletmeleri A.Ş. ....	99.81%	100.00%	Shipping
Kültür Yayınları İş Türk A.Ş. ....	99.17%	100.00%	Publication
Erişim Müşteri Hizmetleri A.Ş. ....	-	100.00%	Call Center

(1) On April 29, 2016, the Bank's Board of Directors decided to initiate negotiations with investors for the block sale of the Bank's shares held in the company.

## Channel Management

As of March 31, 2016, the Bank, with its 1,355 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 78 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, 2016:

Regions	Branches
Marmara.....	524
Central Anatolia.....	241
Aegean.....	211
Mediterranean.....	154
Black Sea.....	114
South East Anatolia.....	66
Eastern Anatolia.....	45
Foreign Branches.....	23
<b>Total .....</b>	<b>1,378</b>

The Bank opened 47 new domestic branches in 2014 (three branches were consolidated with other branches during 2014), 26 new domestic branches in 2015 (five branches were consolidated with other branches during 2015) and two domestic branches in the first five months of 2016 (two branches were consolidated with other branches during this period), and the Bank is (as of the date of this Base Prospectus) planning on opening a total of 10 domestic branches during 2016. 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 specialized corporate branches and one specialized branch for multinationals operating in Turkey as of March 31, 2016.* These branches provide specialized services to companies that meet the corporate qualification and size criteria determined by the Bank's head office.
- *Commercial Branches – 53 branches as of March 31, 2016.* 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 – 15 branches as of March 31, 2016.* 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 – 1,276 branches as of March 31, 2016.* 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 6,575 domestic ATMs as of March 31, 2016. Based upon data provided by the Interbank Card Center, as of March 31, 2016, the Bank maintained the largest ATM network in Turkey among private commercial banks, with a market share of 13.5%. Since October 1, 2009, debit card users have been 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, 2016, the Bank had 221,755 point-of-sale terminals.

Below is a table presenting the Bank's percentage allocation of distribution channels (by transaction numbers) for the periods indicated:

	2013	2014	2015	2016 Q1
<b>Branches</b> .....	19%	19%	18%	17%
<b>Non-branch</b> .....	81%	81%	82%	83%
ATMs .....	31%	29%	28%	26%
Internet and Mobile .....	45%	48%	50%	53%
Telephone .....	2%	2%	2%	2%
Call Center.....	3%	2%	2%	2%

The Bank was the first to offer non-branch banking in Turkey when its first "Bankamatik" ATMs were introduced in 1982. The Bank was 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 İstanbul, 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. The Bank has established a strong presence in the mobile banking market with the İşCep mobile application brand. As of March 31, 2016, the Bank offered remote services in respect of more than 500 transactions that may be executed over the telephone or the internet and more than 140 transactions that could be executed over "İşCep" (mobile banking).

### **Information Technology**

The Bank's technology operations and initiatives are managed by two divisions: information technology and data management. These divisions employed almost 610 personnel, including approximately 400 professionals dedicated to installing, maintaining and operating the Bank's software applications, management information security, running the Headquarters Data Center and branch IT infrastructure, as of March 31, 2016. In addition, two subsidiaries (Softtech and İşnet) provide application development and maintenance project management and systems operations/infrastructure services, respectively.

The Bank uses 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 5,000 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 in İstanbul. The data center 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.

IBM Mainframe is commonly used for most of the core business areas. J2EE and .NET-based application servers have been chosen as the strategic growth platform for new emerging lines of business and business process management applications based upon a 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 end-user application functionalities are enriched and empowered by data warehouse, CRM systems and business intelligence integrations. The Bank has recently been working on the use of big data analytics for its business services. The Bank has established a strong presence in the mobile banking market with the İşCep mobile application brand.

The Bank has started a program that focuses on the simplification of the IT architecture and standardization of technology stacks to ease development and maintenance of applications and increase availability of the

systems and platforms. The Bank has also started the process to build a new data center that satisfies current and potential future technological requirements and improves IT resilience in order to enhance continuity of its business. 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
SME Loans Underwriting Unit Region Managers .....	≤ US\$1,500,000
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\$20,000 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 general purpose consumer loans, credit risk analysis is carried out by a decision engine and the results generated by such engine are categorized as follows: (a) automatic allocation (when the decision engine automatically allocates the credit for the branch to make the final decision), (b) branch allocation (when the customer's credibility requires specific evaluation of the branch), (c) head office allocation (when the credit amount exceeds the relevant branch's respective general purpose consumer loan authorization limit or when the customer's credibility requires more specific evaluation) and (d) automatic rejection (when the risk evaluation criteria of the customer does not fit the Bank's risk appetite).

For residential mortgage loans and auto loans, credit risk analysis is carried out initially at the branch level. Where the credit amount exceeds the relevant branch's respective loan authorization limits, 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 risks in relation to consumer loans, residential mortgage loans and auto loans.

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 Banks Association of Turkey Risk Center 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 Banks Association of Turkey Risk Center.

### *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 Tier 1 capital and Tier 2 capital as required by the BRSA under the relevant capital adequacy and equity regulations..

(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 Turkish banking regulations require Turkish banks to classify their total loan portfolio and provide certain amount of loan loss reserves. See “*Turkish Regulatory Environment – Loan Loss Reserves.*” See also the 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.

### 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. The amount of NPLs restructured and transferred to the “Renewed and Restructured Loans Account” in the three months ended March 31, 2016 and the full years 2015, 2014 and 2013 totaled TL 32.3 million, TL 34.0 million, TL 44.9 million and TL 54.3 million, respectively. The ratio of restructured NPLs to total NPLs as of March 31, 2016 and December 31, 2015, 2014 and 2013 was 0.82%, 0.94%, 1.86% and 2.43%, respectively. Other loans that are not classified as NPLs may also be restructured. As of March 31, 2016, restructured performing loans constituted 3.10% 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 has periodically sold NPL portfolio when the market conditions were attractive. 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
	2013	2014	2015	March 31,
	(TL millions)			2016
Balance at the beginning of the period .....	2,154	2,476	2,700	3,920
Additions <sup>(1)</sup> .....	1,709	1,799	2,611	678
Recoveries <sup>(2)</sup> .....	1,123	1,159	1,180	329
Portfolio sale.....	252	272	189	-
Write-off <sup>(2)</sup> .....	12	144	22	3
Balance at the end of the period .....	2,476	2,700	3,920	4,266

(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
	2013	2014	2015	March 31,
	(TL millions)			2016
Renewed and restructured loan accounts.....	4,743	5,371	5,681	5,713



## 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
	2013	2014	2015	March 31, 2016
Total NPL (TL million) .....	2,238	2,421	3,604	3,929
Coverage Ratio <sup>(1)</sup> .....	80.4%	76.9%	75.1%	76.5%
NPL Ratio.....	1.6%	1.5%	2.0%	2.2%

(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
	2013	2014	2015	March 31, 2016
Consumer loans <sup>(1)</sup> .....	1.5%	1.6%	2.0%	2.3%
Credit card loans.....	3.6%	4.0%	4.9%	5.4%
<b>Total Loans</b> .....	<b>1.6%</b>	<b>1.5%</b>	<b>2.0%</b>	<b>2.2%</b>

(1) Including retail overdraft accounts.

As of March 31, 2016, the Bank's NPL ratios were 2.3%, 5.4% and 2.2% 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, 2015 were 2.0%, 4.9% and 2.0%, respectively.

## 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, 2016, the Bank's total net exposure to its risk group totaled TL 2,518 million, an amount corresponding to 6.6% 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: (a) 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 (b) to their risk group, which amount is 50% of a bank's own funds. With a negligible amount of exposure to its shareholders and their risk group as of March 31, 2016, the Bank is well within the limits set by the BRSA.

## Employees and Benefits

As of March 31, 2016, the Bank had 25,079 employees. The following table sets forth the number of employees as of the indicated dates.

	Employees
December 31, 2013 .....	24,129
December 31, 2014 .....	24,308
December 31, 2015 .....	25,157
March 31, 2016 .....	25,079

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, 2016, 17.8% of the Bank's employees had only a

secondary school education, 2.2% were graduates of two or three years at college, 70.9% were graduates of universities relating to the banking industry, 5.1% were graduates of other universities and 4.0% 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 11.6% of all banking industry employees in Turkey as of March 31, 2016 according to the Turkish Banks Association. The Bank's personnel turnover rate (*i.e.*, resignations excluding retirees) is very low, amounting to 4.0%, 2.8% and 2.2% in 2013, 2014 and 2015, respectively. As of March 31, 2016, the Bank's employees (excluding security guards) had, on average, approximately 10.7 years of experience in the Bank and an average age of approximately 35.8 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, a Turkish union for the banking and insurance industries. Basisen and the Bank are parties to a collective bargaining agreement, which was signed on June 26, 2014 and was effective until March 2016. In May 2016, the Bank started new collective bargaining agreement negotiations. 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 İşbank Personnel Supplementary Pension Fund makes an additional lump-sum retirement payment.

The Council of Ministers is authorized to determine the date for pension funds, such as the İşbank Personnel Supplementary Pension Fund, to transfer their payment obligations to the contributors of such funds, those who receive salaries or income from these funds and their rightful beneficiaries to the Social Security Institution. In line with the law, the Bank has actuarial valuations made for the aforementioned pension fund and, as applicable based upon the resulting report, a provision for any actuarial and technical deficit is recorded in the financial statements.

## **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. In relation to a legal proceeding against certain current and past senior managers of the Bank, see "*Management – Legal Proceedings.*"

## **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 Turkish Civil Law. In relation to these payments made by the Bank, the tax auditors conducted an inspection and claimed that the payments should have been considered as wages and subject to withholding tax as the beneficiaries of the payments were the employees of the Bank.

Based upon initial auditor reports for 2007 and 2008, the Turkish tax authorities claimed in 2012 that the wages paid for such liabilities are subject to withholding tax and stamp tax and notified the Bank for the payment of TL 74 million for the total amount of tax and penalties. A similar assessment was made in 2013 for TL 152 million relating to 2009, 2010 and 2011. The Bank filed lawsuits to cancel these tax assessments

and some of the resulting decisions were determined in favor of the Bank and some were determined against the Bank.

The Bank applied to the Constitutional Court and one of the Bank's applications resulted with a Constitutional Court's decision dated November 12, 2014, which was published in the Official Gazette dated February 21, 2015 and numbered 29274. This decision determined that there was no legal basis for the Bank to pay tax for its contributions to the relevant pension fund and, as such, that the corresponding assessments were improper and should be returned to the Bank (with interest).

An inspection was also made in 2013 relating to similar foundations to which other Group companies make payments, and the related tax penalties totaled TL 33 million. These companies also filed lawsuits to cancel these tax assessments and some of the resulting decisions determined in favor of these companies and some of them were determined against them.

While there can be no certainty on the legal process, in line with the Constitutional Court decision described above, the Bank's management anticipates that lawsuits related to the periods 2007, 2008, 2009, 2010 and 2011 will be determined in favor of the Bank and the Group companies. Within the context of these developments, the Group's provisions amounting to TL 217 million, allocated for 2007, 2008, 2009, 2010 and 2011, have been reversed. The Bank's management will decide on the provisions, allocated for the periods starting with 2012, considering the upcoming developments. As of March 31, 2016, the Group's allocated provisions amounted to TL 10.5 million (TL 9.6 million as of March 31, 2015).

### **Anti-Money Laundering and Combating the Financing of Terrorism 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, the Financial Crimes Investigation Board (the "*FCIB*"). 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.

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.

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 U.S. 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 S&P, 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 EU 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 revision, suspension or withdrawal at any time by the assigning rating agency.

### *S&P (February 11, 2014)*

Foreign Currency Issuer Credit Ratings	BB+ / (Negative) / B
Local Currency Issuer Credit Ratings	BB+ / (Negative) / B
Turkish National Scale	trAA+ / trA-1

### *Moody's (September 29, 2015)*

Bank Deposit Foreign Currency	Baa3 / Negative / P-3 (Prime 3)
Bank Deposit Local Currency	Baa3 / Negative / P-3 (Prime 3)
Foreign Currency Issuer	Baa3 / Negative
Foreign Currency Subordinated Debt	Ba3

### *Fitch (June 16, 2015)*

Foreign Currency Issuer Default Rating	BBB- / Stable / F3
Local Currency Issuer Default Rating	BBB-/ Stable / F3
National Long Term Rating	AA+(tur) / Stable
Viability Rating	bbb-
Support Rating	3
Support Rating Floor	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 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.

The Internal Control Division monitors the design and effectiveness of the operating process of the internal control activities carried out by the relevant units. For this purpose, the Internal Control Division performs onsite and/or remote controls with a risk-focused approach, covering the Bank's branches in Turkey and abroad, financial reporting and information systems, head office divisions and all subsidiaries that are subject to consolidation.

### *Risk Management Group*

The Risk Management Group is made up of the Risk Committee as well as the Credit Risk unit, Validation unit, Asset Liability Management Risk unit, Operational Risk unit 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: (a) the co-ordination of compliance functions and activities implemented in the Bank's branches and head office divisions and (b) monitoring compliance activities of financial subsidiaries of the Bank. The Corporate Compliance division consists of four sub-units, namely the Corporate Compliance unit, the Banking Activities Compliance unit, the Fiscal Offenses unit and the Capital Markets Instructions Suspicious Transactions Investigation 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 its remains within the limits set by the Turkish banking authorities and the risk appetite of the Bank as set by its Board of Directors,
- (e) managing the composition of any long or short foreign currency position,
- (f) 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"). The 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. The 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. The ALCO also supervises the implementation process relating to these decisions.

The 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 the ALCO and is in charge of coordinating and reporting with respect to ALCO meetings.

The 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 the 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 the ALCO thus constitute the basis for decisions made in the ALMU. The 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, 2016, the Group's total assets increased to TL 326,873 million from TL 325,499 million as of December 31, 2015. 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,					
	2013		2014		2015	
	(TL)	(Foreign Currency)	(TL)	(Foreign Currency)	(TL)	(Foreign Currency)
<i>Assets</i>						
Cash and Banks.....	20.1%	79.9%	26.2%	73.8%	12.8%	87.2%
Loans.....	61.2%	38.8%	61.1%	38.9%	59.7%	40.3%
Securities Portfolio.....	83.3%	16.7%	82.8%	17.2%	77.8%	22.2%
<b>Total Assets .....</b>	<b>62.1%</b>	<b>37.9%</b>	<b>63.6%</b>	<b>36.4%</b>	<b>60.1%</b>	<b>39.9%</b>
<i>Liabilities</i>						
Deposits .....	53.6%	46.4%	53.6%	46.4%	46.4%	53.6%
Funds Borrowed <sup>(1)</sup> .....	46.7%	53.3%	40.5%	59.5%	36.8%	63.2%
<b>Total Liabilities .....</b>	<b>59.3%</b>	<b>40.7%</b>	<b>58.6%</b>	<b>41.4%</b>	<b>53.8%</b>	<b>46.2%</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, 2016</b>	
	(TL)	(Foreign Currency)
<i>Assets</i>		
Cash and Banks .....	20.4%	79.6%
Loans .....	59.5%	40.5%
Securities Portfolio .....	78.3%	21.7%
<b>Total Assets .....</b>	<b>61.5%</b>	<b>38.5%</b>
<i>Liabilities</i>		
Deposits .....	48.1%	51.9%
Funds Borrowed <sup>(1)</sup> .....	35.0%	65.0%
<b>Total Liabilities .....</b>	<b>54.8%</b>	<b>45.2%</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, 2015:

	<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 .....	36,838,015	1,780,087	233,135	14,833
Loans <sup>(1)(2)</sup> .....	34,791,825	14,679,143	45,093,345	100,296,425
Securities Portfolio .....	1,920,166	685,943	2,679,449	48,724,650
<b>Total Assets<sup>(2)</sup> .....</b>	<b>78,090,485</b>	<b>17,592,502</b>	<b>48,775,168</b>	<b>151,901,573</b>
<i>Liabilities</i>				
Deposits .....	107,792,049	26,613,608	8,785,954	3,087,643
Funds Borrowed <sup>(3)</sup> .....	32,783,544	11,054,905	23,838,109	38,610,972
<b>Total Liabilities<sup>(4)</sup> .....</b>	<b>160,672,261</b>	<b>38,332,178</b>	<b>32,989,477</b>	<b>41,934,218</b>

Notes: Derivative Financial Assets Held for Trading amounting to TL 1,451,999 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, foreign currency risk and 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 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, 2015:

	Less than or equal to one month	Greater than one month and less than or equal to three months	Greater than three months and less than or equal to 12 months	Greater than 12 months	No Interest	Total
<i>(TL thousands)</i>						
Cash balances and balances with the Central Bank.....	19,847,265	-	-	-	12,642,711	32,489,976
Balances with banks .....	3,213,459	1,780,087	233,134	14,833	1,134,581	6,376,094
Trading securities .....	580,404	563,671	754,834	288,980	315,560	2,503,449
Interbank funds sold .....	1,109,592	198,611	-	-	-	1,308,203
Securities available for sale loans...	4,726,047	7,248,318	9,611,044	24,920,871	503,062	47,009,342
Loans <sup>(1)</sup> .....	45,893,591	26,148,831	43,577,782	80,068,316	200,585	195,889,105
Securities held to maturity .....	1,817,427	679,880	1,830,570	169,540	-	4,497,417
Other assets .....	1,491,447	190,971	772,450	2,066,170	30,904,348	35,425,386
Total assets .....	78,679,232	36,810,369	56,779,814	107,528,710	45,700,847	325,498,972
Bank deposits .....	4,012,011	1,266,368	1,815,981	64,168	763,508	7,922,036
Other deposits .....	73,322,388	26,617,230	8,785,633	3,084,207	34,469,796	146,279,254
Interbank funds borrowed.....	22,730,348	934,183	959,902	-	-	24,624,433
Miscellaneous payable.....	776,231	-	2,071	4,488	17,058,833	17,841,623
Marketable securities issued <sup>(2)</sup> .....	2,546,925	5,099,680	4,498,481	15,981,605	-	28,126,691
Funds borrowed from other financial institutions .....	8,098,278	23,700,577	8,918,789	4,896,726	-	45,614,370
Other liabilities .....	565,262	309,106	383,789	105,791	53,726,617	55,090,565
Total liabilities.....	112,051,443	57,927,144	25,364,646	24,136,985	106,018,754	325,498,972
Asset/liability gap.....	(33,372,211)	(21,116,775)	31,415,168	83,391,725	(60,317,907)	-
Off-balance sheet gap .....	214,415	3,526,599	2,607,345	(4,062,841)	(1,991,965)	293,553
Total gap.....	(33,157,796)	(17,590,176)	34,022,513	79,328,884	(62,309,872)	293,553
Cumulative gap.....	(33,157,796)	(50,747,972)	(16,725,459)	62,603,425	293,553	-

(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. Liquidity coverage ratios, which are subject to legal reporting requirements, are also used to monitor liquidity on an ongoing basis.

Within the framework of the Bank's asset and liability management risk policy, internal limits established for liquidity risk management are monitored by the 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 50.4%, 48.5% and 47.4% of total liabilities as of December 31, 2013, 2014 and 2015, 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, 2016, the Group's demand deposits, of which 46.5% were Turkish Lira-denominated, constituted 23.0% of total deposits. As of the same date, time deposits represented 77.0% of total deposits, with Turkish Lira-denominated deposits playing a major role, constituting 48.5% 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,				
	2013	Change	2014	Change	2015
	(TL millions)	(%)	(TL millions)	(%)	(TL millions)
<b>No term</b> .....	<b>26,162</b>	<b>15.06%</b>	<b>30,102</b>	<b>17.07%</b>	<b>35,239</b>
Turkish Lira-denominated .....	14,499	9.77%	15,916	8.73%	17,306
Foreign currency-denominated .....	11,663	21.63%	14,186	26.41%	17,933
<b>Up to three months</b> .....	<b>81,306</b>	<b>11.11%</b>	<b>90,337</b>	<b>5.71%</b>	<b>95,493</b>
Turkish Lira-denominated .....	48,325	9.63%	52,979	(8.21)%	48,627
Foreign currency-denominated .....	32,981	13.27%	37,358	25.45%	46,866
<b>Greater than three months and less than or equal to 12 months</b> .....	<b>7,506</b>	<b>7.65%</b>	<b>8,080</b>	<b>56.91%</b>	<b>12,678</b>
Turkish Lira-denominated .....	2,026	35.69%	2,749	86.83%	5,136
Foreign currency-denominated .....	5,480	(2.72)%	5,331	41.47%	7,542
<b>Over 12 months</b> .....	<b>6,864</b>	<b>(12.85)%</b>	<b>5,982</b>	<b>80.39%</b>	<b>10,791</b>
Turkish Lira-denominated .....	510	(21.37)%	401	1.50%	407
Foreign currency-denominated .....	6,354	(12.17)%	5,581	86.06%	10,384
<b>Total deposits</b> .....	<b>121,838</b>	<b>10.39%</b>	<b>134,501</b>	<b>14.65%</b>	<b>154,201</b>
Turkish Lira-denominated .....	65,360	10.23%	72,045	(0.79)%	71,476
Foreign currency-denominated .....	56,478	10.58%	62,456	32.45%	82,725

## 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. The 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, 2013, 2014 and 2015 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,		
	2013	2014	2015
		(TL thousands)	
US\$ .....	65,831	154,789	315,616
Euro .....	(252,233)	(414,627)	(420,697)
Other currencies .....	(15,846)	(119,863)	(61,518)
<b>Total .....</b>	<b>(202,248)</b>	<b>(379,701)</b>	<b>(166,599)</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. As of March 31, 2016, 99% of the total credit risk arising from over-the-counter derivative transactions was 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 loss 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"), Combating the Financing of Terrorism and Anti-Bribery 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 – Political, Economic and Legal Risks Relating to Turkey – Combating the Financing of Terrorism.”* In addition, the Council of Ministers’ Decree dated September 30, 2013 implemented United Nations Security Council Resolutions 1267, 1988 and 1989, which further improved Turkey’s CFT regime. 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. On June 27, 2014, FATF stated that Turkey has made significant progress to improve its CFT regime and has largely addressed its action plan, including by adequately criminalizing terrorist financing and establishing procedures to identify, freeze and confiscate terrorist assets.

In October 2014, the FATF Plenary concluded that Turkey would no longer be subject to the FATF’s monitoring process under its on-going global anti-money laundering/countering the financing of terrorism (*“AML/CFT”*) compliance process. Although the FATF identified outstanding AML/CFT issues in its mutual evaluation report, the FATF Plenary decided at its October 2014 Plenary meeting that Turkey had taken sufficient steps in addressing technical compliance with the core and key recommendations set forth in the mutual evaluation to be removed from the follow-up process.

Also in October 2014, the Organization for Economic Co-operation and Development (the *“OECD”*) Working Group in Bribery adopted Phase 3 Report on Implementing the OECD Anti-Bribery Convention. In such report, the OECD made some recommendations to Turkey in order to improve the levels of anti-bribery enforcements in Turkey.

The Bank has adopted various policies and procedures aimed at ensuring compliance with anti-bribery laws and preventing money laundering and terrorist financing. The Bank has adopted an Anti-Bribery and Anti-Corruption Policy, which sets out principles for the Bank’s employees and any individual or legal person acting on behalf of the Bank or with the Bank to comply with anti-bribery laws. 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 laws and regulations and applicable laws and regulations 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 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.

#### **Liquidity and Funding**

Deposits are the Group's main source of funding, with a 48.5% share in total liabilities as of March 31, 2016. As of March 31, 2016, according to the consolidated financial statements 63.3%, and according to the Bank-only financial statements 70.4%, 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 domestic bill and bond issues.

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, 2016, the balance of the two syndicated term loan facilities obtained by the Bank was approximately US\$2.6 billion. The Bank has been issuing senior unsecured eurobonds since 2011, including benchmark issues (including a US\$750 million issuance in April 2016) and private placements with different maturities, currencies and interest rates. The Bank also has issued Tier 2 eurobonds since 2012. On June 6, 2016, a majority of the holders of the Bank's US\$400 million subordinated notes consented to certain amendments to the terms and conditions of such notes. As a result, such notes are fully eligible for inclusion as Tier 2 capital of the Bank.

The Bank has a "Diversified Payment Rights" program created in 2004. Through this program, the Bank sold all right, title and interest in, to and under U.S. 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\$5.4 billion.

In addition to the above, the Bank has entered into various transactions with multilateral and developmental institutions, export credit agencies and other lenders, principally for the purposes of project financing and financing of micro- and small- to medium- size enterprises, energy efficiency projects or certain imports.

As of December 31,					
	2013	% Change	2014	% Change	2015
	<i>(TL millions, except percentages)</i>				
Deposits.....	121,838	10.4%	134,501	14.6%	154,201
Repos & Money Market.....	25,000	(10.8)%	22,305	10.4%	24,624
Funds Borrowed <sup>(1)</sup> .....	40,391	38.7%	56,042	31.6%	73,741
Other <sup>(2)</sup> .....	28,495	9.6%	31,221	16.1%	36,249
Equity <sup>(2)</sup> .....	25,895	27.5%	33,005	11.1%	36,684
<b>Total<sup>(2)</sup>.....</b>	<b>241,619</b>	<b>14.7%</b>	<b>277,073</b>	<b>17.5%</b>	<b>325,499</b>

(1) Including debt issuances and subordinated loans.

(2) The figures and ratios for 2013 are not comparable with the figures and ratios for 2014 and 2015 due to a change in the Group's accounting policy. See "Presentation of Financial and Other Information – Presentation of Financial Information – Accounting Policy Changes."

As of December 31,			
	2013 <sup>(2)</sup>	2014	2015
	<i>(% of Total Liabilities)</i>		
Deposits .....	50.4%	48.5%	47.4%
Repos & Money Market.....	10.3%	8.1%	7.6%
Funds Borrowed <sup>(1)</sup> .....	16.7%	20.2%	22.7%
Other.....	11.8%	11.3%	11.0%
Equity.....	10.7%	11.9%	11.3%
<b>Total.....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Including debt issuances and subordinated loans.

(2) The ratios for 2013 are not comparable with the ratios for 2014 and 2015 due to a change in the Group's accounting policy. See "Presentation of Financial and Other Information – Presentation of Financial Information – Accounting Policy Changes."

## 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 ("BIS"). These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures (commitment and contingencies).

Pursuant to the Regulation on Equities of Banks, published in the Official Gazette No. 26333 dated November 1, 2006 (the "2006 Equity Regulation"), which was replaced by the 2013 Equity Regulation, the Bank's total capital ratio was (through the end of 2013) calculated by dividing its "Tier 1" capital, which comprises its share capital, reserves, retained earnings, profit and revaluation surplus for the current periods, plus its "Tier 2" capital, which comprises general provisions, 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, 2016, the Bank's regulatory capital adequacy ratio was 15.46% and the Group's regulatory capital adequacy ratio was 14.60%, each significantly exceeding the minimum legal ratio of 8.0%. On June 6, 2016, a majority of the holders of the Bank's US\$400 million subordinated notes consented to certain amendments to the terms and conditions of such notes. As a result, such notes are fully eligible for inclusion as Tier 2 capital of the Bank and these amendments are expected to have a positive impact on the Bank's and the Group's capital adequacy ratios.

Within the context of the implementation of the Basel III framework in Turkey, the 2006 Equity Regulation was replaced by the 2013 Equity Regulation as noted above. As a result, the calculations regarding capital

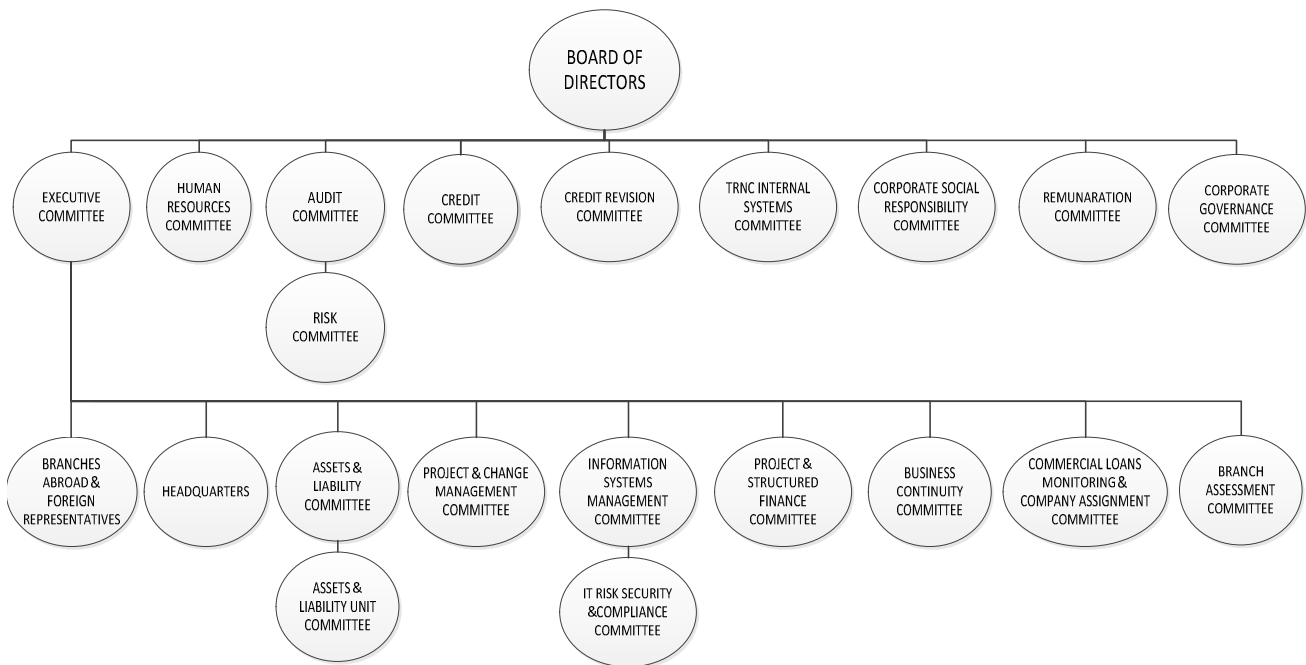
adequacy for periods from January 1, 2014 are performed in accordance with the 2013 Equity Regulation and other regulations newly enacted and/or amended by the BRSA. See “*Turkish Regulatory Environment - Capital Adequacy*” for additional information.

## MANAGEMENT

In accordance with the Bank's articles of association and the relevant laws and regulations of Turkey, the Bank is ultimately controlled by its shareholders through its General Assembly. According to the Bank's articles of association, 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 association 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 May 31, 2016:



### Board of Directors

According to the Bank's articles of association, 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 and is eligible to be re-elected.

Under the Bank's articles of association, 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 members of the Board of Directors 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.

The Turkish Commercial Code allows 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 these rules, 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 of Directors 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
Fusun Tümsavaş .....	Vice Chairman <sup>(1)</sup>	2008
Adnan Bali.....	Director & CEO	2011
Hasan Koçhan.....	Director	2008
Mustafa Kıcılhoğlu .....	Director	2011
Hüseyin Yalçın .....	Independent Director	2011
Murat Vulkan .....	Director	2011
Prof. Dr. Turkay Berksoy .....	Independent Director	2014
Kemal Meral .....	Director	2014
Ulaş Moğultay .....	Director	2014
Feray Demir.....	Director	2016

(1) Independent Director as a result of being a member of the Audit Committee.

#### *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 originally elected as a member of the Board of Directors on March 31, 2011. He has been serving as the Chairman of the Board of Directors since April 1, 2011 and the Head of the Remuneration Committee since December 29, 2011.

#### *Fusun Tümsavaş (Vice Chairman)*

Born in Ankara in 1957, Fusun 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 Section Head and later an Assistant Credit Specialist in the same department. She was appointed to the Bank's I. Loans Department as an Assistant Manager in 1994 and as a Unit Manager in 1999, and in 2004 she became the head of the Commercial Loans Department. Fusun Tümsavaş was originally appointed to the Bank's Board of Directors on March 28, 2008. She has been serving as a member of the Credit Committee since April 2, 2008. She is the Vice Chairman of the Bank's Board of Directors and also Chairman of the Risk Committee, Audit Committee, the TRNC Internal Systems Committee and the Corporate Governance 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 has been serving as the

16th Chief Executive Officer of the Bank and the Chairman of the Credit Committee since April 1, 2011. He is also a member of the Risk Committee.

*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 Section Head 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 originally appointed to the Bank's Board of Directors on November 3, 2008. He has been serving as a member of the Credit Committee since May 30, 2011.

*Mustafa Kıcaloğlu (Director)*

Born in Silifke in 1946, Mustafa Kıcaloğlu 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 Prospective Judge in Silifke, then he served as Aralık and Giresun Deputy Public Prosecutor and as a Judge in Baskil, Çankırı, Kocaeli and Ankara. In 2001, Mr. Kıcaloğlu was elected as a Member of the Supreme Court (serving as Head of the 4th Civil Chamber), where he remained until he retired. Mr. Kıcaloğlu was originally elected to the Bank's Board of Directors on March 31, 2011.

*Hüseyin Yalçın (Independent Director)*

Born in Kızılca 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, Deputy Chief Executive at Kent Portföy 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 of Directors on March 31, 2011 and, on February 27, 2013, was originally 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 an Assistant Section Head 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 Yenışehir/Ankara and Başkent Corporate Branches in 2006 and 2007, respectively. Mr. Vulkan was originally elected to the Bank's Board of Directors on May 30, 2011.

*Prof. Dr. Turkey Berksoy (Independent Director)*

Born in Elazığ in 1951, Prof. Dr. Turkey Berksoy graduated from the İstanbul Academy of Economic and Commercial Sciences. He completed a master's degree at Boğaziçi University and obtained a doctorate at Marmara University. He worked as a faculty member and held administrative duties at various universities in Turkey, as well as being a visiting lecturer at the University of East Anglia School of Development Studies. Prof. Dr. Berksoy is currently serving as a faculty member and head of the Finance Department of the Faculty of Economics of Marmara University.

In addition to his post at Marmara University, Prof. Dr. Berksoy, who is also a chartered accountant, has served as Chairman of the Board at the Finance Research Center of the Faculty of Economics and Administrative Science of Marmara University, adviser at several banks, auditor to the Board of Directors of the Bank, member of the board of the Tax Reform Commission, The Union of Chambers and Commodity Exchanges of Turkey Private Specialization Commission, Güneş Hayat Sigorta A.Ş., Petkim A.Ş., Ataköy Otelcilik A.Ş., Türkiye Maritime Facilities Inc. and Paşabahçe Cam Sanayi ve Ticaret A.Ş., member of the Ministry of Finance Tax Council and independent member of the board at Anadolu Anonim Türk Sigorta Şirketi, Trakya Cam Sanayii A.Ş. and Türkiye Şişe ve Cam Fabrikaları A.Ş.

Prof. Dr. Berksoy was elected as a member of the Bank's Board of Directors on March 28, 2014 and on March 31, 2014, was elected as a member of the Audit Committee, the TRNC Internal Systems Committee, the Corporate Governance Committee and the Remuneration Committee and as an alternate member of the Credit Committee. Prof. Dr. Berksoy was elected as an independent director in the Bank's Board of Directors, which election was approved by the Bank's shareholders at its annual General Assembly meeting on March 31, 2015.

*Kemal Meral (Director)*

Born in Ankara in 1970, Mr. Kemal Meral graduated from the Business Administration Department of Southern New Hampshire University. Mr. Meral served in the banking sector from 1994 to 1995, in the Prime Ministry Press Public Relations Undersecretariat from 1996 to 1997, in several financial organizations between 1997 and 2002 and at the Prime Ministry Press Public Relations Undersecretariat from 2002 to 2014. Mr. Meral was elected as a member of the Bank's Board of Directors on March 28, 2014.

*Ulaş Moğultay (Director)*

Born in İstanbul in 1979, Mr. Ulaş Moğultay graduated from the Economics Department of Boston University. He took master's level classes in International Affairs and Politics at the University of Chicago and holds a master's degree in Economics from Syracuse University and a master's degree in Business Administration from Loyola University, Chicago. From 2005 to 2007, Mr. Moğultay served as an Economic Adviser at the World Bank and then, following the completion of a master's degree at Loyola University between 2008 and 2010, Mr. Moğultay served as an Economist at Ülker Group from 2010 to 2013. Mr. Moğultay was elected as a member of the Bank's Board of Directors on March 28, 2014. Mr. Moğultay has been serving as a member of the Corporate Social Responsibility Committee since July 24, 2014.

*Feray Demir (Director)*

Born in Ağrı in 1968, Ms. Demir received a degree in Business Administration from Anadolu University in 1987. She started her career at the Bank's Sefaköy/İstanbul Branch as an Officer in 1988 and was appointed as the Assistant Section Head in 1990, Section Head in 1995, Sub-Manager in 1996 and Assistant Manager in 1999. She started serving as an Assistant Manager in the Commercial Loans Department in 2002. Ms. Demir served as an Assistant Manager in the Corporate Marketing Department from 2003 to 2005 and as the Manager of the Çarşı-Güneşli/İstanbul Branch from 2005 to 2007. Subsequently, Ms. Demir served as the Manager of the Commercial Banking Sales Division from 2007 to 2011 and as the Bank's İstanbul Corporate Branch Manager from 2011 to 2016. Ms. Demir was elected to the Bank's Board of Directors on March 25,

2016. She has been serving as a member of the Corporate Social Responsibility Committee and as an alternate member of the Credit Committee since March 28, 2016.

### **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:

<b>Name</b>	<b>Position</b>
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
İlhami Koç.....	Deputy Chief Executive
Levent Korba.....	Deputy Chief Executive
Mahmut Magemizoğlu.....	Deputy Chief Executive
Ergün Yorulmaz.....	Deputy Chief Executive
Yalçın Sezen.....	Deputy Chief Executive
Murat Bilgiç.....	Deputy Chief Executive
N. Burak Seyrek.....	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 a 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 as a 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 a 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 a 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 as a 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 a 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 a 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 as a Deputy Chief Executive in 2005.

#### *Ergün Yorulmaz*

Born in Amasya in 1959, Mr. Yorulmaz graduated from Marketing Department of Atatürk University's Faculty of Administrative Sciences. He joined the Bank as a candidate officer in the Bank's Arapcamii Branch in 1983, an Assistant Manager in the Kayseri Branch in 1993, served as the Manager of the Kastamonu, Çorum, Gaziantep and Sivas branches between 1994 and 2004 and became the Regional Manager of the Southeast Region in 2004 and the Eagean II Region in 2006. Mr. Yorulmaz became the Head of the Bank's Retail Loans Monitoring & Recovery Division in 2008 and was appointed as a Deputy Chief Executive in 2013.

#### *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 a Deputy Chief Executive in 2011.



### *Murat Bilgiç*

Mr. Murat Bilgiç was born in Ankara in 1968 and graduated from the International Relations Department of the Faculty of Economics and Administrative Sciences at Middle East Technical University. He holds a master's degree in banking from the University of Birmingham. He joined the Bank in 1990 as an Assistant Inspector. In 2002, after serving in a variety of positions at the Bank, he became a Regional Manager in the Corporate Loans Department. Since 2008, he has been serving as the Manager of the Corporate Loans Department. On March 25, 2016, Mr. Bilgiç was appointed as a Deputy Chief Executive.

### *Burak Seyrek*

Born in Ankara in 1970, Nevzat Burak Seyrek graduated from the International Relations Department of the Faculty of Political Science of Ankara University in 1990. In December 1990, he began his career as a junior training assistant in the training center of the Bank. After his employment in the education directorate, he served in the credit department as a credit specialist. From 1994 to 2001, Mr. Seyrek worked at İşbank GmbH in the credit and risk management department as an Assistant Director and the Risk Manager. In 2001, he returned to the Bank, where he worked until 2004 in the Başkent Branch (Ankara) as the Assistant Director responsible for credit and trade. In 2004, Mr. Seyrek was promoted to the position of branch manager of the Ostim Branch in Ankara. From 2007 to 2010, he held the position of the regional corporate sales director for Ankara region II. From 2010 to 2011, he served as the head of corporate banking products, and from 2011 to 2013 he continued the duties of head of corporate banking (sales) with responsibility for the regional directorates and corporate branches. In October 2013, he was appointed as the CEO of İşbank AG. On March 25, 2016, Mr. Seyrek was appointed as a Deputy Chief Executive.

### *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 TRNC 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 of Directors 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 82 credit files in 2015 and seven in the first three months of 2016.

*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 2015, 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 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 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 the 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**

The Bank does not distribute any dividends to the members of the Board of Directors (including the Chief Executive Officer) for their roles as members of the Board of Directors as per article 58 of the Bank's Articles of Incorporation, which were amended on March 30, 2016. Monthly remunerations of the members of the Board of Directors and auditors are determined annually at the Bank's General Shareholders' Meetings and disclosed to the Borsa İstanbul.

The aggregate amount of the remuneration paid and benefits granted to the members of the Bank's Board of Directors and its senior management for 2015 was TL 17 million.

## **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.

### *CMB Corporate Governance Principles*

On January 3, 2014, the CMB issued Corporate Governance Communiqué, which provides certain mandatory and non-mandatory corporate governance principles as well as rules regarding related-party transactions and a company's investor relations department. Some provisions of the Corporate Governance Communiqué are applicable to all companies incorporated in Turkey and listed on the Borsa İstanbul, whereas some others are applicable solely to companies whose shares are traded in certain markets of the Borsa İstanbul. The Corporate Governance Communiqué provides specific exemptions and/or rules applicable to banks that are traded on the Borsa İstanbul.

As of the date of this Base Prospectus, the Bank is subject to the corporate governance principles stated in the banking regulations and the regulations for capital markets that are applicable to banks. In case of any non-compliance with any of the non-mandatory principles applicable to the Bank under the Corporate Governance Communiqué, the Bank will explain such non-compliance in its annual Corporate Governance Principles Compliance Report, which is published as part of its annual report.

The Corporate Governance Communiqué contains principles relating to: (a) companies' shareholders, (b) public disclosure and transparency, (c) the stakeholders of companies and (d) the board of directors. A number of principles are compulsory, while the remaining principles apply on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalization and the market price of their free-float shares, subject to recalculation on an annual basis. The Bank is classified as a "1st Group" company.

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 these principles.

## **Legal Proceedings**

### *POAŞ Proceedings*

On March 22, 2016, a court in İstanbul received a prosecutor's indictment related to some of the fuel import transactions of publicly traded Turkish fuel distributor OMV Petrol Ofisi A.Ş. ("*POAŞ*") against certain of its board members or senior managers who served between 2001 and 2007. The indictment includes allegations against the Bank's current Chairman and certain other current and past senior managers who served at POAŞ between 2001 and 2005, when the Bank was a significant minority shareholder in the company. As of the date of this Base Prospectus, the Bank's management does not believe that the proceedings will have any material impact on the Bank. The lawsuit is pending as of the date of this Base Prospectus.

## 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.

As of March 31, 2016: (a) the major shareholder of the Bank, with a 40.15% shareholding, was the İşbank Personnel Supplementary Pension Fund, which acts on behalf of both active and retired employees of the Bank, (b) 31.76% of the Bank’s shares were on free float, and (c) 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, 2016, the share capital of the Bank was TL 4,500,000,000 consisting of 112,502,250,000 fully paid-up shares. 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 .....	45,163,573,967	40.15%
Sub-total.....	45,164,558,329	40.15%
<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	28.09%
Sub-total.....	31,604,200,103	28.09%
<b>Public Free Float</b>		
Class A Shares .....	36,900	0.0%
Class B Shares .....	1,127,401	0.0%
Class C Shares .....	35,732,327,267	31.76%
Sub-total.....	35,733,491,568	31.76%
<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 association. Under its articles of association, 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), 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 association.

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).

	2013	2014	2015
		(TL, except percentages)	
Class A Shares.....	212	289	327
Class B Shares.....	3,942	5,058	5,612
Class C Shares.....	554,727,240	699,024,745	770,662,506
<b>Total.....</b>	<b>554,731,394</b>	<b>699,030,092</b>	<b>770,668,445</b>
Payout ratio (%).....	17.5%	20.1%	25.5%

## Preferential rights

Under the Bank's articles of association, 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. According to Article 49 of the Bank's articles of association, each Group (A) share with a nominal value of 1 Kuruş gives its shareholder one voting right, each Group (B) share with a nominal value of 1 Kuruş gives its shareholder one voting right and each Group (C) share with a nominal value of 4 Kuruş gives its shareholder four voting rights. Votes may be cast by proxy.

## Privileges

Holders of Class A shares have additional privileges according to Articles 18 and 19 of the Bank's articles of association. 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 pre-emption 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 association.

## 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 Turkey. The CHP is the first official political party 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 31.76% of the Bank's shares as of March 31, 2016.



## 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 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, 2016, the Bank's total net exposure to its risk group totaled TL 2,677 million, an amount corresponding to 7% 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,	
	2013		2014		2015		2016	
	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 .....	568,510	0.39%	445,226	0.26%	326,211	0.17%	301,072	0.16%
Non-cash loans ...	1,672,513	4.21%	1,728,681	3.87%	2,109,688	3.99%	2,068,796	4.15%
Deposits .....	2,369,051	1.94%	3,199,237	2.38%	3,496,383	2.27%	3,709,422	2.34%
Derivatives .....	-	0.00%	-	-	29,860	0.02%	32,667	0.02%

## **TURKISH BANKING SYSTEM**

*The following information relating to the Turkish banking sector has been provided for background purposes only. The information has been extracted from third-party sources that the Bank's management believes to be reliable but the Bank has not independently verified such information.*

### **Structural Changes in the Turkish Banking System**

The Turkish financial sector has gone through major structural changes as a result of the financial 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.

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 set the RUSF charged on consumer credits to be utilized by real persons (for non-commercial utilization) at 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 Türk Ekonomi Bankası A.Ş. Since 2012, Odea Bank A.Ş., Bank of Tokyo-Mitsubishi UFJ Ltd., Intesa Sanpaolo S.p.A. and Rabobank A.Ş. started operations in Turkey. In October

2012, Standard Chartered Bank purchased Credit Agricole Yatırım Bankası Türk Anonim Şirketi. In May 2015 and February 2016, the BRSA granted permission to Ziraat Katılım Bankası A.Ş. (“*Ziraat Katılım*”) and Vakıf Katılım Bankası A.Ş. (“*Vakıf Katılım*”), respectively, for each to start their operations as a participation bank. The BRSA also granted permission for Bank of China Limited to establish a deposit-taking bank in Turkey in May 2016.

A number of banks have been 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 sector as of the end of each indicated year.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Number of banks	46	46	45	45	45	44	45	45	47	47

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

Note: Total number of banks includes deposit-taking banks, investment banks, development banks and banks under the administration of the SDIF, but excludes participation banks (Islamic banks).

As of March 31, 2016, 46 banks were operating in Turkey (excluding participation banks and the banks under the administration of the SDIF) according to the Turkish Banks Association. Thirty-three of these were deposit-taking banks (including the Bank) and the remaining banks were investment and development banks (six participation banks, which conduct their business under different legislation in accordance with Islamic banking principles, are not included in this analysis). Among the deposit-taking banks, three banks were state-controlled banks, nine were private domestic banks and 21 were private foreign banks. 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. On February 3, 2015, the SDIF took over management of Asya Katılım Bankası A.Ş. (“*Bank Asya*”), a private participation bank. The BRSA announced that this action was taken due to Bank Asya’s violation of a provision of the Banking Law that requires banks to have a transparent and open shareholding and organizational structure that does not obstruct the efficient auditing of the banks by the BRSA. On May 29, 2015, the BRSA announced that shareholding rights (except dividends), management and audit of Bank Asya is to be transferred to the SDIF for partial or full transfer, sale or merger of the bank pursuant to Article 71 of the Banking Law; *provided* that any loss shall be deducted from the shares of the existing shareholders. In May 2016, the Chairman of the BRSA announced that the SDIF will either sell Bank Asya by the end of May or Bank Asya’s license will be cancelled by the BRSA. As of the date of this Base Prospectus, there has not been any development in relation to the status of Bank Asya. As indicated above, upon the BRSA’s permission granted to Ziraat Katılım and Vakıf Katılım in May 2015 and February 2016, respectively, for each to operate as a participation bank, the number of participation banks operating in Turkey increased to six.

Deposit-taking Turkish banks’ total balance sheets have grown at a CAGR of 17.3% from December 31, 2008 to March 31, 2016, driven by loan book expansion and customer deposits growth, which increased by a CAGR of 21.2% and 15.0%, respectively, during the same period according to the BRSA. Despite strong growth of net loans and customer deposits since 2008, 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 77.4% and 67.6%, respectively, as of December 31, 2015 according to BRSA data, whereas 19 countries in the eurozone’s banking sector had average loan and deposit penetration ratios of 165.8% and 163.5%, respectively, as of the same date based upon data from the ECB.

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,
	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Balance sheet</b>									
	<i>(TL millions, except CAGR)</i>								
Loans .....	338,091	355,285	479,018	621,379	716,307	939,772	1,118,887	1,339,149	1,361,032
Total assets .....	683,823	773,357	932,371	1,119,911	1,247,653	1,566,190	1,805,427	2,130,601	2,174,073
Deposits .....	435,554	487,909	583,947	656,276	724,296	884,457	987,463	1,171,251	1,201,203
Shareholders' equity .....	72,060	93,833	114,979	123,007	157,553	165,954	201,117	228,144	237,639
<b>Income statement</b>									
Net Interest Income.....	28,245	38,758	35,895	36,056	47,837	52,353	59,705	70,409	19,311
Net Fees and Commission									
Income .....	9,611	10,846	11,459	13,345	14,704	17,444	19,351	21,037	5,396
Total income.....	45,339	57,275	58,955	61,669	73,831	84,397	95,051	110,389	30,08
Net Profit .....	11,851	18,490	20,518	18,177	21,539	22,473	22,936	23,889	7,569
<b>Key ratios</b>									
Loans/deposits .....	77.6%	72.8%	82.0%	94.7%	98.9%	106.3%	113.3%	114.3%	113.3%
Net interest margin .....	4.6%	5.4%	4.3%	3.4%	4.1%	3.7%	3.6%	3.5%	3.6%
Return on average equity ....	19.9%	25.2%	22.2%	16.8%	16.8%	15.1%	13.3%	12.0%	13.2%
Capital adequacy ratio .....	16.6%	19.3%	17.7%	15.5%	17.3%	14.6%	15.7%	15.0%	14.9%

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

(1) CAGR is calculated by taking into account year-end figures as of (or for the year ended) December 31, 2008 and 2015.

## Competition

The Turkish banking industry is highly competitive and relatively concentrated with the top 10 deposit-taking banks accounting for 89.6% of total assets of deposit-taking banks as of March 31, 2016 according to the BRSA. Among the top 10 Turkish banks, there are three state-controlled banks – Ziraat, Halkbank and Vakıfbank, which were ranked first, sixth and seventh, respectively, in terms of total assets as of March 31, 2016 according to the bank-only financials published in the Public Disclosure Platform (www.kap.gov.tr). These three state-controlled banks accounted for 33.2% of deposit-taking Turkish banks' performing loans and 36.1% of customer deposits as of such date according to the BRSA. The top four privately-owned domestic banks as of such date were 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 46.7% of deposit-taking Turkish banks' performing loans and approximately 48.4% of customer deposits as of such date according to the BRSA. The remaining banks in the top 10 deposit-taking banks in Turkey as of such date included three mid-sized banks, namely Finansbank A.Ş. ("Finansbank"), Türk Ekonomi Bankası A.Ş. and Denizbank A.Ş. ("Denizbank"), which were controlled by National Bank of Greece ("NBG"), BNP Paribas and Sberbank, respectively, as of March 31, 2016; however, NBG entered into an agreement with QNB in December 2015 regarding the sale of its entire stake in Finansbank. Such share transfer is pending subject to compliance with the closing conditions as of the date of this Base Prospectus.

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 three largest private competitors mentioned above as of March 31, 2016:

Banks	Number of Branches	Total Assets	Per Branch	
			Loans <sup>(1)</sup>	Customer Deposits
(TL millions)				
The Bank.....	1,378	276.0	127.2	114.5
Garanti .....	981	264.3	166.5	151.9
Akbank.....	899	241.0	158.5	156.3
Yapı Kredi.....	997	223.1	149.8	134.0

Source: BRSA and the banks' financials as of March 31, 2016.

(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 (which has been replaced by the Banking Law) established the BRSA. The BRSA supervises the application of banking legislation, monitors the banking system and is responsible for ensuring that banks observe banking legislation.

Articles 82 and 93 of the Banking Law state that the BRSA, having the status of a public legal entity with administrative and financial autonomy, is established in order to ensure application of the Banking Law and other relevant acts, to ensure that savings are protected and to carry out other activities as necessary by issuing regulations within the limits of the authority granted to it by the Banking Law. The BRSA is obliged and 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 reserve levels, capital adequacy and liquidity ratios. In addition, all banks must provide the BRSA, on a regular and timely basis, information adequate to permit off-site analysis by the BRSA of such bank's financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis, depending upon the nature of the information to be reported.

The BRSA conducts both on-site and off-site audits and supervises implementation of the provisions of the Banking Law and other legislation, examination of all banking operations and analysis of the relationship and balance between assets, receivables, equity capital, liabilities, profit and loss accounts and all other factors affecting a bank's financial structure.

Pursuant to the Regulation regarding the Internal Systems and Internal Capital Adequacy Assessment Process of Banks, as issued by the BRSA and published in the Official Gazette dated July 11, 2014 and numbered 29057 (the "*Internal Systems Regulation*"), banks are obligated to establish, manage and develop (for themselves and all of their consolidated financial subsidiaries) internal audit, internal control and risk management systems commensurate with the scope and structure of their activities, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal control personnel cannot also be appointed to work in a role conflicting with their internal control duties. The Internal Systems Regulation also requires banks to internally calculate the amount of capital required to cover the risks to which they are or may be exposed on a consolidated basis and with a forward-looking perspective, taking into account banks' near- and medium- term business and strategic plans. This process, referred to as the "Internal Capital Adequacy Assessment Process," should be designed according to the bank's needs and risk attitude and should constitute an integral part of the decision-making process and corporate culture of the bank. In this context, each bank is required to prepare an internal capital adequacy assessment process report (the "*ICAAP Report*") representing the bank's own assessment of its capital requirements. The first ICAAP Report covering the activities of the Bank in 2013 was required to be submitted to the BRSA by the end of September 2014. Subsequent filings of the ICAAP Report are required to be made by the end of March each year.

### *The Role of the Central Bank*

The Central Bank was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, implementation of the government's fiscal and monetary policies, maintenance of price stability and continuity, regulation of the money supply, management of official gold and foreign exchange reserves, monitoring of the financial system and advising the government on financial matters. The Central Bank exercises its powers independently of the government. The Central Bank is empowered to determine the inflation target together with the government, and to adopt a monetary policy in compliance with such target. The Central Bank is the only 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 BRSB in order to preserve full voting and other shareholders' rights associated with such shares. In addition, irrespective of the thresholds above, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee (or the issuance of new shares with such privileges) is also subject to the authorization of the BRSB. 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. Additionally, the acquisition or transfer of any shares of a legal entity that owns 10% or more of the capital of a bank is subject to the BRSB's approval if such transfer results in the total number of such legal entity's shares, directly or indirectly, held by a shareholder increasing above or falling below 10%, 20%, 33% or 50% of the share capital of such legal entity. The BRSB's permission might be given on the condition that the person who acquires the shares possesses the qualifications required for a founder of a bank. In a case in which such shares are transferred without the permission of the BRSB, the shareholder rights of the legal person stemming from these shares, other than dividends, shall be exercised by the SDIF.

The board of directors of a bank is responsible for taking necessary measures to ascertain that shareholders attending a general assembly have obtained the applicable authorizations from the BRSB. If the BRSA determines that a shareholder has exercised voting or other shareholders' rights (other than the right to collect dividends) without due 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 BRSB. In the case that the procedure to cancel such general assembly resolutions is not yet started, or such transfer of shares is not deemed appropriate by the BRSA even though the procedure to cancel such general assembly resolutions is started, then, upon the notification of the BRSA, the SDIF has the authority to exercise such voting and other shareholders' rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

## **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 BRSB's discretion to increase such lending limits up to 25% or to lower it to the legal limit. Real and legal persons having surety, guarantee or similar relationships where the insolvency of one is likely to lead to the insolvency of the other are included in the applicable risk groups.
- Loans extended to a bank's shareholders (irrespective of whether they are controlling shareholders or they own qualified shares) registered with the share ledger of the bank holding more than 1% of the share capital of the bank and their risk groups may not exceed 50% of the bank's capital equity.

Non-cash loans, futures and option contracts and other similar contracts, avals, guarantees and suretyships, transactions carried out with credit institutions and other financial institutions, transactions carried out with the central governments, central banks and banks of the countries accredited with the BRSA, as well as bills, bonds and similar capital market instruments issued or guaranteed to be paid by them, and transactions carried out pursuant to such guarantees are taken into account for the purpose of calculation of loan limits within the framework of principles and ratios set by the BRSA.

The BRSA determines the permissible ratio of non-cash loans, futures and options, other similar transactions, avals, acceptances, guarantees and sureties, and bills of exchange, bonds and other similar capital markets instruments issued or guaranteed by, and credit and other financial instruments and other contracts entered into with, governments, central banks and banks of the countries accredited with the BRSA for the purpose of calculation of loan limits.

Pursuant to Article 55 of the Banking Law, the following transactions are exempt from the above-mentioned 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 as well as 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 fund outflow,
- (f) transactions carried out among banks on the basis set out by the BRSA,
- (g) equity participations acquired through underwriting commitments in public offerings; *provided* that such participations are disposed of in a manner and at a time determined by the BRSA,
- (h) transactions that are taken into account as deductibles in calculation of own funds, and
- (i) other transactions to be determined by the BRSA.

### **Loan Loss Reserves**

Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables and to reserve an adequate level of provisions against depreciation or impairment in the value of other assets, for qualification and classification of assets, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring loans under review, 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 in which they are set aside.

Procedures relating to loan loss reserves for non-performing loans are set out in Article 53 of the Banking Law and in regulations issued by the BRSA. Pursuant to the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside published in the Official Gazette No. 26333 on November 1, 2006 and amended from time to time thereafter (the “*Regulation on Provisions and Classification of Loans and Receivables*”), banks are required to classify their loans and receivables into one of the following groups:



(a) *Group I: Loans of a Standard Nature and Other Receivables: This group involves loans and other receivables:*

- (i) that have been disbursed to financially creditworthy natural persons and legal entities,
- (ii) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor,
- (iii) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and that can be fully collected, and
- (iv) for which no weakening of the creditworthiness of the applicable debtor has been found.

The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *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 of not less than five times the sum of 1% of the total cash loan portfolio (except for: (a) loans provided to finance: (i) transit trade, (ii) sales and deliveries that are deemed to be exports and (iii) services and activities in return for foreign currency-denominated consideration, for which the general loan loss reserve is calculated at five times 0%, and (b) SME loans, for which the general loan loss reserve is calculated at five times 0.5%, is required to be set aside, and such modifications are required to be disclosed in the financial reports (which are also made publicly available). This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below) for amended consumer loan agreements (other than housing and auto loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short-term loan and the interest payments thereof are made in a timely manner; provided that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

(b) *Group II: Loans and Other Receivables Under Close Monitoring: This group involves loans and other receivables:*

- (i) that have been disbursed to financially creditworthy natural persons and legal entities and where the principal and interest payments of which there is no problem at present, but that need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable 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 principal and interest due dates are delayed for more than 30 days for justifiable reasons but not falling within the scope of "Loans and other Receivables with Limited Recovery" set forth under Group III below, or
- (iv) although the credit standing of the debtor has not weakened, there is a high likelihood of weakening due to the debtor's irregular and unmanageable cash flow.

If a loan customer has multiple loans and any of these loans is classified in Group II and others are classified in Group I, then all of such customer's loans are required to be classified in Group II. The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *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 of not less than 2.5 times the sum of 2% of the total cash loan portfolio is required to be set aside and such modifications are

required to be disclosed in the financial reports (which are also made publicly available). This ratio is required to be at least 1.25 times the Consumer Loans Provisions for amended consumer loan agreements (other than housing and auto loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner; *provided* that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

(c) *Group III: Loans and Other Receivables with Limited Recovery:* This group involves loans and other receivables:

- (i) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and in case the problems observed are not eliminated, they are likely to cause loss,
- (ii) the credit standing of whose debtor has weakened and where the loan is deemed to have weakened,
- (iii) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date, or
- (iv) in connection with which the bank is of the opinion that collection by the bank of the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.

(d) *Group IV: Loans and Other Receivables with Suspicious Recovery:* This group involves loans and other receivables:

- (i) that seem unlikely to be repaid or liquidated under existing conditions,
- (ii) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement,
- (iii) whose debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss due to such factors as a merger, the possibility of finding new financing or a capital increase, or
- (iv) there is a delay of more than 180 days but not more than one year from the due date in the collection of the principal or interest or both.

(e) *Group V: Loans and Other Receivables Having the Nature of Loss:* This group involves loans and other receivables:

- (i) that are deemed to be uncollectible,
- (ii) collection of whose principal or interest or both has been delayed by one year or more from the due date, or
- (iii) for which, although sharing the characteristics stated in Groups III and IV, the bank is of the opinion that they have become weakened and that the debtor has lost creditworthiness due to the strong possibility that it will not be possible to fully collect the amounts that have become due and payable within a period of over one year.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks are required to reserve adequate provisions for loans and other receivables until the end of the month in which the payment of such loans and receivables has been delayed. This regulation also requires Turkish banks to provide a

general reserve calculated at 1% of the total cash loan portfolio plus 0.2% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) (except for: (a) loans provided to finance: (i) transit trade, (ii) sales and deliveries that are deemed to be exports and (iii) services and activities in return for foreign currency-denominated consideration, for which the general loan loss reserve is calculated at 0.0%, and (b) cash and non-cash SME loans, for which the general loan loss reserve is calculated at 0.5% and 0.1%, respectively) for standard loans defined in Group I above; and a general reserve calculated at 2.0% of the total cash loan portfolio plus 0.4% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) for closely-monitored loans defined in Group II above.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, at least 40% of the general reserve amount calculated according to the above mentioned ratios had to be reserved by December 31, 2012, at least 60% had to be reserved by December 31, 2013, at least 80% had to be reserved by December 31, 2014 and 100% had to be reserved by December 31, 2015.

Banks with consumer loan ratios greater than 25% of their total loans and banks with non-performing consumer loan (classified as non-performing loans (excluding housing loans)) ratios greater than 8% of their total consumer loans (excluding housing loans) (pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) are required to set aside a 4% general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group I, an 8% general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group II (the “*Consumer Loans Provisions*”) and a 10% general provision for both Group I and Group II consumer loans (excluding housing loans), the loan conditions of which are amended in order to extend the first payment schedule.

If the sum of the letters of guarantee, acceptance credits, letters of credit undertakings, endorsements, purchase guarantees in security issuances, factoring guarantees or other guarantees and sureties and pre-financing loans without letters of guarantee of a bank is higher than ten times its equity calculated pursuant to banking regulations, a 0.3% general provision ratio is required to be applied by such bank for all of its standard non-cash loans. Notwithstanding the above ratio and by taking into consideration the standard capital adequacy ratio, the BRSA may apply the same ratio or a higher ratio as the general reserve requirement ratio.

Turkish banks are also required to set aside general provisions for the amounts monitored under the accounts of “Receivables from Derivative Financial Instruments” on the basis of the sums to be computed by multiplying them by the rates of conversion into credit indicated in Article 12 of the “Regulation on Loan Transactions of Banks” (published in the Official Gazette No. 26333 on November 1, 2006) by applying the general provision rate applicable for cash loans. In addition to the general provisions, specific provisions must be set aside for the loans and receivables in Groups III, IV and V at least in the amounts of 20%, 50% and 100%, respectively. An amount equal to 25% of the specific provisions set forth in the preceding sentence is required to be set aside for each check slip of customers who have loans under Groups III, IV and V, which checks were delivered by the Bank at least five years previously; *however*, if a bank sets aside specific provisions at a rate of 100% for non-performing loans, then it does not need to set aside specific provisions for check slips that were delivered by such bank at least two years previously; *provided* that a registered letter has been sent to the relevant customer requiring it to return the check slips to the bank in no later than 15 days.

Pursuant to these regulations, all loans and receivables in Groups III, IV and V above, irrespective of whether any interest or other similar obligations of the debtor are applicable on the principal or whether the loans or receivables have been refinanced, are defined as “non-performing loans.” If several loans have been extended to a loan customer by the same bank and if any of these loans is considered as a non-performing loan, then all outstanding risks of such loan customer are classified in the same group as the non-performing loans even if such loans would not otherwise fall under the same group as such non-performing loans. If a non-performing loan 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 non-performing loan.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, the BRSA is entitled to increase these provision rates taking into account the sector and country risk status of the borrower.

Banks must also monitor the following types of security based upon their classification:

Category I Collateral: (a) cash, deposits, profit sharing funds and gold deposit accounts that are secured by pledge or assignment agreements, promissory notes, debenture bonds and similar securities issued directly or guaranteed by the Central Bank, the Treasury, the Housing Development Administration of Turkey or the 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, lease certificates and similar securities issued directly or guaranteed by such institutions, (c) securities issued directly or guaranteed by the central governments or central banks of countries that are members of the OECD, (d) guarantees and sureties given by banks operating in OECD member states, (e) securities issued directly or guaranteed by the European Central Bank, (f) sureties, letters of guarantee, avals and acceptance and endorsement of non-cash loans issued by banks operating in Turkey in compliance with their maximum lending limits and (g) bonds, debentures and covered bonds issued, or lease certificates the underlying assets of which are originated, by banks operating in Turkey.

Category II Collateral: (a) precious metals other than gold, (b) shares quoted on a stock exchange and A-type investment profit sharing funds, (c) asset-backed securities and private sector bonds except ones issued by the borrower, (d) credit derivatives providing protection against credit risk, (e) the assignment or pledge of accrued entitlements of real and legal persons from public agencies, (f) liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at market value, (g) mortgages on real property registered with the land registry and mortgages on real property built on allocated real estate, provided that their appraised value is sufficient, (h) export documents based upon marine bill of lading or transport bills, or insured within the scope of an exportation loan insurance policy, (i) bills of exchange stemming from actual trading relations, which are received from natural persons and legal entities, (j) insurance policies for trade receivables and (k) Credit Guarantee Fund (*Kredi Garanti Fonu*) guarantees not benefitting from Treasury support.

Category III Collateral: (a) commercial enterprise pledges, (b) other export documents, (c) auto 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 provision requirements for non-performing loans, 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 or countries .

The BRSA has also published a draft regulation that (if adopted without changes) would replace the Regulation on Provisions and Classification of Loans and Receivables as of January 1, 2017 (certain provisions would enter into force as of January 1, 2018). This proposed regulation would require banks to adopt IFRS 9 principles (unless an exemption is granted by the BRSA) related to the assessment of credit risk by the end of 2017 and to set aside general provisions in line with such principles.

### **Capital Adequacy**

Article 45 of the Banking Law defines "Capital Adequacy" as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, maintain 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 (as of the date of this Base Prospectus) 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%.

In order to implement the rules of the report entitled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee on Banking Supervision (the "*Basel Committee*") in December 2010 and revised in June 2011 (*i.e.*, Basel III) into Turkish law, the 2013 Equity Regulation and amendments to the 2012 Capital Adequacy Regulation were published in the Official Gazette dated September 5, 2013 and numbered 28756 and entered into force on January 1, 2014. The 2013 Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e.*, Tier 1 capital), which is composed of core capital and additional principal capital (*i.e.*, additional Tier 1 capital) and (b) supplementary capital (*i.e.*, Tier 2 capital) *minus* capital deductions. Pursuant to the 2012 Capital Adequacy Regulation (as so amended): (i) both the minimum core capital adequacy ratio and the minimum consolidated core capital adequacy ratio are 4.5% and (ii) both the minimum Tier 1 capital adequacy ratio and the minimum consolidated Tier 1 capital ratio are 6.0%.

The BRSA published several new regulations and communiqués or amendments to its existing regulations and communiqués (as published in the Official Gazette dated October 23, 2015 No. 29511 and January 20, 2016 No. 29599) in accordance with the Basel Committee's RCAP, which is conducted by the BIS and reviews Turkey's compliance with Basel regulations. These amendments, which entered into force on March 31, 2016, include revisions to the 2013 Equity Regulation and the 2015 Capital Adequacy Regulation.

The 2015 Capital Adequacy Regulation, which entered into force on March 31, 2016 in replacement of the 2012 Capital Adequacy Regulation, sustains the capital adequacy ratios introduced by the former regulation, but changes the risk weights of certain items. According to such regulation, only Turkish Lira-denominated claims against the Central Bank continue to be subject to a preferential treatment of a 0% risk weight, whereas the risk weights of foreign currency-denominated claims against the Central Bank in the form of required reserves were increased from 0% to 50%. These changes had (as of March 31, 2016) a negative impact on the Bank's capital adequacy ratio.

On the other hand, the 2015 Capital Adequacy Regulation lowered the risk weights and the credit conversion factors of certain assets, including reducing: (a) the risk weights of residential mortgage loans from 50% to 35%, (b) the risk weights of consumer loans qualifying as retail loans (*perakende alacaklar*) (excluding residential mortgage loans and credit cards) and installment payments of credit cards from a range of 100% to 250% (depending on their outstanding tenor) to 75% (irrespective of their tenor); *provided* that such receivables are not reclassified as non-performing loans (*donuk alacaklar*), and (c) the credit conversion factors of commitments for credit cards and overdrafts from 20% to 0%. These changes had (as of March 31, 2016) a positive impact on the Bank's capital adequacy ratio.

Amendments to the 2013 Equity Regulation introduced certain limitations to the items that are included in the capital calculations of banks that have issued additional Tier 1 and Tier 2 instruments prior to January 1, 2014. While the Group does not have any additional Tier 1 instruments, according to these amendments, Tier 2 instruments that were issued (*among others*): (a) between September 12, 2010 and January 1, 2013 (so long as they satisfied the New Tier 2 Conditions other than the condition stated in sub-clause (i) of the New Tier 2 Conditions (*i.e.*, the condition regarding the loss absorption due to the cancellation of a bank's license or transfer of the bank's management to the SDIF pursuant to Article 71 of the Banking Law)) are included in Tier 2 calculations after being reduced by 20% for the period between January 1, 2014 and December 31, 2014 and have been (and will be) included in Tier 2 calculations after being reduced by 10% for each subsequent year (the calculations being made based upon the total amount of the debt instruments as of January 1, 2013) and (b) after January 1, 2013 will be included in Tier 2 calculations only if they satisfy all of the New Tier 2 Conditions. As a result of the Issuer having outstanding Tier 2 debt falling within these categories, these changes had (as of March 31, 2016) a negative impact on the Issuer's capital adequacy ratio. On June 6, 2016, the holders of a majority of the Bank's US\$400 million subordinated notes consented to certain amendments to the terms and conditions of such notes. As a result, such notes are fully eligible for inclusion as Tier 2 capital of the Bank and these amendments are expected to have a positive impact on the Issuer's capital adequacy ratio.

In 2013, the BRSA published the Regulation on the Capital Conservation and Countercyclical Capital Buffer, which entered into force on January 1, 2014 and provides additional core capital requirements both on a consolidated and bank-only basis. Pursuant to this regulation, the additional core capital requirements are to be calculated by the multiplication of the amount of risk-weighted assets by the sum of a capital conservation buffer ratio and bank-specific countercyclical buffer ratio. In this context, the BRSA published: (a) its decision dated December 18, 2015 No. 6602 regarding the procedures for and principles on calculation, application and announcement of a countercyclical capital buffer and (b) its decision dated December 24, 2015 No. 6619 regarding the determination of such countercyclical capital buffer. Pursuant to these decisions, the countercyclical capital buffer for Turkish banks' exposures in Turkey was initially set at 0% of a bank's risk-weighted assets in Turkey (effective as of January 1, 2016); *however*, such ratio might fluctuate between 0% and 2.5% as announced from time to time by the BRSA. While deciding on the countercyclical capital buffer, the BRSA will rely upon the credit-to-GDP gap as a common reference point in line with the guidance of the BIS. Any increase to the countercyclical capital buffer ratio is to be effective one year after the relevant public announcement, whereas any reduction is to be effective as of the date of the relevant public announcement.

In 2013, the BRSA also published the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, which entered into force on January 1, 2014 (with the exception of certain provisions that entered into effect on January 1, 2015) and seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and bank-only basis against leverage risks. Lastly, the Regulation on

Liquidity Coverage Ratios seeks to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. The Regulation on Liquidity Coverage Ratios provides that the ratio of the high quality asset stock to the net cash outflows, both of which are calculated in line with the regulation, cannot be lower than 100% in respect of total consolidated and non-consolidated liquidity and 80% in respect of total consolidated and non-consolidated foreign exchange liquidity; *however*, pursuant to the BRSA Decision on Liquidity Ratios, for a period between January 5, 2015 and December 31, 2015, such ratios were applied as 60% and 40%, respectively, and for a period starting from January 1, 2016 and ending on December 31, 2016, such ratios are to be applied as 70% and 50%, respectively. Furthermore, pursuant to the BRSA Decision on Liquidity Ratios, such ratios shall be (and have been) applied in increments of ten percentage points for each year from January 1, 2017 and ending on January 1, 2019. Unconsolidated total and foreign currency liquidity coverage ratios cannot be non-compliant more than six times within a calendar year, which includes non-compliance that has already been remedied. With respect to consolidated total and foreign currency liquidity coverage, these cannot be non-compliant consecutively within a calendar year and such ratios cannot be non-compliant for more than two times within a calendar year, including non-compliance that has already been remedied. The Regulation on Liquidity Coverage Ratios entered into effect immediately with the provisions thereof becoming applicable as of January 1, 2014 (with the exception of certain provisions relating to minimum coverage ratio levels and the consequences of failing to maintain compliance, which entered into effect on January 5, 2015 pursuant to the BRSA Decision on Liquidity Ratios).

Under the 2013 Equity Regulation, debt instruments and their issuance premia could be included either in additional Tier 1 capital or in Tier 2 capital subject to certain conditions; *however*, as of March 31, 2016, such amount is required to be reduced (for purposes of calculating capital) by any investment by a Turkish bank in additional Tier 1 or Tier 2 capital of another bank or financial institution holding such Turkish bank's additional Tier 1 or Tier 2 capital, as applicable.

In accordance with Basel III rules, each bank is required to prepare an ICAAP Report representing its own assessment of its capital requirements (see “*Regulatory Institutions*” above). See also a discussion of the implementation of Basel III in “*Basel Committee - Basel III*” below.

#### *Tier 2 Rules under Turkish Law*

*Previous Tier 2 Rules.* Secondary subordinated debts were, through December 31, 2013, regulated under the 2006 Equity Regulation. This section thus describes the rules previously applicable to the Bank's secondary subordinated debts that were issued before January 1, 2014, which rules continue to apply to such subordinated debts notwithstanding the 2013 Equity Regulation.

According to the 2006 Equity Regulation, the net worth of a bank (*i.e.*, the bank's own funds) consists of main capital and supplementary capital *minus* capital deductions. In the relevant definition, “secondary subordinated loans” (which as defined can also include bonds) are listed as one of the items that constitute a bank's supplementary capital (*i.e.*, “Tier 2” 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 1” capital *plus* the total secondary subordinated debts that, in aggregate, exceeds 50% of “Tier 1” capital is not taken into consideration in the calculation of “Tier 2” 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 2” 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 2” 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 2 capital. A secondary subordinated debt is taken into account in the calculation of “Tier 2” capital on the date of the accounting of such secondary subordinated debt on the books of the relevant bank.

The 2006 Equity Regulation requires banks to obtain the prior permission of the BRSA for a debt to be classified as a “secondary subordinated loan.” In order to obtain such permission, the bank must submit to the BRSA the original copy or a 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 or a notarized copy to the BRSA within five business days of the signing of such agreement). The BRSA would, in considering any such request for its permission, determine if the credit in question meets the following criteria:

- (a) the debt must have an initial maturity of at least five years and the agreement must contain express provisions that prepayment of the principal cannot be made before the expiry of the five-year period and the creditors waive their rights to make any set-offs against the bank with respect to such debt; *it being understood* that interest and other charges may be payable during such five year period,
- (b) there may be no more than one repayment option before the maturity of the debt and, if there is a repayment option before maturity, the date of exercising the option must be clearly defined,
- (c) the creditors must have agreed expressly in the agreement that in the event of dissolution and liquidation of the bank, such debt will be repaid before any payment to shareholders for their capital return and payments on primary subordinated debts but after all other debts,
- (d) it must be stated in the agreement that the debt is not related to any derivative operation or contract violating the condition stated in clause (c) or tied to any guarantee or security, in one way or another, directly or indirectly, and the debts cannot be assigned to any affiliates of the bank,
- (e) it must be 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 2” 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.

Amendments to the 2013 Equity Regulation introduced certain limitations to the items that are included in the capital calculations of banks that have issued additional Tier 1 and Tier 2 instruments prior to January 1, 2014. While the Group does not have any such additional Tier 1 instruments, according to these amendments, Tier 2 instruments that were issued (*among others*): (a) between September 12, 2010 and January 1, 2013 (so long as they satisfied the New Tier 2 Conditions other than the condition stated in sub-clause (i) of the New Tier 2 Conditions (*i.e.*, the condition regarding the loss absorption due to the cancellation of a bank’s license or transfer of the bank’s management to the SDIF pursuant to Article 71 of the Banking Law)) will be included in Tier 2 calculations after being reduced by 20% for the period between January 1, 2014 and December 31, 2014 and by 10% for each subsequent year (the calculations being made based upon the total amount of the debt instruments as of January 1, 2013) and (b) after January 1, 2013 will be included in Tier 2 calculations only if they satisfy all of the New Tier 2 Conditions. On June 6, 2016, the



holders of a majority of the Bank's US\$400 million subordinated notes consented to certain amendments to the terms and conditions of such notes. As a result, such notes are fully eligible for inclusion as Tier 2 capital of the Bank.

*New Tier 2 Rules.* According to the 2013 Equity Regulation, which came into force on January 1, 2014, Tier 2 capital shall be calculated by subtracting capital deductions from general provisions that are set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts for receivables (as the case may be, depending upon the method used by the bank to calculate the credit risk amounts of the applicable receivables) and the debt instruments that have been approved by the BRSA upon the application of the board of directors of the applicable bank along with a written statement confirming compliance of the debt instruments with the conditions set forth below and their issuance premia (the "*New Tier 2 Conditions*"):

- (a) the debt instrument shall have been issued by the bank and approved by the CMB and shall have been fully collected in cash,
- (b) in the event of dissolution of the bank, the debt instrument shall have priority over debt instruments that are included in additional Tier 1 capital and shall be subordinated with respect to rights of deposit holders and all other creditors,
- (c) the debt instrument shall not be related to any derivative operation or contract violating the condition stated in clause (b) nor shall it be tied to any guarantee or security, in one way or another, directly or indirectly,
- (d) the debt instrument must have an initial maturity of at least five years and shall not include any provision that may incentivize prepayment, such as dividends and increase of interest rate,
- (e) if the debt instrument includes a prepayment option, such option shall be exercisable no earlier than five years after issuance and only with the approval of the BRSA; approval of the BRSA is subject to the following conditions:
  - (i) the bank should not create any market expectation that the option will be exercised by the bank,
  - (ii) the debt instrument shall be replaced by another debt instrument either of the same quality or higher quality, and such replacement shall not have a restrictive effect on the bank's ability to sustain its operations, or
  - (iii) following the exercise of the option, the equity of the bank shall exceed the higher of: (A) the capital adequacy requirement that is to be calculated pursuant to the 2015 Capital Adequacy Regulation along with the Regulation on the Capital Conservation and Countercyclical Capital Buffer, (B) the capital requirement derived as a result of an internal capital adequacy assessment process of the bank and (C) the higher capital requirement set by the BRSA (if any);

*however*, if tax legislation or other regulations are materially amended, a prepayment option may be exercised; *provided* that the above conditions in this clause (e) are met and the BRSA approves,

- (f) the debt instrument shall not provide investors with the right to demand early amortization except for during a bankruptcy or dissolution process relating to the issuer,
- (g) the debt instrument's dividend or interest payments shall not be linked to the creditworthiness of the issuer,

- (h) the debt instrument shall not be: (i) purchased by the issuer or by corporations controlled by the issuer or significantly under the influence of the issuer or (ii) assigned to such entities, and its purchase shall not be directly or indirectly financed by the issuer itself,
- (i) if there is a possibility that the bank's operating license would be cancelled or the probability of the transfer of the management of the bank to the SDIF arises pursuant to Article 71 of the Banking Law due to the bank's loss, then removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates for the absorption of the loss would be possible if the BRSA so decides,
- (j) in the event that the debt instrument has not been issued by the bank itself or one of its consolidated entities, the amounts obtained from the issuance shall be immediately transferred without any restriction to the bank or its consolidated entity (as the case may be) in accordance with the rules listed above, and
- (k) the repayment of the principal of the debt instrument before its maturity is subject to the approval of the BRSA and the approval of the BRSA is subject to the same conditions as the exercise of the prepayment option as described under clause (e) above.

Loans (as opposed to securities) that have been approved by the BRSA upon the application of the board of directors of the applicable bank accompanied by a written statement confirming that all of the New Tier 2 Conditions (except for the condition indicated in sub-clause (a) of the New Tier 2 Conditions) are met also can be included in Tier 2 capital calculations.

In addition to the conditions that need to be met before including debt instruments and loans in the calculation of Tier 2 capital, the 2013 Equity Regulation also provides a limit for inclusion of general provisions to be set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts of receivables (as the case may be, depending upon the method used by the Bank to calculate the credit risk amount of such receivables) in Tier 2 capital such that: (a) the portion of general provisions that exceeds 1.25% of the risk-weighted sum of the receivables and/or (b) the portion of surplus of provisions and capital deductions that exceeds 6 parts per 1,000 of the receivables to which they relate is not taken into consideration in calculating the Tier 2 capital.

Furthermore, in addition to the New Tier 2 Conditions stated above, the BRSA may require new conditions for each debt instrument and the procedure and principles regarding the removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates are determined by the BRSA.

Applications to include debt instruments or loans into Tier 2 capital are required to be accompanied by the original copy or a notarized copy of the applicable agreement(s) or, if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original or notarized copy to the BRSA within five business days following the signing date of such agreement). The amendments to the 2013 Equity Regulation, which entered into force on March 31, 2016, provide that if the terms of the executed loan agreement or debt instrument contain different provisions than the draft thereof so provided to the BRSA, then a written statement of the board of directors confirming that such difference does not affect Tier 2 capital qualifications is required to be submitted to the BRSA within five business days following the signing date of such loan agreement or the issuance date of such debt instrument. If the applicable interest rate is not explicitly indicated in such loan agreement or the prospectus of such debt instrument (*borçlanma aracı izahnamesi*), as applicable, or if such interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorize the inclusion of the loan or debt instrument in the calculation of Tier 2 capital.

Debt instruments and loans that are approved by the BRSA are included in accounts of Tier 2 capital as of the date of transfer to the relevant accounts in the applicable bank's records. Loan agreements and debt instruments that have been included in Tier 2 capital calculations, and that have less than five years to maturity, shall be included in Tier 2 capital calculations after being reduced by 20% each year.

Basel II. The most significant difference between the capital adequacy regulations in place before July 1, 2012 and the Basel II regulations is the calculation of risk-weighted assets related to credit risk. The current regulations seek to align more closely the minimum capital requirement of a bank with its borrowers' credit risk profile. The impact of the new regulations on capital adequacy levels of Turkish banks largely stems from exposures to the Turkish government, principally through the holding of Turkish government bonds. While the previous rules provided a 0% risk weight for exposures to the Turkish sovereign and the Central Bank, the rules of Basel II require that claims on sovereign entities and their central banks be risk-weighted according to their credit assessment, which (as of the date of this Base Prospectus) results in a 50% risk weighting for Turkey; *however*, the Turkish rules implementing the Basel principles in Turkey (*i.e.*, the "Turkish National Discretion") revised this general rule by providing that all Turkish Lira-denominated claims on sovereign entities in Turkey and the Central Bank shall have a 0% risk weight. According to the 2015 Capital Adequacy Regulation, which entered into force on March 31, 2016, only Turkish Lira-denominated claims on the Central Bank continue to be subject to a preferential treatment of a 0% risk weight, whereas the risk weights of foreign currency-denominated claims on the Central Bank in the form of required reserves have been increased from 0% to 50%. As a result of these implementation rules, the impact of the new regulations has been fairly limited when compared to the previous regime.

Basel III. Turkish banks' capital adequacy requirements have been and might continue to be further affected by Basel III, as implemented by the 2013 Equity Regulation, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are expected to be implemented in phases until 2019. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated September 5, 2013 and numbered 28756, adopted the 2013 Equity Regulation and amendments to the 2012 Capital Adequacy Regulation, both of which entered into effect on January 1, 2014. The 2013 Equity Regulation introduced core Tier 1 capital and additional Tier 1 capital as components of Tier 1 capital, whereas the amendments to the 2012 Capital Adequacy Regulation: (a) introduced a minimum core capital adequacy standard ratio (4.5%) and a minimum Tier 1 capital adequacy standard ratio (6.0%) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0%) and (b) changed the risk weights of certain items that are categorized under "other assets." The 2013 Equity Regulation has also introduced new Tier 2 rules and determined new criteria for debt instruments to be included in the Tier 2 capital.

In order to further align Turkish banking legislation with Basel principles, the BRSA also amended some of its other regulations and communiqués as published in the Official Gazette dated October 23, 2015 No. 29511 and January 20, 2016 No. 29599, which amendments also entered into force on March 31, 2016. For the amendments related to the leverage ratios and capital adequacy ratios of banks, see "*Capital Adequacy*" above.

The BIS reviewed Turkey's compliance with Basel regulations within the scope of the Basel Committee's RCAP and published its RCAP assessment report in March 2016, in which Turkey was assessed as compliant with Basel standards. If the Bank and/or the Group is unable to maintain its capital adequacy or leverage ratios above the minimum levels required by the BRSA or other regulators (whether due to the inability to obtain additional capital on acceptable economic terms, if at all, sell assets (including subsidiaries) at commercially reasonable prices, or at all, or for any other reason), then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

On February 23, 2016, the BRSA issued the D-SIBs Regulation, which introduced a methodology for assessing the degree to which banks are considered to be systemically important to the Turkish domestic market and set out the additional capital requirements for those banks classified as D-SIBs. The contemplated methodology requires the identification and classification of D-SIBs in Turkey under four different categories. The D-SIBs were initially determined based upon a score set by the BRSA according to their size, complexity, impact on the financial system and economic activity using their 2014 year-end consolidated financial information. According to the D-SIBs Regulation, banks that are identified as D-SIBs

are required to keep additional core capital (*ilave çekirdek sermaye*) buffers up to a further 3.0% for Group 4 banks, 2.0% for Group 3, 1.5% for Group 2 and 1.0% for Group 1 as of January 1, 2019. The additional capital requirements came into effect on March 31, 2016 subject to a transitional period until they are fully implemented.

The table below sets forth the buffer ratios for D-SIBs for the indicated years:

Groups	2016	2017	2018	2019
Group 4 (empty) <sup>(1)</sup> .....	0.750%	1.500%	2.250%	3.000%
Group 3 .....	0.500%	1.000%	1.500%	2.000%
Group 2 .....	0.375%	0.750%	1.125%	1.500%
Group 1 .....	0.250%	0.500%	0.750%	1.000%

(1) Group 4 is empty as there are currently no banks classified under the relevant group.

As of March 31, 2016, the Bank has been classified as a D-SIB under the D-SIBs Regulation.

The BRSA has also published a draft regulation that (if adopted without changes) would require banks to adopt IFRS 9 principles (unless an exemption is granted by the BRSA) related to the assessment of credit risk by the end of 2017 and to set aside general provisions in line with such principles. If an exemption is granted by the BRSA, then the banks would be allowed to set aside general provisions as stipulated under the proposed regulation.

### Liquidity and Reserve Requirements

Article 46 of the Banking Law requires banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures set out by the BRSA. Within this framework, a comprehensive liquidity arrangement has been put into force by the BRSA, following the consent of the Central Bank.

Pursuant to the Communiqué regarding Reserve Requirements, which entered into force on January 17, 2014 (the “*Communiqué regarding Reserve Requirements*”), starting from February 12, 2016, the reserve requirements for foreign currency liabilities vary by category and tenor, as set forth below:

Category of Foreign Currency Liabilities	Required Reserve Ratio
<b>1) Deposit/participation accounts (excluding deposit/participation accounts held at foreign banks)</b>	
Demand deposits, notice deposits .....	13%
Up to 1-month, 3-month, 6-month and 1-year maturities .....	13%
With maturities of 1-year and longer .....	9%
<b>2) Borrowers’ deposit accounts held at development and investment banks*.</b>	13%
<b>3) Other liabilities (including deposit/participation accounts held at foreign banks)</b>	
Up to 1-year maturity (including 1-year) .....	25%
Up to 2-year maturity (including 2-year) .....	20%
Up to 3-year maturity (including 3-year) .....	15%
Up to 5-year maturity (including 5-year) .....	7%
Longer than 5-year maturity .....	5%

\* Due to laws applicable to development and investment banks, the amount deposited in such accounts cannot exceed the total outstanding loan amount extended by the relevant development and investment bank to such borrower

Notwithstanding the above, the reserve requirements for foreign currency liabilities other than deposits and participation accounts that existed on August 28, 2015 vary by tenor until their maturity, as set forth below:

<b>Category of Foreign Currency Liabilities</b>	<b>Required Reserve Ratio</b>
Other liabilities up to 1-year maturity (including 1-year) .....	20%
Other liabilities up to 2-year maturity (including 2-year) .....	14%
Other liabilities up to 3-year maturity (including 3-year) .....	8%
Other liabilities up to 5-year maturity (including 5-year) .....	7%
Other liabilities longer than 5-year maturity .....	6%

Pursuant to the Communiqué regarding Reserve Requirements, starting from February 12, 2016, the reserve requirements regarding Turkish Lira liabilities vary by category and tenor, as set forth below:

<b>Category of Turkish Lira Liabilities</b>	<b>Required Reserve Ratio</b>
<b>1) Deposit/participation accounts (excluding deposit/participation accounts held at foreign banks)</b>	
Demand deposits, notice deposits .....	11.5%
Up to 1-month maturity (including 1-month).....	11.5%
Up to 3-month maturity (including 3-month).....	11.5%
Up to 6-month maturity (including 6-month).....	8.5%
Up to 1-year maturity .....	6.5%
With maturities of 1-year and longer .....	5%
<b>2) Borrowers' deposit accounts held at development and investment banks*</b> .....	11.5%
<b>3) Other liabilities (including deposit/participation accounts held at foreign banks)</b>	
Up to 1-year maturity (including 1-year) .....	11.5%
Up to 3-years maturity (including 3-years) .....	8%
Longer than 3-year maturity.....	5%

*\* Due to laws applicable to development and investment banks, the amount deposited in such accounts cannot exceed the total outstanding loan amount extended by the relevant development and investment bank to such borrower.*

The reserve requirements also apply to gold deposit accounts. Furthermore, banks are permitted to maintain: (a) a portion of the Turkish Lira reserve requirements in U.S. Dollars and another portion of the Turkish Lira reserve requirements in standard gold and (b) a portion or all of the reserve requirements applicable to precious metal deposit accounts in standard gold, which portions are revised from time to time by the Central Bank. In addition, banks are required to maintain their required reserves against their U.S. Dollar-denominated liabilities in U.S. Dollars only.

Furthermore, pursuant to the Communiqué regarding Reserve Requirements, a bank must establish additional mandatory reserves if its financial leverage ratio falls within certain intervals. The financial leverage ratio is calculated according to the division of a bank's capital into the sum of the following items:

- (a) its total liabilities,
- (b) its total non-cash loans and obligations,
- (c) its revocable commitments *multiplied by* 0.1,
- (d) the total sum of each of its derivatives commitments *multiplied by* its respective loan conversion rate, and
- (e) its irrevocable commitments.

This additional mandatory reserve amount is calculated quarterly according to the arithmetic mean of the monthly leverage ratio.

A bank also must maintain mandatory reserves for six mandatory reserve periods beginning with the fourth calendar month following an accounting period and additional mandatory reserves for liabilities in Turkish Lira and foreign currency, as set forth below:

<b>Calculation Period for the Leverage Ratio</b>	<b>Leverage Ratio</b>	<b>Additional Reserve Requirement</b>
From the 4th quarter of 2013 through the 3rd quarter of 2014	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.25%	1.5%
	From 3.25% (inclusive) to 3.5%	1.0%
From the 4th quarter of 2014 through the 3rd quarter of 2015	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.50%	1.5%
	From 3.50% (inclusive) to 4.0%	1.0%
Following the 4th quarter of 2015 (inclusive)	Below 3.0%	2.0%
	From 3.0% (inclusive) to 4.0%	1.5%
	From 4.0% (inclusive) to 5.0%	1.0%

Reserve accounts kept in Turkish Lira may be interest-bearing pursuant to guidelines adopted by the Central Bank from time to time according to the reserve requirement manual issued by the Central Bank on April 11, 2014.

### **Calculation of Liquidity Coverage Ratio**

According to the Regulation on Liquidity Coverage Ratios, a bank is required to maintain an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. In this context, the BRSA Decision on Liquidity Ratios provides that, for the period from January 5, 2015 to December 31, 2015, the minimum total liquidity coverage ratios and foreign currency coverage ratios for deposit banks were 60% and 40%, respectively, and (in the absence of any new arrangement) such ratios shall be (and have been) increased in increments of ten percentage points for each year from January 1, 2016 until January 1, 2019.

### **Foreign Exchange Requirements**

According to the Regulation on Foreign Exchange Net Position/Capital Base, issued by the BRSA and published in the Official Gazette dated 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, a bank's board of directors is required to establish audit committees for the execution of the audit and monitoring functions of the board of directors. Audit committees shall consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include the supervision of the efficiency and adequacy of the bank's internal control, risk management and internal audit systems, functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation, and integrity of the information produced;

conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors; regularly monitoring the activities of independent audit firms selected by the board of directors; and, in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the Regulation on Independent Audit of Banks, published in the Official Gazette dated April 2, 2015 and numbered 29314. Independent auditors are held liable for damages and losses to third parties and are subject to stricter reporting obligations. Professional liability insurance is required for: (a) independent auditors and (b) evaluators, rating agencies and certain other support services (if requested by the service-acquiring bank or required by the BRSA). Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms. The Internal Systems Regulation established standards as to principles of internal control, internal audit and risk management systems and an internal capital adequacy assessment process in order to bring such regulations into compliance with Basel II requirements.

On October 23, 2015 and January 20, 2016, the BRSA issued certain amendments to the Internal Systems Regulation to align the Turkish regulatory capital regime with Basel III requirements. These amendments relating to internal systems and internal capital adequacy ratios entered into force on January 20, 2016 and the other amendments entered into force on March 31, 2016. These regulations impose requirements to enhance the effectiveness of internal risk management and internal capital adequacy assessments. Accordingly, the board of directors and senior management of a bank are required to ensure that a bank has established appropriate risk management systems and applies an internal capital adequacy assessment process adequate to have capital for the risks incurred by such bank. The ICAAP Report is required to be audited by either the internal audit department or an independent audit firm in accordance with the internal audit procedures of a bank.

All banks (public and private) also undergo annual audits and interim audits by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities and foreign exchange transactions. Additionally, such audits seek to ensure compliance with applicable laws and regulations 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.

In 2015, the BRSA amended the Regulation on Principles and Procedures of Audits to expand the scope of the audit of banks in compliance with the Internal Systems Regulation. According to this regulation, the BRSA monitors banks' compliance with the regulations relating to the maintenance of capital and liquidity adequacy for risks incurred or to be incurred by banks and the adequacy and efficiency of banks' internal audit systems.

### **The 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, the BRSA and the Treasury. The tariff of the insurance premium, the time and method of collection of this premium, and other relevant matters are determined by the SDIF upon the approval of the BRSA.

(b) *Borrowings of the SDIF*

The SDIF: (i) may incur indebtedness with authorization from the Undersecretariat of Treasury or (ii) the Undersecretariat of Treasury may issue government securities with the proceeds to be provided to the SDIF as a loan, as necessary. Principles and procedures regarding the borrowing of government debt securities, including their interest rates and terms and conditions of repayment to the Treasury, are to be determined together by the Treasury and the SDIF.

(c) *Power to require Advances from Banks*

Provided that BRSA consent is received, the banks may be required by the SDIF to make advances of up to the total insurance premiums paid by them in the previous year to be set-off against their future premium obligations. The decision regarding such advances shall also indicate the interest rate applicable thereto.

(d) *Contribution of the Central Bank*

If the SDIF's resources prove insufficient due to extraordinary circumstances, then the Central Bank will, on request, provide the SDIF with an advance. The terms, amounts, repayment conditions, interest rates and other conditions of the advance will be determined by the Central Bank upon consultation with the SDIF.

(e) *Savings Deposits that are not subject to Insurance*

Deposits, participation accounts and other accounts held in a bank by controlling shareholders, the chairman and members of the board of directors or board of managers, general manager and assistant general managers and by the parents, spouses and children under custody of the above, and deposits, participation accounts and other accounts within the scope of criminally-related assets generated through the offenses set forth in Article 282 of the Turkish Criminal Code and other deposits, participation accounts and accounts as determined by the board of the BRSA are not covered by the SDIF's insurance.

(f) *Premiums as an Expense Item*

Premiums paid by a bank into the SDIF are to be treated as an expense in the calculation of that bank's corporate tax.

(g) *Liquidation*

In the event of the bankruptcy of a bank, the SDIF is a privileged creditor and may liquidate the bank under the provisions of the Execution and Bankruptcy Law No. 2004, exercising the duties and powers of the bankruptcy office and creditors' meeting and the bankruptcy administration.



(h) *Claims*

In the event of the bankruptcy of a bank, holders of savings deposits will have a privileged claim in respect of the part of their deposit that is not covered by the SDIF's insurance.

Since 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:

- (a) ensuring the enforcement of the SDIF board's decisions,
- (b) establishing the human resources policies of the SDIF,
- (c) 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,
- (d) insuring the savings deposits and participation accounts in the credit institutions,
- (e) determining the scope and amount of the savings deposits and participation accounts that are subject to insurance with the opinion of the Central Bank, the BRSA and the Undersecretariat of Treasury, and the risk-based insurance premia timetable, collection time and form and other related issues in cooperation with the BRSA,
- (f) paying (directly or through another bank) the insured deposits and participation accounts from its sources in the credit institutions whose operating permission has been revoked by the BRSA,
- (g) 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,
- (h) taking management and control of the banks whose operating permission has been revoked by the BRSA and fulfilling the necessary operations regarding the bankruptcy and liquidation of such banks,
- (i) 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,
- (j) issuing regulations and communiqués for the enforcement of the Banking Law with the SDIF's board's decision, and
- (k) 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:

- (a) the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due,

- (b) the bank is not complying with liquidity requirements,
- (c) the bank's profitability is not sufficient to conduct its business in a secure manner due to disturbances in the relation and balance between expenses and profit,
- (d) the regulatory equity capital of such bank is not sufficient or is likely to become insufficient,
- (e) the quality of the assets of such bank have been impaired in a manner potentially weakening its financial structure,
- (f) the decisions, transactions or applications of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSB,
- (g) such bank fails to establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the audit of such systems, or
- (h) imprudent acts of such bank's management materially increase the risks stipulated under the Banking Law and relevant legislation or potentially weaken the bank's financial structure,

then the BRSA may require the board of directors of such bank:

- (i) to increase its equity capital,
- (ii) not to distribute dividends for a temporary period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund,
- (iii) to increase its loan provisions,
- (iv) to stop extension of loans to its shareholders,
- (v) to dispose of its assets in order to strengthen its liquidity,
- (vi) to limit or stop its new investments,
- (vii) to limit its salary and other payments,
- (viii) to cease its long-term investments,
- (ix) to comply with the relevant banking legislation,
- (x) to cease its risky transactions by re-evaluating its credit policy,
- (xi) to take all actions to decrease any maturity, foreign exchange and interest rate risks for a period determined by the BRSA and in accordance with a plan approved by the BRSA, and/or
- (xii) to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, its financial structure cannot be strengthened despite the fact that such actions have been taken or the BRSA determines that taking such actions will not lead to a favorable result, then the BRSB may require such bank to:

- (a) strengthen its financial structure, increase its liquidity and/or increase its capital adequacy,
- (b) dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSB,

- (c) decrease its operational and management costs,
- (d) postpone its payments under any name whatsoever, excluding the regular payments to be made to its employees,
- (e) limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors,
- (f) convene an extraordinary general assembly in order to change some or all of the members of the board of directors or assign new member(s) to the board of directors, in the event any board member is responsible for a failure to comply with relevant legislation, a failure to establish efficient and sufficient operation of internal audit, internal control and risk management systems or non-operation of these systems efficiently or there is a factor that impedes supervision or such member(s) of the board of directors cause(s) to increase risks significantly as stipulated above,
- (g) implement short-, medium- or long-term plans and projections that are approved by the BRSB to decrease the risks incurred by the bank and the members of the board of directors and the shareholders with qualified shares must undertake the implementation of such plan in writing, and/or
- (h) to take any other action that the BRSB may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, the problem cannot be solved despite the fact that the actions have been taken or the BRSA determines that taking such actions will not lead to a favorable result, then the BRSB may require such bank to:

- (a) limit or cease its business or the business of the whole organization, including its relations with its local or foreign branches and correspondents, for a temporary period,
- (b) apply various restrictions, including restrictions on the interest rate and maturity with respect to resource collection and utilization,
- (c) remove from office (in whole or in part) some or all of its members of the board of directors, general manager and deputy general managers and department and branch managers and obtain approval from the BRSA as to the persons to be appointed to replace them,
- (d) make available long-term loans; *provided* that these will not exceed the amount of deposit or participation accounts subject to insurance, and be secured by the shares or other assets of the controlling shareholders,
- (e) limit or cease its non-performing operations and to dispose of its non-performing assets,
- (f) merge with one or several banks,
- (g) provide new shareholders in order to increase its equity capital,
- (h) deduct any resulting losses from its own funds, and/or
- (i) take any other action that the BRSB may deem necessary.

In the event that: (a) the aforementioned actions are not (in whole or in part) taken by the applicable bank within a period of time set forth by the BRSB or in any case within 12 months, (b) the financial structure of such bank cannot be strengthened despite its having taken such actions, (c) it is determined that taking these actions will not lead to the strengthening of the bank's financial structure, (d) the continuation of the activities of such bank would jeopardize the rights of the depositors and the participation account owners and the security and stability of the financial system, (e) such bank cannot cover its liabilities as they become due, (f) the total amount of the liabilities of such bank exceeds the total amount of its assets or (g) the

controlling shareholders or directors of such bank are found to have 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. Turkish listed companies must also comply with the Communiqué on Principles of Financial Reporting in Capital Markets issued by the CMB. In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation.

Furthermore, Turkish companies (including banks) are required to comply with the Regulation regarding Determination of the Minimum Content of the Companies' Annual Reports published by the Ministry of Customs and Trade, as well as the Corporate Governance Communiqué, when preparing their annual reports. These reports are required to include the following information: management and organization structures, human resources, activities, financial situation, assessment of management and expectations and a summary of the directors' report and independent auditor's report.

A bank cannot settle its balance sheets without ensuring reconciliation with the legal and auxiliary books and records of its branches and domestic and foreign correspondents.

The BRSA is authorized to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

Pursuant to the Regulation on the Principles and Procedures Concerning the Preparation of Annual Reports by Banks published in the Official Gazette dated November 1, 2006 and numbered 26333, the chairman of the board, audit committee, general manager, deputy general manager responsible for financial reporting and the relevant unit manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records.

Independent auditors must approve the annual reports prepared by the banks.

Banks are required to submit their financial reports to related authorities and publish them in accordance with the BRSA's principles and procedures.

According to BRSA regulations, the annual report is subject to the approval of the board of directors and must be submitted to shareholders at least 15 days before the annual general assembly of the bank. Pursuant

to BRSA regulations, banks must submit an electronic copy of their annual reports to the BRSA within seven days following the publication of the reports. Banks must also keep a copy of such reports in their headquarters and an electronic copy of the annual report should be available at a bank's branches in order to be printed and submitted to the shareholders upon request. In addition they must publish them on their websites by the end of May following the end of the relevant fiscal year.

The BRSA published amendments (entered into force on March 31, 2016) to the Regulation on the Principles and Procedures Regarding the Preparation of Annual Reports by Banks, which amendments require annual and interim financial statements of banks to include explanations regarding their risk management in line with the Regulation on Risk Management to be Disclosed to the Public.

### **Disclosure of Financial Statements**

The BRSA published amendments, which entered into force on March 31, 2016, to the Communiqué on Financial Statements to be Disclosed to the Public setting forth principles of disclosure of annotated financial statements of banks in accordance with the Communiqué on Public Disclosure regarding Risk Management of Banks and the 2013 Equity Regulation. The amendments reflect the updated requirements relating to information to be disclosed to the public in line with the amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios, liquidity coverage ratios and leverage ratios. Rules relating to equity items presented in the financial statements were also amended in line with the amendments to the 2013 Equity Regulation. Furthermore, the changes require publication of a loan agreement of the bank or a prospectus relating to a loan or debt instrument, which will be taken into account in the calculation of the capital of a (parent company) bank as an element for additional principal capital (*i.e.*, additional Tier 1 capital) and supplementary capital (*i.e.*, Tier 2 capital), on the bank's website. Additionally, banks are required to make necessary disclosures on their websites immediately upon repayment of a debt instrument, depreciation or conversion of a share certificate or occurrence of any other material change.

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

### **Financial Services Fee**

Pursuant to Heading XI of Tariff No. 8 attached to the Law on Fees (Law No. 492) amended by the Law No. 5951, banks are required to pay to the relevant tax office to which their head office reports an annual financial services fee for each of their branches. The amount of the fee is determined in accordance with the population of the district in which the relevant branch is located.

### **Corporate Governance Principles**

On January 3, 2014, the CMB issued the Corporate Governance Communiqué, which provides certain mandatory and non-mandatory corporate governance principles as well as rules regarding related-party transactions and a company's investor relations department. Some provisions of the Corporate Governance Communiqué are applicable to all companies incorporated in Turkey and listed on the Borsa İstanbul, whereas some others are applicable solely to companies whose shares are traded in certain markets of the Borsa İstanbul. The Corporate Governance Communiqué provides specific exemptions and/or rules applicable to banks that are traded on the Borsa İstanbul.

As of the date of this 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 "1<sup>st</sup> Group" 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, who should meet the mandatory qualifications required for independent board members as set out in the Corporate Governance Communiqué. Independent board members should constitute at least one third of the board of directors and should not be fewer than two; *however*, publicly traded banks are required to appoint at least three independent board members to their board of directors, which directors may be selected from the members of the bank's audit committee, in which case the above-mentioned qualifications for independent members are not applicable; *provided* that when all independent board members are selected from audit committee, at least one member should meet the mandatory qualification required for independent board members as set out in the Corporate Governance Communiqué. The Corporate Governance Communiqué further initiated a pre-assessment system to determine the "independency" of individuals nominated as independent board members in "1<sup>st</sup> Group" and "2<sup>nd</sup> Group" companies (for banks, to the extent such independent board members are not members of that bank's audit committee). Those nominated for such positions must be evaluated by the "Corporate Governance Committee" or the "Nomination Committee," if any, of the board of directors for fulfilling the applicable criteria stated in the Corporate Governance Communiqué. The 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, except banks, 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. All those types of transactions shall be approved by the majority of the independent board members. If not, then they shall be brought to the general assembly meeting where related parties to those transactions are not allowed to vote. Meeting quorum shall not be sought for these resolutions and the resolution quorum is the simple majority of the attendees who may vote. For banks and financial institutions, transactions with related parties arising from their ordinary activities are not subject to the requirements of related party transactions.

The Capital Markets Law 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 monitor compliance with the new principles, which include requesting injunctions from the court or filing lawsuits to determine or to revoke any unlawful transactions or actions that contradict with these principles.

### **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.

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 FCIB.

### **Consumer Loan, Provisioning and Credit Card Regulations**

On October 8, 2013, the BRSA published regulations that aim to limit the expansion of individual loans and payments, especially credit card installments. The rules: (a) include overdrafts on deposit accounts and loans on credit cards in the category of consumer loans for purposes of provisioning requirements, (b) set a limit of TL 1,000 for credit cards issued to consumers who apply for a credit card for the first time if their income cannot be determined by the bank, (c) require credit card issuers to monitor cardholders' income levels before each limit increase of the credit card and (d) increase the minimum monthly payment required to be made by cardholders. Before increasing the limit of a credit card, a bank is required to monitor the income level of the consumer and it should not increase the credit card limit if the customer's aggregate credit cards limit exceeds four times his or her monthly income. In addition, minimum payment ratios for credit cards may not be lower than 30%, 35% and 40% for credit cards with limits lower than TL 15,000, from TL 15,000 to but excluding TL 20,000 and from TL 20,000, respectively, or 40% for newly-issued credit cards for one year from the date of first use. The 2015 Capital Adequacy Regulation, which entered into force on March 31, 2016 replacing the 2012 Capital Adequacy Regulation, lowered the risk weight for installment payments of credit cards to 75%, irrespective of their tenor, which was in a range of 100% to 250%, depending upon their outstanding tenor according to the former regulation.

In addition, amendments to the Regulation on Bank Cards and Credit Cards introduced some changes on the credit limits for credit cards and income verification so that: (a) the total credit card limit of a cardholder from all banks will not exceed four times his/her monthly income in the second and the following years (two times for the first year) and (b) banks will have to verify the monthly income of the cardholders in the limit increase procedures and will not be able to increase the limit if the total credit card limit of the cardholder from all banks exceeds four times his/her monthly income. The following additional changes regarding minimum payment amounts and credit card usage were included in the amended regulation: (i) minimum payment amounts differentiated among existing cardholders (based upon their credit card limits) and between existing cardholders and new cardholders, (ii) if the cardholder does not pay at least three times the minimum payment amount on his/her credit card statement in a year, then his/her credit card cannot be used for cash advance and also will not allow limit upgrade until the total statement amount is paid, and (iii) if the cardholder does not pay the minimum payment amount for three consecutive times, then his/her credit card cannot be used for cash advances or shopping, and such card will not be available for a limit upgrade, until the total amount in the statements is paid.

The BRSA, by amending the Regulation on Bank Cards and Credit Cards, has adopted limitations on installments of credit cards. Pursuant to such limitations, the installment payment period for the purchase of goods and services and cash withdrawals is not permitted to exceed nine months (four months for jewelry expenditures and 12 months for whiteware, furniture expenditures and education fees). In addition, credit card installment payments (except for corporate credit cards) are not allowed for telecommunication and related expenses and purchases of nutriment, fuels, gift cards, gift checks and other similar intangible goods. With respect to corporate credit cards, the installments for the purchase of goods and services and cash withdrawals are not permitted to exceed nine months (12 months for whiteware, furniture expenditures and education fees).

Furthermore, the Law on the Protection of Consumers (Law No: 6502), published in the Official Gazette No. 28835 dated November 28, 2013, imposed new rules applicable to Turkish banks, such as requiring banks to offer to its customers at least one credit card type for which no annual subscription fee (or other similar fee) is payable. Furthermore, while a bank is generally permitted to charge its customers fees for

accounts held with it, no such fees may be payable on certain specific accounts (such as fixed term loan accounts and mortgage accounts).

In 2013, the BRSA published amendments to the Regulation on Provisions and Classification of Loans and Receivables, which amendments reduced the general reserve requirements for cash and non-cash loans relating to transit trade, export sales and deliveries and services and activities resulting in gains of foreign currency and altered the requirements for calculating consumer loan provisions by: (a) increasing the ratio of consumer loans to total loans beyond which additional consumer loan provisions are required from 20% to 25% and (b) requiring the inclusion of auto loans and credit cards in the calculation of the ratio of non-performing consumer loans to total consumer loans ratio (if such ratio is beyond 8%, which ratio was not altered by these amendments, then additional consumer loans provisions are required). Credit cards are included in the definition of consumer loans by this regulation and the consumer loan provision rate for credit cards in Group I (Loans of a Standard Nature and Other Receivables) and Group II (Loans and Other Receivables under Close Monitoring) increased from 1% and 2% to 4% and 8%, respectively.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, at least 50% of the additional general reserve amount for Group I and II consumer loans (excluding housing loans), which additional amount is a consequence of amendments to the Regulation on Provisions and Classification of Loans and Receivables, was required to be reserved by December 31, 2014 and 100% of such general reserve amount was required to be reserved by December 31, 2015.

On December 31, 2013, the BRSA adopted new rules on loan to value and installments of certain types of loans. Pursuant to these rules, the minimum loan-to-value requirement for housing loans extended to consumers, for loans (except auto loans) secured by houses and for financial lease transactions for housing is 75%. In addition, for auto loans extended to consumers, for loans secured by autos and for financial lease transactions for autos, the loan-to-value requirement is set at 70%; *provided* that in each case the sale price of the respective auto is not higher than TL 50,000. On the other hand, if the sale price of the respective auto is above this TL 50,000 threshold, then the minimum loan-to-value ratio for the portion of the loan below the threshold amount is 70% and the remainder is set at 50%. As for limitations regarding installments (as amended by the BRSA from time to time), the maturity of consumer loans (other than loans to consumers for housing finance and complementary goods and services in relation to home renovation/improvement, the financial leases for homes leased to consumers, other loans for the purpose of purchasing real estate and student loans and any refinancing of the same) are not permitted to exceed 36 months, while auto loans and loans secured by autos may not have a maturity longer than 48 months.

On October 3, 2014, the BRSA published its Regulation on the Procedures and Principles Regarding Fees to be Collected from Financial Institutions' Consumers, which limits the level of fees and commissions that banks may charge customers. The regulation imposes fee and commission limits on selected categories of product groups, including deposit account maintenance fees, loan related fees, credit card commissions, overdraft statement commissions and debt collection notification fees.



## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Bank's management believes to be reliable, but neither the Bank nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

In accordance with the Communiqué on Debt Instruments, the Notes are required under Turkish law to be issued in an electronically registered form in the Central Registry Agency and the interests therein recorded in the Central Registry Agency; however, upon the Issuer's request, the CMB may resolve to exempt the Notes from this requirement if the Notes are to be issued outside of Turkey or such requirement might cease to exist in the future. Further to the request of the Issuer, such exemption was granted by the CMB to the Issuer in the CMB Approval. As a result, this requirement will not be applicable to the Notes issued pursuant to the CMB Approval.

Notwithstanding such exemption, the Issuer is required to notify the Central Registry Agency within three İstanbul business days from the applicable Issue Date of a Tranche of Notes of the amount, Issue Date, ISIN (if any), interest commencement date, maturity date, interest rate, name of the custodian, currency of such Notes and country of issuance.

### Book-entry Systems

#### DTC

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its direct participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "DTC Rules"), DTC makes book-entry transfers of notes among Direct Participants on whose behalf it acts with respect to notes accepted into DTC's book-entry settlement system ("DTC Notes") as described below and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the SEC. Participants with which beneficial owners of DTC Notes ("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 notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest 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 Participant's and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of each transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner holds its interest in the DTC Notes. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the DTC Notes will be made to DTC or its nominee. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC or its nominee is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Direct Participants in accordance with their requests and proportionate entitlements and which, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions.*"

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge its interests in DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to effect such pledge through DTC and its Participants or, if not possible to so effect it, to withdraw its notes from DTC as described below.

The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer an interest in Notes represented by a Registered Global Note to such persons might depend upon the ability to exchange such interest for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such interests to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such interests for Notes in definitive form. The ability of any holder of interest in Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such interests might be impaired if the proposed transferee of such interests is not eligible to hold such interests through a Participant.

#### *Clearstream, Luxembourg*

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of a number of currencies, including U.S. Dollars and Turkish Lira. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in several countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the *Commission de Surveillance du Secteur Financier* and the *Banque Centrale du Luxembourg*, which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.

The ability of an owner of a beneficial interest in a Note held through Clearstream, Luxembourg to pledge such interest to persons or entities that do not participate in the Clearstream, Luxembourg system, or otherwise take action in respect of such interest, 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 accountholders in Euroclear.

The ability of an owner of a beneficial interest in a Note held through Euroclear to pledge such interest to persons or entities that do not participate in the Euroclear system, or otherwise take action in respect of such interest, 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 accountholders.

### **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 direct Euroclear and/or Clearstream, Luxembourg accountholders) and the records of direct Euroclear and/or Clearstream, Luxembourg accountholders (with respect to interests of indirect Euroclear and/or Clearstream, Luxembourg accountholders).

Payments with respect to interests in the Notes held beneficially 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 Registered 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 and Indirect Participants (with respect to interests of Indirect Participants).

Payments in U.S. Dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. Dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. Dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the

case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Fiscal Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

### **Transfers of Notes Represented by Registered Global Notes**

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “*Subscription and Sale and Transfer and Selling Restrictions*”, cross-market transfers between Participants in DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian (“*Custodian*”) with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Tranche, transfers of Notes of such Tranche between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Tranche between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC’s participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC’s Participants cannot be made on a delivery-versus-payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear; *however*, they are under no obligation to perform or continue to perform such procedures, and such procedures 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 accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## **TAXATION**

### **General**

This is a general summary of certain Turkish and other tax considerations in connection with an investment in the Notes. This summary does not address all aspects of such laws, or the laws of other jurisdictions (such as United Kingdom or U.S. tax law). While this summary is considered to be a correct interpretation of existing laws in force on the date of this Base Prospectus, there can be no assurance that those laws or the interpretation of those laws will not change. This summary does not discuss all of the tax consequences that might be relevant to an investor in light of such investor's particular circumstances or to investors subject to special rules, such as regulated investment companies, certain financial institutions or insurance companies.

Prospective 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. References to "resident" in this section refer to tax residents of Turkey and references to "non-resident" in this section refer to persons who are not tax resident in Turkey. The discussion is based upon current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of the Notes that may be relevant to a decision to make an investment in the Notes. Furthermore, the discussion only relates to the beneficial interest of a person in the Notes where the Notes will not be held in connection with the conduct of a trade or business through a permanent establishment in Turkey. Each investor should consult its own tax advisers concerning the tax considerations applicable to its particular situation. This discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Base Prospectus, all of which are subject to change, possibly with a retroactive effect. In addition, it does not describe any tax consequences: (a) arising under the laws of any taxing jurisdiction other than Turkey or (b) applicable to a resident of Turkey or a permanent establishment in Turkey resulting either from the existence of a fixed place of business or appointment of a permanent representative.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its worldwide income, whereas a non-resident legal entity is only liable for Turkish taxes on its trading income made through a permanent establishment or on income otherwise sourced in Turkey.

An individual is a resident of Turkey if such individual has established domicile in Turkey or stays in Turkey more than six months in a calendar year. On the other hand, foreign individuals who stay in Turkey for six months or more for a specific job or business or particular purposes that are specified in the Turkish Income Tax Law might not be treated as a resident of Turkey depending upon the characteristics of their stay. A resident individual is liable for Turkish taxes on his or her worldwide income, whereas a non-resident individual is only liable for Turkish taxes on income sourced in Turkey.

Income from capital investment is sourced in Turkey when the principal is invested in Turkey. Capital gain derived from trading income is considered sourced in Turkey when the activity or transaction generating such income is performed or accounted for in Turkey. The term "accounted for" means that a payment is made in Turkey, or if the payment is made abroad, it is recorded in the books in Turkey or apportioned from the profits of the payer or the person on whose behalf the payment is made in Turkey.

Any withholding tax levied on income derived by a non-resident person is the final tax for the non-resident person and no further declaration is required. Any other income of a non-resident person sourced in Turkey that has not been subject to withholding tax will be subject to taxation through declaration where exemptions are reserved.

Interest paid on notes (such as the Notes) issued abroad by a Turkish corporation is subject to withholding tax. Through the Tax Decrees, the withholding tax rates are set according to the original maturity of notes issued abroad as follows:

- 10% withholding tax for notes with an original maturity of less than one year,
- 7% withholding tax for notes with an original maturity of at least one year and less than three years,
- 3% withholding tax for notes with an original maturity of at least three years and less than five years, and
- 0% withholding tax for notes with an original maturity of five years and more.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Notes may be subject to declaration; *however*, pursuant to Provisional Article 67 of the Turkish Income Tax Law, as amended by the law numbered 6111, special or separate tax returns will not be submitted for capital gains from the notes of a Turkish corporation issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on non-resident persons in respect of capital gains from the Notes and no declaration is required.

A non-resident holder will not be liable for Turkish estate, inheritance or similar tax with respect to its investment in the Notes, nor will it be liable for any Turkish stamp issue, registration or similar tax or duty relating thereto.

#### *Reduced Withholding Tax Rates*

Under current Turkish laws and regulations, interest payments on notes issued abroad by a Turkish corporation to a non-resident holder will be subject to a withholding tax at a rate between 10% and 0% in Turkey, as detailed above.

If a double taxation treaty is in effect between Turkey and the country of which the holder of the notes is an income tax resident (in some cases, for example, pursuant to the treaties with the United Kingdom and the United States, the term “beneficial owner” is used) that provides for the application of a lower withholding tax rate than the local rate to be applied by the corporation, then the lower rate may be applicable. For the application of withholding at a reduced rate that benefits from the provisions of a double tax treaty concluded between Turkey and the country in which the investor is an income tax resident, an original copy of the certificate of residence signed by the competent authority referred to in Article 3 of the Treaty is required, together with a translated copy translated by a translation office, to verify that the investor is subject to taxation over its worldwide gains in the relevant country on the basis of resident taxpayer status, as a resident of such country to the related tax office directly or through the banks and intermediary institutions prior to the application of withholding. In the event the certificate of residence is not delivered prior to the application of withholding tax, then upon the subsequent delivery of the certificate of residence, a refund of the excess tax shall be granted pursuant to the provisions of the relevant double taxation treaty and the Turkish tax legislation.

#### *Value Added Tax*

The Turkish tax authorities (“*Revenue Administration*”) have issued a tax ruling (the “*VAT Ruling*”) dated February 10, 2015 stating that interest payments on bonds issued outside of Turkey by Turkish issuers are

subject to value added tax (“VAT”); *provided* that interest payments on bonds to a non-resident Noteholder that qualifies as a bank or an insurance company in its home jurisdiction are exempt from such VAT (the “*Foreign FI Exemption*”). On March 11, 2015, the Turkish Banks Association contacted the Revenue Administration with respect to the VAT Ruling and requested that the VAT Ruling be revised on the basis that the VAT Ruling is not compatible with existing Turkish VAT laws and international capital market norms. In its response to the Turkish Banks Association dated March 18, 2015, the Revenue Administration agreed to stay the VAT Ruling while it reassesses its analysis (with the effect that no VAT should be imposed pursuant to the VAT Ruling until further notice by the Revenue Administration).

While the Revenue Administration has not made a final decision with respect to the VAT Ruling as of the date of this Base Prospectus, if the Revenue Administration decides to allow the VAT Ruling to stand in its current form, with respect to a holder of Notes that is: (a) non-resident in Turkey but for which the Foreign FI Exemption does not apply, such holder would not be liable to pay tax in Turkey for VAT purposes but rather it is the Issuer that would be liable (*sorumlu sıfatıyla*) to make such VAT payments, and (b) resident and a VAT tax payer in Turkey, liability for such VAT payments resides with such holder. There would be no withholding or other deduction for or on account of any such VAT payments by the Issuer in respect of any payments on the Notes, and thus there would be no additional payments made by the Issuer pursuant to Condition 9.1 with respect to any such VAT payments. Should such VAT apply to any payment, the rate of VAT as of the date of this Base Prospectus is 18%.

In practice, for interest payments on securities such as the Notes that are held in global form through clearing systems, it would not be possible for the Issuer to identify the tax residency of Noteholders other than the registered holder of the Global Notes. It is, therefore, unclear as a practical matter the extent to which: (a) the Foreign FI Exemption would apply for Global Notes, (b) notwithstanding that some Noteholders might be resident in Turkey or would (if holding definitive Notes instead of interests in Global Notes) be eligible for the Foreign FI Exemption, all such VAT payments might be required to be made by the Issuer, or (c) Turkish resident Noteholders holding interests in Global Notes might be subject to such VAT payments.

## **FATCA**

FATCA generally imposes a withholding tax of 30% on certain U.S. source payments to certain non-US financial institutions (including entities such as the Bank) unless such institutions (“*foreign financial institutions*” or “*FFIs*” as defined under the Code) enter into an agreement with the IRS (an “*FFI Agreement*”) or are otherwise exempt from or deemed compliant with FATCA. Such FFI Agreements require the provision of certain information regarding the FFI’s “U.S. accountholders” (which could include holders of the Notes) to the IRS.

FFI Agreements also require FFIs to withhold up to 30% of amounts payable to accountholders that do not provide the payor with information required to comply with FATCA (“*Recalcitrant Holders*”) or to FFIs that do not enter into an FFI Agreement with the IRS under FATCA and are not otherwise exempt from or deemed compliant with FATCA, if such amounts constitute Foreign Passthru Payments under FATCA, which term is not defined as of the date of this Base Prospectus. Such withholding is generally not required on payments made before the later of January 1, 2019 or the date of publication of final regulations defining Foreign Passthru Payments. Further, such withholding on payments with respect to the Notes is required only if the Notes are: (a) issued after the date (the “*Grandfathering Date*”) that is six months after the date on which final regulations defining Foreign Passthru Payments are filed with the U.S. Federal Register) or (b) issued on or before and are materially 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 IGAs to facilitate the implementation of FATCA. 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 an 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). Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its accountholders and investors to its home government or to the IRS. On June 3, 2014, the United States and Turkey agreed in substance to enter into an IGA (the “*U.S. Turkey IGA*”) based largely on the Model 1 IGA. The Bank registered with the IRS on June 3, 2014 with the status “Registered Deemed Compliant FI” (which includes a Reporting FI under a Model 1 IGA).

On July 29, 2015, the U.S.-Turkey IGA was signed, which entered into force on March 16, 2016.

The Bank’s management expects the Bank to be treated as a Reporting FI under the U.S.-Turkey IGA and does not anticipate being obliged to withhold any amounts under FATCA from payments it makes. In order to allow the Bank to comply with its obligations as a Reporting FI under the U.S.-Turkey IGA and to allow the Paying Agents and any applicable intermediary to comply with their obligations under applicable IGAs or FFI Agreements, holders of the Notes may be requested to provide the Bank, a Paying Agent or other intermediaries with certain information, including, but not limited to: (a) information 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, a Paying Agent or other intermediaries request 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. Under an applicable IGA, such information may need to be disclosed to Turkey or the applicable tax authority of a Paying Agent or the applicable intermediary or, in the case of a Paying Agent or intermediary subject to an FFI Agreement, directly 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 the Notes, then neither the Bank nor any paying agent or other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. Holders of the Notes should consult their tax advisers regarding the effect, if any, of FATCA on their investment in the Notes.

### **The Proposed FTT**

On February 14, 2013, the European Commission published the Commission’s Proposal for a Directive for a common FTT in the Participating Member States. The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution might 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 that is subject to the dealings is issued in a Participating Member State; *however*, the FTT proposal remains subject to negotiation among the Participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear as of the date of this Base Prospectus. Participating Member States may decide to withdraw and additional EU Member States might decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT and its potential impact on the Notes.

## **CERTAIN CONSIDERATIONS FOR ERISA AND OTHER U.S. EMPLOYEE BENEFIT PLANS**

Subject to the following discussion, the Notes may be acquired with assets of pension, profit-sharing or other employee benefit plans, as well as individual retirement accounts, Keogh plans and other plans and retirement arrangements, and any entity deemed to hold “plan assets” of the foregoing (each, a “*Plan*”). Section 406 of ERISA and Section 4975 of the Code prohibit a Plan subject to those provisions (each, a “*Benefit Plan Investor*”) from engaging in certain transactions with persons that are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to such Benefit Plan Investor. A violation of these “prohibited transaction” rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of such Benefit Plan Investor. In addition, Title I of ERISA requires fiduciaries of a Benefit Plan Investor subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents. Plans, including U.S. governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA), that are not subject to the fiduciary and prohibited transaction provisions of ERISA or Section 4975 of the Code might be subject to similar restrictions under applicable state, local, other federal or non-U.S. law (“*Similar Law*”).

An investment in the Notes by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if the Bank is a party in interest or a disqualified person with respect to such Benefit Plan Investor. Certain exemptions from the prohibited transaction rules could be applicable to an investment in the Notes by a Benefit Plan Investor depending upon the type and circumstances of the plan fiduciary making the decision to acquire such investment and the relationship of the party in interest to the Benefit Plan Investor. Included among these exemptions are: Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain transactions between a Benefit Plan Investor and non-fiduciary service providers to the Benefit Plan Investor; Prohibited Transaction Class Exemption (“*PTCE*”) 96-23, regarding transactions effected by “in-house asset managers;” PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions effected by “qualified professional asset managers.” Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts that might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the Notes, and prospective investors that are Benefit Plan Investors and other Plans should consult with their legal advisors regarding the applicability of any such exemption and other applicable legal requirements.

By acquiring a Note (or a beneficial interest therein), each purchaser and transferee (and if the purchaser or transferee is a Plan, then its fiduciary) is deemed to represent and warrant that either: (a) it is not, and for so long as it holds the Note (or a beneficial interest therein) will not be, acquiring or holding a Note (or a beneficial interest therein) with the assets of a Benefit Plan Investor or a Plan that is subject to Similar Law, or (b) the acquisition, holding and disposition of the Note (or a beneficial interest therein) will not give 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, Section 4975 of the Code and Similar Laws of the acquisition, ownership or disposition of the Notes (or a beneficial interest therein).

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in an amended and restated program agreement (the “*Program Agreement*”) dated June 16, 2016 (and as further amended and/or supplemented and/or restated from time to time), agreed (or, when acceding thereto, will agree) with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*.” In the 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 laws and regulations in the United Kingdom, stabilization activities may only be carried on by the Stabilization Manager(s) (or persons acting on behalf of any Stabilization 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.

All or certain of the Dealers and their respective affiliates are full service financial institutions engaged in various activities, which might include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Dealers 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 might 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 might have an adverse effect on the future trading prices of the Notes.

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 and transferee (and if the purchaser or transferee is a Plan, then its fiduciary) of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) 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 such Notes have not been and will not be registered under the Securities Act or any other applicable U.S. Federal or State securities laws and 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 Registered Global Note and is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only: (i) to the Issuer or any affiliate thereof, (ii) to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction in compliance with Rule 903 or 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable securities laws of the United States and all other jurisdictions;
- (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 pursuant to Section 4(a)(2) of the Securities Act will be in the form of Definitive IAI Registered Notes or one or more IAI Global Notes and that Notes offered in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by one or more Regulation S Global Notes, Definitive Regulation S Registered Notes or Bearer Global Notes;
- (f) that the Rule 144A Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD PLEDGED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION 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 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 (AND IF THE PURCHASER OR TRANSFEREE IS A PLAN, THEN ITS FIDUCIARY) OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL NOT BE, ACQUIRING OR HOLDING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WITH THE ASSETS OF AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING OR A U.S. GOVERNMENTAL

PLAN, CHURCH PLAN OR NON-U.S. PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (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 “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(A)(1), (2), (3), OR (7) UNDER THE SECURITIES ACT) THAT IS AN INSTITUTION (AN “INSTITUTIONAL ACCREDITED INVESTOR”); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT, THE TERMS OF THE IAI INVESTMENT LETTER IT EXECUTED IN CONNECTION WITH ITS PURCHASE OF THE SECURITIES AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) FOR SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION, PROVIDED THAT THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER

PURSUANT TO (3) OR (4) ABOVE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THE SECURITY.

EACH PURCHASER AND TRANSFEREE (AND IF THE PURCHASER OR TRANSFEREE IS A PLAN, THEN ITS FIDUCIARY) OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL NOT BE, ACQUIRING OR HOLDING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WITH THE ASSETS OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" OF ANY OF THE FOREGOING OR A U.S. GOVERNMENTAL PLAN, CHURCH PLAN OR NON-U.S. PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (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 REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFORE, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON)."

- (h) if it holds an interest in a Regulation S Registered 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 Registered 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 (AND IF THE PURCHASER OR TRANSFEREE IS A PLAN, THEN ITS FIDUCIARY) OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL NOT BE, ACQUIRING OR HOLDING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WITH THE ASSETS OF AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING OR A U.S. GOVERNMENTAL PLAN, CHURCH PLAN OR NON-U.S. PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (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 (and if the purchaser or transferee is a Plan, then its fiduciary) of a Note (or a beneficial interest therein) will be deemed to represent and warrant that either: (i) it is not, and for so long as it holds a Note (or a beneficial interest therein) will not be, acquiring or holding such Note (or a beneficial interest therein) with the assets of a Benefit Plan Investor or a Plan that is subject to 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 applicable Institutional Accredited Investor has received a copy of this Base Prospectus and such other information as it deems necessary in order to make its investment decision;
- (ii) that such Institutional Accredited Investor understands that such Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning



of the Securities Act, and that such Notes have not been and will not be registered under the Securities Act or any other applicable U.S. Federal or State securities laws and that any subsequent transfer of such Notes is subject to certain restrictions and conditions set forth in this Base Prospectus and such Notes (including those set out above) and that it agrees to be bound by, and not to reoffer, resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;

- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
  - (iv) that it is an Institutional Accredited Investor and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;
  - (v) that such Institutional Accredited Investor is acquiring such 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 such Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
  - (vi) that, in the event that such Institutional Accredited Investor purchases Notes (or beneficial interests therein), it will acquire Notes (or beneficial interests therein) having a minimum purchase price of at least US\$500,000 (or the approximate equivalent in another Specified Currency) (or such other amount set forth in the applicable Final Terms).
- (j) Unless set forth in the applicable Final Terms otherwise, no sale of U.S. Notes (or beneficial interests therein) to any one purchaser will be for less than US\$200,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors (pursuant to Section 4(a)(2) of the Securities Act), US\$500,000 (or its foreign currency equivalent) principal amount and no U.S. Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, then each person for whom it is acting must purchase at least US\$200,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors (pursuant to Section 4(a)(2) of the Securities Act), US\$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

“U.S. Note” means Registered Notes (whether in definitive form or represented by a Registered Global Note) that, in their initial distribution, are: (i) issued by the Issuer directly to Institutional Accredited Investors in a transaction complying with Section 4(a)(2) of the Securities Act or (ii) sold by one or more Dealer(s) to QIBs in accordance with the requirements of Rule 144A.

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) in the secondary markets only, may purchase or sell Notes (or beneficial interests therein) denominated in a currency other than Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis and (b) both in the primary and secondary markets, may purchase or sell Notes (or beneficial interests therein) denominated in Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis. Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes (or beneficial interests therein) in offshore transactions on an unsolicited (reverse inquiry) basis; *provided* that such purchase or sale (for each of clauses (a) and (b)) is made through licensed banks authorized by the BRSA or licensed brokerage institutions authorized pursuant to CMB regulations and the purchase price is transferred through such licensed banks. As such, Turkish residents should use such banks or licensed brokerage institutions while purchasing the Notes (or beneficial interests therein) and should transfer the purchase price through banks.

## **Selling Restrictions**

### ***Turkey***

The Issuer has obtained the CMB Approval from the CMB and the BRSA Approval from the BRSA required for the issuance of Notes under the Program. Pursuant to the Program Approvals, the offer, sale and issue of Notes under the Program has been authorized and approved in accordance with Decree 32, the Banking Law and its related legislation and the Capital Markets Law 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 Approval 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) 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) in the secondary markets only, may purchase or sell Notes (or beneficial interests therein) denominated in a currency other than Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis, and (b) both in the primary and secondary markets, may purchase or sell Notes (or beneficial interests therein) denominated in Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis.

Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes (or beneficial interests therein) in offshore transactions on an unsolicited (reverse inquiry) basis; *provided* that (for each of clauses (a) and (b) above) such purchase or sale is made through licensed banks authorized by the BRSA or licensed brokerage institutions authorized pursuant to CMB regulations and the purchase price is transferred through such licensed banks. As such, Turkish residents should use such banks or licensed brokerage institutions while purchasing the Notes (or beneficial interests therein) and should transfer the purchase price through such licensed banks.

To the extent required by applicable law or regulation, a tranche issuance certificate (tertip ihraç belgesi) approved by the CMB in respect of each Tranche of Notes is required to be obtained by the Issuer prior to the issue date of each such Tranche of Notes. The Issuer shall maintain all authorizations and approvals 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 the U.S. Treasury regulations promulgated thereunder.

In connection with any Regulation S Note, each Dealer has represented and agreed, and each further Dealer appointed under the 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(s) or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part other than in an offshore transaction and to, or for the account or benefit of, persons who are not U.S. persons. 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 or 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) might violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Registered Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying upon the exemption from the registration requirements of the Securities Act provided by Rule 144A. To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in the Deed Poll to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes of the applicable Series remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

#### ***Public Offer Selling Restriction under the Prospectus Directive***

In relation to each 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 that are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity that is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer(s) nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in clauses (a) to (c) 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: (a) the expression “*an offer of Notes to the public*” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and (b) the expression “*Prospectus Directive*” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in the Relevant Member State.

### ***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, as amended (“FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorized person, 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 (or beneficial interests therein) to any person for reoffering or resale or redelivery, in any such case directly or indirectly, in the PRC (excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan) in contravention of any applicable laws.

### ***Hong Kong***

Each of the Dealers has represented and agreed, and each further Dealer appointed under the 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 (or beneficial interests therein) other than: (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances that do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or that do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes (or beneficial interests therein) that are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

### ***Switzerland***

In Switzerland, this Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in 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 each Dealer has represented to and agreed, and each further Dealer appointed under the Program will be required to represent and agree, with

the Issuer that neither this Base Prospectus nor any other offering or marketing material relating to the Notes may or will be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Base Prospectus nor any other offering or marketing material relating to the offering of the Notes has been or will be filed with or approved by any Swiss regulatory authority. The Notes do not constitute a participation in a collective investment scheme in the meaning of the Swiss Collective Investment Schemes Act and are not subject to the approval of, or supervision by, any Swiss regulatory authority, such as the Swiss Financial Markets Supervisory Authority, and investors in the Notes will not benefit from protection or supervision by any Swiss regulatory authority.

### ***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “FIEA”) and 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 or sell any Notes (or beneficial interests therein), directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (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.

### ***Singapore***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act Chapter 289 of the Singapore Statutes (the “SFA”). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Program will be required to represent, warrant and agree, that it has not offered or sold any Notes (or beneficial interests therein) or caused any Notes (or beneficial interests therein) to be the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes (or beneficial interests therein), whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(1) of the SFA) or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes (or beneficial interests therein) are subscribed or purchased under Section 275 of the SFA by a relevant person that is:

- (a) a corporation (which is not an accredited investor, as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) the sole purpose of which is to hold investments and each beneficiary of which is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust, as applicable, has acquired the Notes (or beneficial interests therein) pursuant to an offer under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) pursuant to Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### ***Thailand***

This Base Prospectus has not been approved by or filed with the Securities and Exchange Commission or any other regulatory authority of the Kingdom of Thailand. Accordingly, the Notes may not be offered or sold, nor may this Base Prospectus or any other documents in relation to the offer of the Notes be distributed, directly or indirectly, to any person in Thailand except under circumstances that will result in compliance with all applicable laws, regulations and guidelines promulgated by the Thai government and regulatory authorities in effect at the relevant time.

### ***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 therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

## **GENERAL INFORMATION**

### **Authorization**

The update of the Program and the further issue of Notes have been duly authorized by resolutions of the Board of Directors of the Issuer dated June 24, 2013 and January 5, 2016.

### **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 MiFID. If a Tranche of Notes is to be listed on the Irish Stock Exchange or any other stock exchange, then this will be specified in the applicable Final Terms.

### **Listing Agent**

Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Bank in connection with the 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 (where applicable, 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 as of and for the years ended December 31, 2013, 2014 and 2015;
- (c) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Bank as of and for the years ended December 31, 2013, 2014 and 2015;
- (d) the independent auditors' audit reports and audited consolidated IFRS Financial Statements of the Group as of and for the years ended December 31, 2013, 2014 and 2015;
- (e) the independent auditors' review report and unaudited interim consolidated BRSA Financial Statements of the Group as of and for the three month period ended March 31, 2016 (with March 31, 2015 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, 2016 (with March 31, 2015 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 the BRSA Accounting and Reporting Regulations 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 the BRSA

Accounting and Reporting Regulations on a quarterly basis and unaudited 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 prospecti, prospecti, information memoranda, supplements and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

In addition, copies of this Base Prospectus and the documents incorporated by reference herein will also be available in electronic format on the Issuer's website.

See "*Documents Incorporated by Reference*" above. Each Final Terms relating to Notes that 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 (if any) for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers (if applicable) for each Tranche of such Notes, together with the relevant ISIN and (if applicable) Common Code, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system, then the appropriate information will be specified in the applicable Final Terms.

Through DTC's accounting and payment procedures, DTC will, in accordance with its customary procedures, credit interest payments received by DTC on any Interest Payment Date based upon DTC's Participants' holdings of the Notes on the close of business on the New York Business Day immediately preceding each such Interest Payment Date. A "*New York Business Day*" is a day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York are authorised or required by law or executive order to close.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

### **Conditions for Determining Price**

The price and amount of Notes to be issued under the Program will be determined by the Issuer and the relevant Dealer(s) or investor(s) at the time of issue in accordance with prevailing market conditions.



## **Significant or Material Change**

There has been no significant change in the financial or trading position of either the Bank or the Group since March 31, 2016 and no material adverse change in the financial position or prospects of either the Bank or the Group since December 31, 2015.

## **Litigation**

Except as described in “*Business of the Group – Legal Proceedings*,” 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 that are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Base Prospectus that might have or in such period had a significant effect on the financial position or profitability of the Bank or the Group.

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

Except with respect to the fees to be paid to the Dealers, so far as the Bank is aware, no natural or legal person involved in the issue of the Notes has an interest, including a conflicting interest, material to the issue of the Notes.

## **Auditors**

The BRSA Financial Statements as of and for the years ended December 31, 2013, 2014 and 2015 incorporated by reference herein have been audited in accordance with the BRSA Auditing Standards by KPMG, which is located at Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No 29, 34805 Beykoz, İstanbul, Turkey. The IFRS Financial Statements as of and for the years ended December 31, 2013, 2014 and 2015 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, 2016 incorporated by reference herein have been reviewed in accordance with the BRSA Auditing Standards by KPMG. With respect to such unaudited financial statements, 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 and Arrangers 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 for, the Issuer and/or 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 might make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities might involve securities and/or instruments of the Issuer or the Issuer’s affiliates. The Arrangers, the Dealers and their respective affiliates that have a credit relationship with the Issuer might (from time to time) hedge their credit exposure to the

Issuer consistent with their customary risk management policies. Typically, the Arrangers, the 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 might also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and might hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## APPENDIX 1

### OVERVIEW OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND THE BRSA ACCOUNTING AND REPORTING REGULATIONS

Certain of the financial statements and financial information included in this Base Prospectus have been prepared in accordance with Turkish Accounting Standards (“TAS”), Turkish Financial Reporting Standards (“TFRS”) and the BRSA Accounting and Reporting Regulations. Although the TFRS is almost an exact translation of IFRS, the BRSA Accounting and Reporting Regulations 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 Accounting and Reporting Regulations and IFRS differ from each other.

#### *Consolidation*

Consolidation principles under the BRSA Accounting and Reporting Regulations 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 Accounting and Reporting Regulations, 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 Accounting and Reporting Regulations, 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 Accounting and Reporting Regulations have prescribed certain minimum provisioning rates for groups comprising non-performing loans after taking into account collateral (specific provision) and a separate rate for groups comprising performing loans (general provision - the general provision rate is specified by BRSA and applied consistently across the Turkish banking sector).

The Bank 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*”).

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 Accounting and Reporting Regulations, 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 Accounting and Reporting Regulations and IFRS.

#### *Presentation of Financial Statements*

Although presentation of the financial statements under both the BRSA Accounting and Reporting Regulations 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's 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**  
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