

BASE PROSPECTUS



TÜRKİYE GARANTİ BANKASI A.Ş.

US\$6,000,000,000

Global Medium Term Note Programme

Under this Global Medium Term Note Programme (the “Programme”), Türkiye Garanti Bankası A.Ş., a Turkish banking institution organised as a joint stock company registered with the İstanbul Trade Registry under number 159422 (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 either bearer or registered form (respectively, “Bearer Notes” and “Registered Notes”); provided that the Notes may be offered and sold in the United States only in registered form. As of the time of each issuance of Notes, the maximum aggregate nominal amount of all Notes outstanding under the Programme will not exceed US\$6,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued from time to time to: (a) one or more of the Dealers specified under “Overview of the Group and the Programme” and any additional Dealer(s) appointed under the Programme from time to time by the Issuer (each a “Dealer”), 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.

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

The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”), of the United States of America (the “United States” or “U.S.”) or any other U.S. federal or state securities laws and may not be offered or sold in the United States or to, or for the account or benefit of, a U.S. person (“U.S. person”) as defined in Regulation S under the Securities Act (“Regulation S”) except to “qualified institutional buyers” (“QIBs”) within the meaning of Rule 144A under the Securities Act (“Rule 144A”) in a transaction satisfying the conditions of Rule 144A or unless another exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of the United States and each applicable state or other jurisdiction of the United States. See “Form of the Notes” for a description of the manner in which Notes will be issued. For a description of certain restrictions on the sale and transfer of investments in the Notes, see “Subscription and Sale and Transfer and Selling Restrictions.” Where the “United States” is referenced herein with respect to Regulation S, such shall have the meaning provided thereto in Rule 902 of Regulation S.

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 or superseded, 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 having a maturity of one year or more that are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU (as amended, “MiFID II”) and/or that are to be offered to the public in any member state (a “Member State”) of the European Economic Area (the “EEA”). Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (“Euronext Dublin”) for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to its official list (the “Official List”) and to trading on its regulated market (the “Regulated Market”). The Regulated Market is a regulated market for the purposes of MiFID II.

This document constitutes “listing particulars” for the purposes of Notes issued under the Programme having a maturity of less than one year that are to be admitted to the Official List and to trading on the Regulated Market. This document has been approved as listing particulars by Euronext Dublin. Application may be made to Euronext Dublin for Notes having a maturity of less than one year to be admitted to the Official List and to trading on the Regulated Market.

References in this Base Prospectus to any Notes being “listed” (and all related references) shall mean that, unless otherwise specified in the applicable Final Terms or Pricing Supplement, such Notes have been admitted to the Official List and have been admitted to trading on the Regulated 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 its approval of the issuance and sale of Notes by the Bank outside of Turkey. No Notes may be sold before the necessary approvals are obtained from the CMB. The CMB approval relating to the issuance of Notes based upon which any offering of the Notes may be conducted was obtained on 8 February 2019 and, to the extent (and in the form) required by applicable law, a written approval of the CMB in relation to each Tranche (as defined herein) of Notes will be required to be obtained on or before the issue date (the “Issue Date”) of such Tranche of Notes.

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

Notice of the aggregate nominal amount of a Tranche of Notes, interest (if any) payable in respect of such Notes, the issue price of such Notes and certain other information that is applicable to such Notes will be set out in a final terms document (for a Tranche, its “Final Terms”) or a pricing supplement (for a Tranche, its “Pricing Supplement”), as the case may be. With respect to Notes to be listed on Euronext Dublin or any other EEA regulated market, the applicable Final Terms or Pricing Supplement will be filed with the Central Bank of Ireland and Euronext Dublin or such other market, in the case of Notes having a maturity of one year or more, or Euronext Dublin or such other market, in the case of Notes having a maturity of less than one year. Copies of such Final Terms and Pricing Supplements will also be published on the Issuer’s website at <https://www.garantiinvestorrelations.com/en/debt-information/GMTN/GMTN/48/2723/0>.

The Programme provides that Notes may be listed and/or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer(s) or (in the case of Notes purchased directly from the Issuer by one or more investor(s)) the relevant investor(s) (as set out in the applicable Final Terms or Pricing Supplement). The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Programme has been rated “BB-” (for long-term issuances) and “B” (for short-term issuances) by Fitch Ratings Limited (“Fitch”) and Notes issued under the Programme are expected to be rated upon issuance “B1” (for long-term issuances) and “Not - Prime” (for short-term issuances) by Moody’s Investors Service Ltd. (“Moody’s”) and, together with Fitch and S&P Global Ratings Europe Limited (“S&P”), the “Rating Agencies”. The Bank has also been rated by the Rating Agencies and JCR Eurasia Rating (“JCR Eurasia”) as set out on pages 210 and 211 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 (“ESMA”) on its website (at <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) in accordance with the CRA Regulation. JCR Eurasia is not established in the EU and is not registered in accordance with the CRA Regulation and JCR Eurasia is therefore not included in the list of credit rating agencies published by ESMA on its website 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), the initial rating(s) will be disclosed in the applicable Final Terms or Pricing Supplement and (if rated by Fitch and/or Moody’s) will not necessarily be the same as the rating described above. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

Arranger

BofA Merrill Lynch

Dealers

BNP PARIBAS

Commerzbank

HSBC

Morgan Stanley

Société Générale

Corporate & Investment Banking

Banco Bilbao Vizcaya Argentaria, S.A.

Citigroup

Goldman Sachs International

J.P. Morgan

SMBC Nikko

BofA Merrill Lynch

Deutsche Bank

ING

MUFG

Standard Chartered Bank

The date of this Base Prospectus is 26 April 2019.

This Base Prospectus constitutes a base prospectus for the purposes of the Prospectus Directive and Notes having a maturity of one year or more. This document does not constitute a prospectus for the purpose of Notes having a maturity of less than one year or Section 12(a)(2) of, or any other provision of or rule under, the Securities Act.

RESPONSIBILITY STATEMENT

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

This Base Prospectus is to be read in conjunction with all documents that are (or portions of 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 (or the applicable portions thereof) are incorporated into, and form part of, this Base Prospectus.

To the fullest extent permitted by law, none of the Dealers, the Arranger or the Agents accept any responsibility for the information contained in (including incorporated by reference into) this Base Prospectus or any other information provided by the Issuer in connection with the Programme or for any statement consistent with this Base Prospectus made, or purported to be made, by a Dealer or the Arranger or on its behalf in connection with the Programme and none of the Arranger, the Dealers or the Agents accepts any responsibility for any acts or omissions of the Issuer or any other Person (as defined in Condition 5.4) in connection with the issue and offering of the Notes. Each of the Dealers and the Arranger accordingly disclaims all and any liability that it might otherwise have (whether in tort, contract or otherwise) in respect of the accuracy or completeness of any such information or statements. The Arranger and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor or potential investor in the Notes of any information coming to their attention.

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

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

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

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

GENERAL INFORMATION

The distribution of this Base Prospectus and/or the offer or sale of Notes (or beneficial interests therein) might be restricted by law in certain jurisdictions. None of the Issuer, the Arranger or the Dealers represent that this Base Prospectus may be lawfully distributed, or that any Notes (or beneficial interests therein) may be lawfully offered, in any such jurisdiction or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer that is intended to permit a public offering of any Notes (or beneficial interests therein) or distribution of this Base Prospectus, any advertisement or any other material in any jurisdiction in which action for that purpose is required. Accordingly: (a) no Notes (or beneficial interests therein) may be offered or sold, directly or indirectly, and (b) neither this Base Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction except, in each case, under circumstances that will result in compliance with all applicable laws. Persons into whose possession this Base Prospectus or any Notes (or beneficial interests therein) come(s) must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and/or 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 EEA (including the United Kingdom and Belgium), the People's Republic of China (the "PRC"), the Hong Kong Special Administrative Region of the PRC ("*Hong Kong*"), Singapore, Japan and Switzerland. 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 in which 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 that has implemented the Prospectus Directive (each a "*Relevant Member State*") must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes (or beneficial interests therein). Accordingly, any Person making or intending to make an offer of Notes (or beneficial interests therein) in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer, the Arranger or any Dealer to publish or supplement a prospectus pursuant to the Prospectus Directive, in each case, in relation to such offer. None of the Issuer, the Arranger or any of the Dealers has authorised, nor do they authorise, the making of any offer of Notes (or beneficial interests therein) in circumstances in which an obligation arises for the Issuer, the Arranger or any Dealer to publish or supplement a prospectus for such offer.

In making an investment decision, investors must rely upon their own examination of the Issuer and the terms of the Notes (or beneficial interests therein) being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the Securities and Exchange Commission (the "*SEC*") of the United States 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 (*Bankacılık Düzenleme ve Denetleme Kurumu*) (the "*BRSA*") of Turkey, the CMB and the Central Bank of Ireland described herein, have not been approved or disapproved by any 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 Arranger, the Dealers, the Issuer or any of their respective counsel or other representatives makes any representation to any actual or potential investor in the Notes regarding the legality under any applicable law of its investment in the Notes. Any investor in the Notes should ensure that it is able to bear the economic risk of an investment in the Notes for an indefinite period of time.

The Notes might not be a suitable investment for all investors. Each potential investor contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of that investment in light of its own circumstances, with particular reference to its own investment objectives and experience, and any other factors that are relevant to it in connection with such investment. In particular, each potential investor in the Notes should consider, either on its own or with the help of its financial and other professional advisers, whether it:

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

(b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular circumstances, 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 currency(ies) or where the currency for principal or interest payments is different from the potential investor's currency,

(d) understands thoroughly the terms of the applicable Notes and is familiar with the behaviour of financial markets, and

(e) is able to evaluate possible scenarios for economic, interest rate and other factors that might affect its investment in the Notes and its ability to bear the applicable risks.

Legal investment considerations might restrict certain investments. The investment activities of certain investors are subject to applicable laws and/or to review or regulation by certain authorities. Each potential investor in the Notes should consult its legal advisers to determine whether and to what extent: (a) Notes (or beneficial interests therein) are legal investments for it, (b) Notes (or beneficial interests therein) can be used by it 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 their investments in the Notes under any applicable risk-based capital or other rules. Each potential investor in the Notes should further consult its own advisers as to the legal, tax, business, financial and related aspects of an investment in the Notes.

The Issuer has obtained the CMB approval letter (dated 8 February 2019 No. 29833736-105.02.02.02-E.2121) and the final CMB approved issuance certificate (in Turkish: *onaylanmış ihraç belgesi*) (dated 8 February 2019 and numbered 35/BA-211) (together, the “CMB Approval”) and the BRSA approval letter (dated 25 January 2019 No. 20008792-101.02.01[42]-E.1209) (the “BRSA Approval” and, together with the CMB Approval, the “Programme Approvals”) required for the issuance of Notes under the Programme. In addition to the Programme Approvals, to the extent (and in the form) required by applicable law, an approval of the CMB in respect of each Tranche of Notes is required to be obtained by the Issuer on or prior to the Issue Date of such Tranche, which date will be specified in the applicable Final Terms or Pricing Supplement.

Pursuant to the Programme Approvals, the offer, sale and issue of Notes under the Programme have been authorised and approved in accordance with Decree No. 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, “Decree 32”), the Banking Law No. 5411 of 2005, as amended (the “Banking Law”), and its related law, the Capital Markets Law and the Communiqué on Debt Instruments No. VII-128.8 of the CMB (the “Debt Instruments Communiqué”) and its related law. The Notes issued under the Programme prior to the date of the CMB Approval were issued under previously existing CMB approvals.

In addition, in accordance with the Programme Approvals, the Notes (or beneficial interests therein) may only be offered or sold outside of Turkey. Under the Programme Approvals, the BRSA and CMB have authorised the offering, sale and issue of the Notes on the condition that no transaction that qualifies as a sale or offering of Notes (or beneficial interests therein) in Turkey may be engaged in. Notwithstanding the foregoing, pursuant to the BRSA decisions dated 6 May 2010 (No. 3665) and 30 September 2010 (No. 3875) and in accordance with Decree 32, residents of Turkey: (a) in the secondary markets only, may purchase or sell Notes (or beneficial interests therein) denominated in a currency other than Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis, and (b) in both the primary and secondary markets, may purchase or sell Notes (or beneficial interests therein) denominated in Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis; *provided* that, for each of clauses (a) and (b), such purchase or sale is made through licensed banks authorised by the BRSA or licensed brokerage institutions authorised pursuant to CMB regulations and the purchase price is transferred through such licensed banks. As such, Turkish residents should use such licensed banks or licensed brokerage institutions when purchasing Notes (or beneficial interests therein) and should transfer the purchase price through such licensed banks.

Monies paid for the purchase of Notes (or beneficial interests therein) are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund (*Tasarruf Mevduatı Sigorta Fonu*) (the “SDIF”) of Turkey.

Pursuant to the Debt Instruments Communiqué, the Issuer is required to notify the Central Securities Depository of Turkey (*Merkezi Kayıt Kuruluşu A.Ş.*) (trade name: Central Registry İstanbul (*Merkezi Kayıt İstanbul*))

(“*Central Registry İstanbul*”) within three İstanbul business days from the applicable Issue Date of a Tranche of Notes of the amount, Issue Date, ISIN (if any), interest commencement date, maturity date, interest rate, name of the custodian and currency of such Notes and the country of issuance.

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

MIFID II PRODUCT GOVERNANCE / TARGET MARKET

The Final Terms or Pricing Supplement, as applicable, in respect of any Notes may include a legend titled “MiFID II Product Governance” that will outline the target market assessment in respect of such Notes and which channels for distribution of such Notes (or beneficial interests therein) are appropriate. In those cases, any Person subsequently offering, selling or recommending such Notes (or beneficial interests therein) (a “*distributor*”) should take into consideration the target market assessment; *however*, a distributor subject to MiFID II will remain responsible for undertaking its own target market assessment in respect of such Notes (or beneficial interests therein) (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the “*MiFID Product Governance Rules*”), any Dealer subscribing for any Notes (or beneficial interests therein) is a manufacturer in respect of such Notes (or beneficial interests therein), but otherwise none of the Arranger, the Dealers or any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

INFORMATION RELATING TO THE BENCHMARKS REGULATION

Interest Amounts payable in respect of Floating Rate Notes might be calculated by reference to the following benchmark reference rates that are provided by the following benchmark administrators (each a “*Benchmark Administrator*”):

<u>Benchmark Reference Rates</u>	<u>Benchmark Administrator</u>
LIBOR	Intercontinental Exchange Benchmark Administration Limited
SONIA	The Bank of England
EURIBOR	European Money Markets Institute (EMMI)
TRLIBOR	Banks Association of Turkey
HIBOR	The Hong Kong Treasury Markets Association
ROBOR	National Bank of Romania
PRIBOR	Czech Financial Benchmark Facility (CFBF)
SIBOR	ABS Benchmarks Administration Co Pte Ltd
NIBOR	Norwegian Financial References AS
WIBOR	The Warsaw Stock Exchange
CNH HIBOR	The Hong Kong Treasury Markets Association

The applicable Final Terms or Pricing Supplement in respect of any Tranche of Floating Rate Notes will specify whether or not the applicable Benchmark Administrator appears on the register of administrators and benchmarks (the “*Register of Administrators*”) established and maintained by ESMA pursuant to Article 36 of the EU Benchmarks Regulation (Regulation (EU) 2016/1011) of 8 June 2016 (the “*Benchmarks Regulation*”). As of the date of this Base Prospectus, Intercontinental Exchange Benchmark Administration Limited appears on the Register of Administrators, but none of the other Benchmark Administrators appear on the Register of Administrators, though The Bank of England, as a central bank, is not required to appear on the Register of Administrators pursuant to Article 2(2) of the Benchmarks Regulation. As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that none of the other Benchmark Administrators that are not registered as of the date of this Base Prospectus in the Register of Administrators is, as of the date of this Base Prospectus, required to obtain authorisation or registration (or, if non-EU-based, recognition, endorsement or equivalence).

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Base Prospectus might be considered to be forward-looking statements. Forward-looking statements include (without limitation) statements concerning the Issuer’s plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this

Base Prospectus, the words “anticipates,” “estimates,” “expects,” “believes,” “intends,” “plans,” “aims,” “seeks,” “may,” “might,” “will,” “should” and any similar expressions generally identify forward-looking statements. These forward-looking statements appear in a number of places throughout this Base Prospectus, including (without limitation) in the sections titled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “The Group and its Business,” and include, but are not limited to, statements regarding:

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

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

The 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 the forward-looking statements in this Base Prospectus are reasonable as of the date of this Base Prospectus, if one or more of the risks or uncertainties inherent in these forward-looking statements materialise(s), including those identified 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 might adversely affect the Group’s results, the Notes or the accuracy of forward-looking statements in this Base Prospectus. Therefore, potential investors should not consider the factors discussed under “Risk Factors” to be a complete discussion of all potential risks or uncertainties of investing in the Notes.

Potential investors should not place undue reliance upon any forward-looking statements. Any forward-looking statements contained in this Base Prospectus speak only as of the date of this Base Prospectus. Without prejudice to any requirements under applicable laws, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances upon 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 within the meaning of Rule 144A and “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“*Institutional Accredited Investors*”), and to investors with whom “offshore transactions” under Regulation S can be entered into, for informational use solely in connection with the consideration of an investment in certain Notes. Its use for any other purpose in the United States or by any U.S. person is not authorised. This Base Prospectus 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 (or on behalf of) the Issuer or a Dealer.

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

The Notes have not been and will not be registered under the Securities Act or under the securities or “blue sky” laws of any state of the United States or any other U.S. jurisdiction. Each investor, by purchasing a Note (or a

beneficial interest therein), agrees (or will be deemed to agree) that the Notes (or beneficial interests therein) may be reoffered, resold, pledged or otherwise transferred only upon registration under the Securities Act or pursuant to the exemptions from the registration requirements thereof described under “Subscription and Sale and Transfer and Selling Restrictions.” Each investor also will be deemed to have made certain representations and agreements as described therein. Any resale or other transfer, or attempted resale or other attempted transfer, of the Notes (or a beneficial interest therein) that is not made in accordance with the transfer restrictions may subject the transferor and/or transferee to certain liabilities under applicable securities laws. Furthermore, purchasers of IAI Notes (including beneficial interests in IAI Global Notes) will be required to execute and deliver an investment letter substantially in the form set out in the Agency Agreement (an “*IAI Investment Letter*”).

The Notes (or beneficial interests therein) generally may be offered or sold within the United States or to, or for the account or benefit of, U.S. persons only if such U.S. persons are either QIBs or Institutional Accredited Investors, in either case in registered form and in transactions exempt from, or not subject to, registration under the Securities Act in reliance upon Rule 144A, Section 4(a)(2) of the Securities Act or any other applicable exemption. Each investor in 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, Section 4(a)(2) of the Securities Act or (in certain limited circumstances) Regulation S.

Purchasers of IAI Notes (or beneficial interests therein) will be required to execute and deliver an IAI Investment Letter. Each investor in an IAI Note, a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together “*Legended Notes*”) will be deemed, by its acceptance or purchase of any such Legended Notes (or beneficial interests therein), to have made certain representations and agreements as set out in “Subscription and Sale and Transfer and Selling Restrictions.” Unless otherwise stated, terms used in this paragraph have the meanings given to them in “Form of the Notes.”

Potential investors that are U.S. persons should note that the Issue Date for a Tranche of Notes may be more than two business days (this settlement cycle being referred to as “T+2”) following the trade date of such Notes. Under Rule 15c6-1 of the Exchange Act, trades in the United States in the secondary market generally are required to settle in two business days unless otherwise expressly agreed to by the parties at the time of the transaction. Accordingly, investors who wish to trade in the United States interests in Notes on the trade date relating to such Notes or the next business day will likely be required, by virtue of the fact that the Notes initially will likely settle on a settlement cycle longer than T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes (or beneficial interests therein) that are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer has undertaken in a deed poll dated 26 April 2019 (such deed poll as amended, restated or supplemented from time to time, 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 (or beneficial interests therein) to be transferred remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), of the United States, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

IMPORTANT – EEA RETAIL INVESTORS

If the Final Terms (or Pricing Supplement, as applicable) in respect of any Notes includes a legend titled “Prohibition of Sales to EEA Retail Investors,” then such Notes (or beneficial interests therein) are not intended to be offered, sold or otherwise made available to (and should not be offered, sold or otherwise made available to) any EEA Retail Investor. For these purposes: (a) “*EEA Retail Investor*” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II, (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, or (iii) not a qualified investor as defined in the Prospectus Directive, and (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes (or beneficial interests therein) to be offered so as to enable an investor to decide to purchase or subscribe such Notes (or beneficial interests therein). See “Subscription and Sale and Transfer and Selling Restrictions – Selling Restrictions – Public Offer Selling Restriction under the Prospectus Directive and, where applicable,

Prohibition of Sales to EEA Retail Investors” below. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the “*PRIIPs Regulation*”) for offering or selling such Notes (or beneficial interests therein) or otherwise making them available to EEA Retail Investors has been prepared and, therefore, offering or selling such Notes (or beneficial interests therein) or otherwise making them available to any EEA Retail Investor might be unlawful under the PRIIPs Regulation.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE

With respect to each issuance of Notes, the Issuer may make a determination about the classification of such Notes (or beneficial interests therein) for purposes of Section 309B(1)(a) of the Securities and Futures Act (Chapter 289) of Singapore (as amended, the “*SFA*”). The Final Terms in respect of any Notes may include a legend titled “Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore” that will state the product classification of the applicable Notes (and, if applicable, beneficial interests therein) pursuant to Section 309B(1) of the SFA; *however*, unless otherwise stated in the applicable Final Terms or Pricing Supplement, all Notes (or beneficial interests therein) shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the “*MAS*”) Notice SFA 04-N12: Notice on the Sale of Investment Products and the MAS Notice FAA-N16: Notice on Recommendations on Investment Products). This notification or any such legend included in the relevant Final Terms or Pricing Supplement will constitute notice to “relevant persons” for purposes of Section 309B(1)(c) of the SFA.

STABILISATION

In connection with the issue of any Tranche of Notes, one or more of the Dealers (if any) named as the stabilisation manager(s) in the applicable Final Terms or Pricing Supplement (each a “*Stabilisation Manager*”) (or Persons acting on behalf of any Stabilisation Manager(s)) might over-allot such Notes or effect transactions with a view to supporting the market price of an investment in such Notes at a level higher than that which might otherwise prevail; *however*, stabilisation might not necessarily occur. Any stabilisation action or over-allotment might 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, might cease at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or Persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules. Notwithstanding anything herein to the contrary, the Issuer may not (whether through over-allotment or otherwise) issue more Notes than have been authorised by the CMB or are permitted under the Programme.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Bank maintains its books and prepares its statutory financial statements in Turkish Lira in accordance with the BRSA Accounting and Reporting Legislation. Financial statements, including any notes thereto and the independent auditors reports thereon, prepared in accordance with the BRSA Accounting and Reporting Legislation are referred to herein as “*BRSA Financial Statements*.” The Bank’s BRSA Financial Statements are filed with the Borsa İstanbul A.Ş. (“*Borsa İstanbul*”) and are used for determinations of the Bank’s and the Group’s compliance with Turkish regulatory requirements established by the BRSA, including for the calculation of capital adequacy ratios.

In this Base Prospectus, “*BRSA Accounting and Reporting Legislation*” means the laws relating to the accounting and financial reporting of banks in Turkey (including the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette No. 26333 dated 1 November 2006, other regulations on the accounting records of banks published by the Banking Regulation and Supervision Board (the “*BRSB*”), which is the board of the BRSA, and circulars and interpretations published by the BRSA) and the requirements of the Turkish Accounting Standards for the matters that are not regulated by such laws. “*Turkish Accounting Standards*” means “Turkish Accounting Standards” and “Turkish Financial Reporting Standards” issued by the Public Oversight, Accounting and Auditing Standards Authority (*Kamu Gözetimi Muhasebe ve Denetim Standartları Kurumu*) (the “*POA*”).

Before the adoption of Turkish Financial Reporting Standards 9 (Financial Instruments), which are the IFRS 9-compliant financial reporting standards of Turkey (“*TFRS 9*”), as of 1 January 2018, the Bank’s BRSA Financial Statements as of and for the years ended 31 December 2016 and 2017 were prepared in line with the then-current Turkish banking regulations (see “Turkish Regulatory Environment”). The Group’s BRSA Financial Statements as of and for the year ended 31 December 2018 were prepared in line with TFRS 9 and TFRS 15 standards. While information for 2016 and 2017 is not comparable to the information presented for 2018 due to the implementation of TFRS 9 as of 1 January 2018, the accounting policy changes as a result of implementing TFRS 15 or any other TFRS/TAS standards (except for TFRS 9 standards) effective as of 1 January 2018 did not have a significant impact on the accounting policies, financial position and performance of the Bank and its consolidated financial subsidiaries. As of the date of this Base Prospectus, the process regarding the implementation of TFRS 16 (*Leases*), which is effective as of 1 January 2019, is ongoing.

The BRSA Financial Statements are prepared on a historical cost basis except for: (a)(i) prior to the adoption of TFRS 9, financial assets at fair value through profit or loss (including financial assets held for trading), and (ii) following the adoption of TFRS 9, financial assets measured at fair value through profit or loss, (b)(i) prior to the adoption of TFRS 9, financial assets available-for-sale, and (ii) following the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income, (c) derivative financial instruments and (d) real estate, each of which are presented on a fair value basis. It is important to note that the Group’s BRSA Financial Statements reflect a full consolidation only of financial subsidiaries whereas other equity participations are recorded on a historical cost basis less impairment (certain information with respect to such investments in subsidiaries and other associates can be found in Notes 5.1.9.1 and 5.1.10.1 of the Group’s BRSA Financial Statements as of and for the year ended 31 December 2018).

The Group’s consolidated and the Bank’s unconsolidated annual BRSA Financial Statements incorporated by reference herein: (a) as of and for the year ended 31 December 2016 was audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of Deloitte Touche Tohmatsu Ltd) (“*Deloitte*”) and (b) as of and for the years ended 31 December 2017 and 31 December 2018 were audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of KPMG International Cooperative) (“*KPMG*”), in each case in accordance with the Regulation on Independent Auditing of Banks published by the BRSA in the Official Gazette No. 29314 dated 2 April 2015 (the “*Turkish Auditor Regulation*”) and the Independent Standards on Auditing, which is a component of the Turkish Auditing Standards published by the POA. The audit reports for each of these BRSA Financial Statements were qualified with respect to general reserves that were allocated by the Group. These additional provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that might arise from any changes in the economy or market conditions. See “Risk Factors - Risks Relating to the Group’s Business - Audit Qualification” and the audit report included within such BRSA Financial Statements. Although these provisions did not impact the Group’s level of tax, if the Group had not established these provisions, then its net profit/(loss) and/or capitalisation ratios might have been lower in 2016 or higher in 2017 and 2018. Deloitte and KPMG have qualified their respective audit reports in respect of each such year because general reserves are not permitted under the BRSA Accounting and Reporting Legislation.

Unless otherwise indicated, the financial information presented herein is based upon the BRSA Financial Statements incorporated by reference herein and has been extracted from such BRSA Financial Statements without material adjustment. The BRSA Financial Statements incorporated by reference herein, all of which are in English, were prepared as convenience translations of the corresponding Turkish language BRSA Financial Statements (which translations the Bank confirms are direct and accurate). The English language BRSA Financial Statements incorporated by reference herein were not prepared for the purpose of their incorporation by reference into 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 Legislation, including under International Financial Reporting Standards (“IFRS”), the Bank’s management has for the time being elected to publish audited annual consolidated and unaudited quarterly consolidated financial statements that have been prepared in accordance with IFRS (such financial statements, including any notes thereto and the independent auditors reports thereon, being referred to as “*IFRS Financial Statements*”). IFRS Financial Statements are not used by the Bank for any regulatory purposes and the Bank’s management uses the BRSA Financial Statements and the BRSA Accounting and Reporting Legislation for the management of the Bank and communications with investors. As the Bank’s management uses the BRSA Financial Statements, including in its communications with investors, IFRS Financial Statements are not included in (or incorporated by reference into) this Base Prospectus.

Please note that the BRSA Financial Statements incorporated by reference herein have not been prepared in accordance with the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No. 1606/2002 and that there might be material differences in the financial information had Regulation (EC) No. 1606/2002 applied to the historical financial information presented herein. A narrative description of such differences as they apply to the Group has been included in Appendix A (“Overview of Significant Differences Between IFRS and the BRSA Accounting and Reporting Legislation”).

The Group’s BRSA Financial Statements incorporated herein for the year ended 31 December 2016 include the same material consolidated entities as are included in the Group’s BRSA Financial Statements for the years ended 31 December 2017 and 31 December 2018 except that, on 5 December 2016, the Bank sold its shares (representing 99.94% of the share capital) of Garanti Bank Moscow AO, which (with respect to income for the period before its sale) was included in the Group’s BRSA Financial Statements for the year ended 31 December 2016.

Alternative Performance Measures

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

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

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

allowance for probable loan losses to NPLs / expected credit losses to NPLs: As of a particular date, this is: (a)(i) after the implementation of TFRS 9 as of 1 January 2018, expected credit losses for loans (including cash loans and lease and factoring receivables) net of collections, and (ii) prior to the implementation of TFRS 9 as of 1 January 2018, the sum of the specific provisions and general provisions as of such date, *as a percentage of* (b) NPLs as of such date.

average shareholders' equity as a percentage of average total assets: For a particular period, this is: (a) the average shareholders' equity for such period *as a percentage of* (b) the average total assets for such period.

cost-to-income ratio: For a particular period, this is: (a) other operating expenses (plus, after the implementation of TFRS 9 as of 1 January 2018, personnel expenses) for such period *divided by* (b) the result of: (i) the sum of net interest income, net fees and commissions income/expenses, net trading income/losses, other income and dividend income for such period *minus* (ii) the sum of expected credit losses (prior to the implementation of TFRS 9 as of 1 January 2018, provisions for loans, provisions for marketable securities) and general reserves for such period.

loan loss provisions to gross loans / expected credit losses to gross loans: As of a particular date, this is: (a)(i) after the implementation of TFRS 9 as of 1 January 2018, expected credit losses for loans (including cash loans and lease and factoring receivables) net of collections, and (ii) prior to the implementation of TFRS 9 as of 1 January 2018, the sum of the specific provisions and general provisions net of collections as of such date, *as a percentage of* (b)(i) after the implementation of TFRS 9 as of 1 January 2018, the average total loans (including cash loans and lease and factoring receivables), and (ii) prior to the implementation of TFRS 9 as of 1 January 2018, the average total cash loans as of such date.

loan-to-deposit ratio: As of a particular date, this is: (a)(i) after the implementation of TFRS 9 as of 1 January 2018, the total loans (including cash loans and lease and factoring receivables), and (ii) prior to the implementation of TFRS 9, the total cash loans as of such date, *divided by* (b) the total deposits as of such date.

net fees and commissions income/expenses to total operating profit: For a particular period, this is: (a) net fees and commissions income/expenses for such period *as a percentage of* (b)(i) after a change to the presentation of the financial statements as per new rules introduced by the BRSA effective from 1 January 2018, total operating profit (excluding personnel expenses), and (ii) prior to 1 January 2018, total operating profit for such period.

net profit/(loss) adjusted for exceptional items: For a particular period, this is: (a) the reported net profit/(loss) for such period *minus* (b) the income from the sale or liquidation of equity participations and other assets, the increase/(decrease) in general reserves, the income/expense balances from the sale of NPLs and penalties included within other operating expenses for such period *plus* (c) tax effects of the items listed in clause (b).

net interest margin: For a particular period, this is: (a) net interest income for such period *as a percentage of* (b) average interest-earning assets during such period. When the period is shorter than 12 months, this is expressed on an annualised basis by multiplying the result by 365 *divided by* the number of days in such period.

NPL ratio: As of a particular date, this is: (a) the total NPLs (gross) as of such date *as a percentage of* (b)(i) after the implementation of TFRS 9 as of 1 January 2018, the sum of total loans (including cash loans and lease and factoring receivables) and NPLs (gross), and (ii) prior to the implementation of TFRS 9 as of 1 January 2018, the sum of total cash loans and NPLs (gross) as of such date. Where the NPL ratio is referenced solely with respect to a category of loans (e.g., the NPL ratio of SME loans), then this ratio is calculated solely with respect to such category of loans.

NPLs to total cash loans and non-cash loans: As of a particular date, this is: (a) the total NPLs (gross) as of such date *divided by* (b)(i) after the implementation of TFRS 9 as of 1 January 2018, the sum of total

loans (including cash loans and lease and factoring receivables), NPLs (gross) and non-cash loans, and (ii) prior to the implementation of TFRS 9 as of 1 January 2018, the sum of total cash loans, NPLs (gross) and non-cash loans as of such date.

operating expenses to average total assets: For a particular period, this is: (a)(i) after a change to the presentation of the financial statements as per new rules introduced by the BRSA effective from 1 January 2018, the total of other operating expenses and personnel expenses, and (ii) prior to the change to the presentation of the financial statements as per new rules introduced by the BRSA effective from 1 January 2018, other operating expenses for such period, *as a percentage of* (b) average total assets for such period.

return on average shareholders' equity: For a particular period, this is: (a) the net profit/(loss) for such period *as a percentage of* (b) average shareholders' equity for such period. When the period is shorter than 12 months, this is expressed on an annualised basis by multiplying the result by 365 *divided by* the number of days in such period.

return on average total assets: For a particular period, this is: (a) the net profit/(loss) for such period *as a percentage of* (b) average total assets for such period. When the period is shorter than 12 months, this is expressed on an annualised basis by multiplying the result by 365 *divided by* the number of days in such period.

total average yield: For a particular period, this is: (a) the interest income during such period *as a percentage of* (b) the average interest-earning assets during such period (with respect to total average yield for the Bank, and notwithstanding the definition of "average interest-earning assets" in the Base Prospectus, the average interest-earning assets for the Bank for a period is calculated as a daily average for each day during such period).

For any annualised figures calculated for the current year in any supplement to this Base Prospectus, there can be no guarantee, and the Bank does not represent or predict, that actual results for the full year will equal or exceed the annualised figure and actual results might vary materially.

Reconciliations for certain items listed above (to the extent that any of such items are APMs) to the applicable financial statements are not included as they are not required by the ESMA Guidelines in these circumstances, including as a result of Article 29 thereof where the items described in the APM are directly identifiable from the financial statements (*e.g.*, where an applicable APM is merely a calculation of one item in the financial statements as a percentage of another item in the financial statements).

The following are definitions of certain terms that are used in the calculations of the terms defined above (such terms being used in this Base Prospectus as defined below):

average interest-earning assets: For a particular period, this is the average of the amount of interest-earning assets as of the balance sheet date of each quarter-end during the then-current fiscal year.

average interest-bearing liabilities: For a particular period, this is the average of the amount of interest-bearing liabilities as of the balance sheet date of each quarter-end during the then-current fiscal year.

average shareholders' equity: For a particular period, this is the average of the amount of shareholders' equity as of the balance sheet date of each quarter-end during the then-current fiscal year.

average total assets: For a particular period, this is the average of the amount of total assets as of the balance sheet date of each quarter-end during the then-current fiscal year.

average total cash loans: For a particular period, this is the average of the amount of total cash loans as of the balance sheet date of each quarter-end during the then-current fiscal year.

average total loans (including cash loans and lease and factoring receivables): For a particular period, this is the average of the total cash loans and lease and factoring receivables as of the balance sheet date of each quarter-end during the then-current fiscal year.

interest-earning assets: For a particular date, this is: (a) after the implementation of TFRS 9 as of 1 January 2018, the total amount of the interest-earning portion of cash and balances with central banks, financial assets measured at fair value through profit or loss (excluding equity securities), banks, money market placements, financial assets measured at fair value through other comprehensive income (excluding equity securities), performing loans, factoring and lease receivables and financial assets measured at amortised cost, and (b) prior to the implementation of TFRS 9 as of 1 January 2018, the total amount of the interest-earning portion of cash and balances with central banks, financial assets at fair value through profit or loss (excluding equity securities and derivative financial assets held for trading), banks, interbank money markets, financial assets available-for-sale (excluding equity securities), performing loans, factoring and lease receivables and investments held-to-maturity as of such date.

interest-bearing liabilities: For a particular date, this is the total amount of the interest-bearing portion of deposits, funds borrowed, interbank money markets, securities issued and subordinated debt as of such date.

NPLs: As of a particular date, this (“NPLs”) is: (a) after the implementation of TFRS 9 as of 1 January 2018, Stage 3 loans (including cash loans and lease and factoring receivables), and (b) prior to the implementation of TFRS 9 as of 1 January 2018, loans under follow-up as of such date.

Currency Presentation and Exchange Rates

In this Base Prospectus, all references to:

- (a) “*Turkish Lira*” and “*TL*” refer to the lawful currency for the time being of Turkey,
- (b) “*U.S. dollars*,” “*US\$*” and “*\$*” refer to United States dollars,
- (c) “*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,
- (d) “*Renminbi*” and “*RMB*” refer to the lawful currency of the PRC, which (for the purposes of this Base Prospectus) excludes Hong Kong, the Macao Special Administration Region of the PRC and Taiwan, and
- (e) “*Sterling*” and “*£*” refer to British Pounds Sterling.

No representation is made that the Turkish Lira or U.S. 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’s Business - Foreign Exchange and Currency Risk” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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

Capitalised 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 Garanti Bankası A.Ş. on a standalone basis and “Group” means the Bank and its subsidiaries (and, with respect to consolidated accounting information, entities that are consolidated into the Bank).

In this Base Prospectus, any reference to Euroclear Bank SA/NV (“*Euroclear*”), Clearstream Banking S.A. (“*Clearstream, Luxembourg*”) and/or the Depository Trust Company (“*DTC*” and, 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 Pricing Supplement or as may otherwise be approved by the Issuer and the Fiscal Agent.

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

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments and, accordingly, figures shown in the same category presented in different tables might vary slightly and figures shown as totals in certain tables might not be an arithmetic aggregation of the figures that precede them.

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 Bank 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 Person.

The language of this Base Prospectus is English. Certain legal 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 laws and the names of Turkish institutions referenced herein have been translated from Turkish into English. The translations 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 website of the BRSA at www.bddk.org.tr, the website of the Banks Association of Turkey (*Türkiye Bankalar Birliği*) (the "*Banks Association of Turkey*") at www.tbb.org.tr or the website of the Interbank Card Centre (*Bankalararası Kart Merkezi*) at 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, the website of the Central Bank of Turkey (*Türkiye Cumhuriyet Merkez Bankası*) (the "*Central Bank*") at www.tcmb.gov.tr, the website of the Ministry of Treasury and Finance of Turkey (the "*Turkish Treasury*;" where applicable, references to the Turkish Treasury shall be deemed to refer to the Undersecretariat of the Treasury, which was restructured to become part of the new Ministry of Treasury and Finance pursuant to Presidential Decree No. 1 dated 10 July 2018 published in the Official Gazette) at www.hazine.gov.tr or the website of the European Banking Federation at www.ebf.fbe.eu. Such data have been extracted from such websites without material adjustment, but might 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 might be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, might vary from source to source. Where information has been sourced from a third party, such publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed.

Information in this Base Prospectus regarding the Bank's shareholders has been based upon public filings, disclosure and announcements by such shareholders.

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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 might 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 might materially adversely affect its ability to make payments due under the Notes.

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

Prospective investors in the Notes should also read the detailed information set out elsewhere in (or incorporated by reference into) this Base Prospectus and reach their own views prior to making any investment decision relating to the Notes; however, the Issuer does not represent that the risks set out herein are exhaustive or that other risks might not arise in the future. Prospective investors in the Notes should consult with an appropriate professional adviser to make their own legal, tax, accounting and financial evaluation of the merits and risks of investing in the Notes.

Risks Relating to Turkey

Most of the Group's operations are conducted, and substantially all of its customers are located, in Turkey. In addition, much of the business of the Group's non-Turkish subsidiaries is related to Turkey. Accordingly, the Group's ability to recover on loans, and its business, financial condition and results of operations, are substantially dependent upon the political and economic conditions prevailing in Turkey, including factors such as economic growth rates, currency fluctuations, the Central Bank's regulatory policy, inflation and fluctuations in interest rates in Turkey.

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

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

Elections held on 7 June 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 1 November 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 parliament, thus enabling it to form a single-party government. On 5 May 2016, the Central Executive Board of the AKP decided to hold an extraordinary convention on 22 May 2016, in which the AKP elected Mr. Binali Yıldırım as the new chairman of the AKP and the new prime minister of Turkey. The events surrounding future elections and/or the results of such elections might 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, and Turkey's ability to adopt macroeconomic reforms, support economic growth and manage domestic social conditions. Perceptions of political risk have also increased as a result of increased violence in Turkey, including relating to terrorist attacks (see "Terrorism and Conflicts"), the AKP's intention to create an executive presidency and media reporting.

On 15 July 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling government remained in control. On 20 July 2016, the government declared a three month state of emergency in the country, entitling the government to exercise additional powers. Under Article 120 of the Turkish Constitution, in the event of serious indications of widespread acts of violence aimed at the destruction of the free democratic order, a state of emergency may be declared in one or more regions of, or throughout, the country for a period not exceeding six months; *however*, this period may be extended. While the state of emergency

was extended seven times for additional three month periods pursuant to Article 121 of the Turkish Constitution, it was lifted as of July 2018.

Following the coup attempt, the government has initiated legal proceedings against numerous institutions (including schools, universities, hospitals, associations and foundations), some of which were closed down and their assets and receivables were seized, and arrested, discharged or otherwise limited thousands of members of the military, the judiciary and the civil service, restricted media outlets and otherwise taken actions in response to the coup attempt, including expansion of these actions to members of the business community and journalism sector. As of the date of this Base Prospectus, investigations with respect to the attempted coup are on-going. There might be further arrests and actions taken by the government in relation to these investigations, including changes in policies and laws. Further investigations and arrests might impact the ability of the Group's customers to meet their obligations to the Group. Although, through the date of this Base Prospectus, the Group's operations have not been materially affected by the attempted coup, the political and social circumstances following the attempted coup, its aftermath (including rating downgrades of Turkey and the Bank) or any other political developments might have a negative impact on the Turkish economy (including the value of the Turkish Lira, international investors' willingness to invest in Turkey and domestic demand), Turkey's relationships with the EU, the United States and/or other jurisdictions, Turkey's institutions (including as a result of arrests, suspension or dismissal of a number of individuals working in the public sector) and regulatory framework, the Bank's and/or the Group's business, liquidity, results of operations and/or conditions (financial or otherwise) and/or the value and/or market price of an investment in the Notes.

In a referendum held on 16 April 2017, the majority of the votes cast approved proposed amendments to certain articles of the Turkish Constitution, including replacing the existing parliamentary system of government with an executive presidency and a presidential system. On 18 April 2018, Turkey's President Recep Tayyip Erdoğan announced that parliamentary and presidential elections were to be held early on 24 June 2018 instead of November 2019. In the presidential elections, President Erdoğan received approximately 53% of the votes and was re-elected as the President. In parliamentary elections held on the same day, the AKP, the President's party, and the Nationalist Movement Party (*Milliyetçi Hareket Partisi*) (*MHP*), which has formed the "People's Alliance" bloc with the AKP, together received sufficient votes to hold a majority of the seats in Parliament. As of 9 July 2018, the parliamentary system was transformed into a presidential one and President Erdoğan now holds the additional powers granted to the President pursuant to the referendum held on 16 April 2017.

On 9 July 2018, President Erdoğan announced the new ministers of his cabinet, which included the appointment of the former minister of Energy and Natural Resources and his son-in-law, Berat Albayrak, as the minister of Treasury and Finance. On 10 July 2018, President Erdoğan issued a decree: (a) empowering the President to appoint: (i) the governor of the Central Bank, whereas the Council of Ministers had the authority to appoint the governor of the Central Bank in the parliamentary system, and (ii) the deputy governors of the Central Bank, while this appointment was previously made by the Council of Ministers among the candidates suggested by the governor of the Central Bank, (b) removing the previous requisite condition for deputy governors of the Central Bank to have at least ten years of professional experience and (c) shortening the office term of the governor and the deputy governors of the Central Bank to four years from five years (in any case, the governor's term of office is limited to the term of the President who is on duty at the date of the appointment of such governor). As such, uncertainty in relation to the independence of the Central Bank and/or the Turkish Treasury continues. See "Risks Relating to the Group's Business - Foreign Exchange and Currency Risk." Uncertainty regarding the independence of the Central Bank and/or the Turkish Treasury or any failure of the Central Bank and/or the Turkish Treasury to implement effective policies might adversely affect the Turkish economy in general.

There has been recent political tension between Turkey and certain members of the EU and the United States. On 25 April 2017, the Parliamentary Assembly of the Council of Europe voted to restart monitoring Turkey in connection with human rights, the rule of law and the state of democracy and officials of the EU and certain of its member states have since made various references about the suspension of negotiations for Turkey's potential membership in the EU. This decision might result in (or contribute to) a deterioration of the relationship between Turkey and the EU.

On 8 October 2017, the United States suspended all non-immigrant visa services for Turkish citizens in Turkey following the arrest of an employee of the United States consulate in İstanbul. On the same date, Turkey responded by issuing a statement that restricted the visa application process for United States citizens. While visa services have since resumed to normal, relations between the two countries remain strained on various topics, including the conviction of an executive of state-controlled bank Türkiye Halk Bankası A.Ş. ("*Halkbank*") who in early January 2018 was found guilty and (in early May 2018) was sentenced in a United States federal court of bank fraud and conspiracy to violate U.S. sanctions laws in relation to an alleged conspiracy to assist Iran to evade U.S. sanctions. As of the date of this Base Prospectus, the final outcome in relation to the matters giving rise to the conviction, including any appeal and whether

any sanction, fine or penalty will be imposed by the Office of Foreign Assets Control of the U.S. Department of Treasury (“OFAC”) on Halkbank or any other Turkish bank or other Person in connection with those matters, as well as the possible reaction of the Turkish government to any such events or speculation regarding such events, is unknown.

These events and/or other political circumstances might result in (or contribute to) a deterioration of the relationship between Turkey and the EU and/or the United States and might have an adverse impact on the Turkish economy, which in turn 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 an investment in the Notes.

On 1 August 2018, OFAC took action targeting Turkey’s Minister of Justice and Minister of Interior, indicating that these Ministers played leading roles in the organisations responsible for the arrest and detention of American pastor Andrew Brunson, and blocked any property, or interest in property, of these Ministers within the United States and generally prohibited U.S. persons from engaging in transactions with them. Following such action, Turkey imposed reciprocal sanctions against two American officials. On 10 August 2018, the President of the United States stated that he had authorised higher tariffs on steel and aluminium imports from Turkey. On 15 August 2018, Turkey retaliated by increased tariffs on certain imports from the United States, such as cars, alcohol and tobacco. These actions contributed to a decline in the value of the Turkish Lira, which fell to a record low (exceeding TL 7.2 per U.S. dollar in the week ended 12 August 2018) before strengthening to TL 5.3 per U.S. dollar as of 31 December 2018, including due to the higher than expected interest rate hike (625 basis points) by the Central Bank on 13 September 2018, the fiscal consolidation announced in the New Economic Programme (defined below) of the government, certain measures taken by the BRSA, the promise of investments from Qatar and improving relations between Turkey and the United States following the release of Mr. Brunson on 12 October 2018 and the 2 November 2018 removal of the sanctions imposed upon Turkish ministers and the reciprocal sanctions imposed by Turkey. The events prior to the release of Mr. Brunson contributed to the deterioration of the relationship between Turkey and the United States and any future similar events might have an adverse effect on the Turkish economy and/or might impact investors’ perception of the risks relating to investments in Turkish issuers, including the Bank.

On 2 October 2018, Saudi journalist Jamal Khashoggi disappeared after entering the Saudi consulate in İstanbul and it was later announced that Mr. Khashoggi had been killed inside the consulate by Saudi operatives. The impact that this event will have on the relationship between Turkey and Saudi Arabia is unknown and this event and/or other political circumstances might result in a deterioration of the relationship between Turkey and Saudi Arabia, which might have a negative impact on the Turkish economy.

On 5 November 2018, the United States reinstated all U.S. sanctions on Iran that had been removed in 2015 in an effort to constrain Iran’s nuclear programme, including certain sanctions imposed upon the Iranian financial and energy sector and some imports from Iran. Nevertheless, on 2 November 2018, the United States Secretary of State Michael Pompeo noted that a partial exemption has been granted to eight governments, including the Turkish government, allowing these countries to import limited amounts of oil from Iran for six months (*i.e.*, until 2 May 2019); *however*, on 22 April 2019, the U.S. government announced that it does not intend to renew this exemption after the end of such six month period. The impact of these circumstances, including any additional costs that might be borne by Turkish importers of oil (and thus on the country’s current account deficit) or any sanctions that might be imposed for violations of these requirements, might have a negative impact on the Turkish economy.

Municipal elections were held on 31 March 2019 and the AKP lost control of several major cities, including İstanbul and Turkey’s capital city Ankara, to the opposition parties. Nonetheless, the AKP and MHP alliance received around 52% of the votes cast nationwide, which might reduce the possibility of an early general election before the scheduled date in 2023. It should be noted that the AKP has claimed election fraud in, and requested to repeat the elections in, İstanbul and, if the Supreme Election Board (the highest authority in Turkey regulating elections) accepts the AKP’s request, then a new election would be held.

In addition, certain regulatory actions, investigations, allegations of past or current wrongdoing and similar actions might increase perceptions of political conflict or instability. Actual or perceived political instability in Turkey and/or other political circumstances (and related actions, rumours and/or uncertainties) 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 an investment in the Notes.

Turkish Economy – The Turkish economy is subject to significant macroeconomic risks

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 macroeconomic imbalances, including significant current account deficits

and high levels of unemployment. While the Turkish economy has been significantly stabilised due, in part, to support from the International Monetary Fund obtained in the past, 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.

In recent years, Turkey's Gross Domestic Product ("GDP") growth rates have been volatile. The GDP growth was 6.1% in 2015 and 3.2% in 2016 according to Turkstat; *however*, the Turkish economy recorded a robust growth of 7.4% in 2017, fuelled by a combination of government support and improving macroeconomic conditions. Although EU-defined Turkish government debt level decreased considerably since 2001 and reached its lowest level with 27.5% of GDP in 2015, it then increased to 31.1% in 2018, and (although this remains well below the Maastricht criteria), Turkey remains an emerging market and remains susceptible to a higher degree of volatility than more developed markets, and further government actions to stimulate the Turkish economy might increase the government debt and budget deficit levels, which might in turn contribute adversely to the economic stability. Additionally, as economic growth in 2017 was largely supported by government-induced measures, there can be no assurance that Turkey's future economic growth will continue at a similar pace. In fact, there was a marked slowdown in growth in the second half of 2018 due to the significant volatility in foreign exchange rates and the increases in interest rates in Turkey, particularly in the third quarter. With negative growth of 3.0% in the final quarter of 2018, the Turkish economy only grew by 2.6% in 2018. In 2019, the Bank's management expects that the growth in GDP will remain low (around 0.5%).

In particular, factors such as domestic political conditions, especially following the attempted coup in Turkey in July 2016 (see "-Political Developments") as well as economic factors, including the current account deficit, inflation and interest rate and currency volatility remain of concern, particularly in light of the recent depreciation of the Turkish Lira. Continuing high levels of unemployment (14.7% as of January 2019) might affect the Group's customers, which might impair its business strategies and have a material adverse effect on its business, financial condition and/or results of operations. The Turkish government has sought to improve economic growth and, in November 2017, the Turkish Ministry of Development announced a three-year medium-term economic programme for 2018 to 2020. Under this programme, the Ministry announced a GDP growth target of 5.5% for 2017, 2018 and 2019. This medium-term economic programme was replaced in September 2018 by a new medium-term economic programme (the "*New Economic Programme*") announced by the Turkish Treasury, which includes projections for 2018 to 2021. According to the New Economic Programme, GDP growth was estimated to be 3.8%, 2.3%, 3.5% and 5.0% for 2018, 2019, 2020 and 2021, respectively (the actual 2018 figure has since been announced as only 2.6%).

More recently, Treasury and Finance Minister Mr. Albayrak announced "Structural Transformation Steps" as tools under the New Economic Programme, which tools are intended to support and strengthen: (a) the financial sector, (b) the fight against inflation, (c) budget discipline and tax reform and (d) sustainable growth. On the financial sector side, the main efforts are focused on increased capitalisation and strengthening the asset quality of the banking sector. For example, the Turkish Treasury has announced that it will issue special domestic bonds (a total of TL 28 billion) to finance additional capital infusions into the public banks and private banks will be guided to increase capital if needed (including a temporary prohibition on the distribution of dividends). As for strengthening asset quality, the government has announced that it will: (i) publish a new regulation to facilitate restructurings and bankruptcies and (ii) develop a structure for the transfer of some non-performing loans to a special purpose vehicle (and thus off balance sheet), which vehicle would be owned by banks and both domestic and non-Turkish investors. A new "Energy Venture Capital Fund" and "Real Estate Fund" are intended to support the sectors (energy and construction) with the highest levels of foreign currency indebtedness. The targets for sustainable growth and an improving employment environment concentrate on certain strategically defined sectors, including energy, mining, petrochemical, pharmacy, tourism, auto and information. Turkey's sovereign wealth fund is also intended to be used to support investments in these strategic sectors.

There can be no assurance that these targets will be reached, that the Turkish government will 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, the 5 December 2017 amendment to tax laws increasing the corporate tax rate for all corporations (including the Issuer) to 22% from 20% for three years starting from 2018, uncertainty related with the conflicts in Iraq and Syria (see "-Terrorism and Conflicts") and uncertainty related to political developments in Turkey, including the failed coup attempt on 15 July 2016 and its aftermath and the referendum held on 16 April 2017 according to which the majority of the votes cast approved the extension of the powers of the president (see "-Political Developments"). Any of these developments might cause Turkey's economy to experience macroeconomic 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 Uncertainty" below and the discussion of certain of the Central Bank's policies in "-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, further depreciation 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 obligations to the Group or who might otherwise seek to restructure their loans, which would increase the Group's past due loan portfolio, require the Group to reserve additional provisions and reduce its net profit/(loss) and capital levels. In addition, a slowdown or downturn in the Turkish economy would likely result in a decline in the demand for the Group's services and products. 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.

Any monetary policy tightening of the U.S. Federal Reserve, the Bank of Japan and/or the European Central Bank (the "ECB"), or any other increase in market interest rates, particularly if it is more accelerated than expected, might have an adverse impact on Turkey, including on Turkey's external financing needs, and might reduce the availability of and/or increase the cost of funding to the Turkish banking sector.

In March 2019, the United States announced that imports from Turkey and India would no longer be eligible for tariff relief under the "Generalized System of Preferences" programme, which programme seeks to promote economic growth in countries identified as being developing countries. In Turkey's case, the United States cited Turkey's rapid economic development since its entry into the programme and that it thus no longer qualified to benefit from these tariff preferences. While not a significant factor in Turkey's exports, including to the United States, regulatory changes such as these reflect increasing challenges faced by exporters, which might have a material adverse effect on Turkey's economy or the financial condition or one or more industries within Turkey.

Should Turkey's economy experience macroeconomic imbalances, it might have a material adverse impact on the Group's business, financial condition and/or results of operations.

Terrorism and Conflicts – Turkey and its economy are subject to external and internal 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 neighbouring countries, such as Armenia, Georgia, Iran, Iraq and Syria, has historically been one of the potential risks associated with an investment in Turkish securities. Regional instability has also resulted in an influx of displaced persons in Turkey, which has created certain conflicts and humanitarian challenges. In recent years, political instability has at times increased markedly in a number of countries in the Middle East, North Africa and Eastern Europe, such as Ukraine, Libya, Tunisia, Egypt, Syria, Iraq, Jordan, Bahrain and Yemen. Unrest in those countries might have political implications in Turkey or otherwise have a negative impact on the Turkish economy, including through both financial markets and the real economy. Such impacts might 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 might 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 4 October 2012, the Turkish Parliament authorised the government for one year to send and assign military forces in foreign countries should such action be considered appropriate by the government, which authorisation has been periodically extended. 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. The volatile situation in Iraq also raises concerns as Iraq is one of Turkey's largest export markets. 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 organisation that is listed as a terrorist organisation by states and organisations including Turkey, the EU and the United States) in northern Iraq. Since July 2015, Turkey has been subject to a number of bombings, including in tourist-focused centres in İstanbul and in the city centre in Ankara, which have resulted in a number of fatalities and casualties, and such might occur in the future.

On 24 August 2016, Turkey began military operations in Syria in an effort to clear ISIS from the Turkish-Syrian border. On 7 October 2017, Turkey launched an operation against extremists groups in Syria's northwestern Idlib province with Turkey-backed Syrian opposition forces. On 20 January 2018, Turkish officials announced that the Turkish military had started an operation in the Afrin area of Syria targeting organisations that Turkey believes to be terrorist organisations such as the YPG (the People's Protection Units), which has been aligned with the United States in the fight against ISIS. As of the date of this Base Prospectus, the Turkish military maintains a position in northwestern Syria. These operations might lead to potential retaliation attacks by terrorist groups and additional security risks in Turkey. On 19 December 2018, the United States announced its intention to withdraw its 2,000 troops currently stationed in Syria, though (as of the date of this Base Prospectus) no concrete timeline for the withdrawal has been issued. The United States more recently announced its intention to maintain approximately 400 troops in Syria, approximately 200 of whom would be located in a safe zone near the Turkish border. On the other hand, Turkish officials declared that if there is to be a safe zone, then it should be under Turkey's control.

In December 2017, Turkey entered into a contract with Russia for the purchase of S-400 missile defence systems. As of the date of this Base Prospectus, it is uncertain how Turkey's purchase of S-400 missile defence systems under such contract would impact the relationship between Turkey and the United States and/or any other NATO member. Any disagreements that arise in relation to the contract described above, the intended safe zone near the Turkish border or otherwise in the future might result in (or contribute to) a deterioration of the relationship between Turkey and the United States or Russia and might have a negative impact on the Turkish economy.

In late 2015, Russian war planes started air strikes in Syria in support of the Syrian government. On 24 November 2015, Turkey shot down a Russian military aircraft near the Syrian border claiming a violation of Turkey's airspace, which resulted in a deterioration in the relationship between Turkey and Russia and led to Russia implementing economic sanctions against Turkey; *however*, at the end of June 2016, the relationship between Turkey and Russia started to improve. On 19 December 2016, a Turkish policeman murdered the Russian ambassador to Turkey. While both Turkish and Russian leaders condemned the attack as a provocation aimed to undermine relations between the two countries, any deterioration of Turkey-Russia relations might have a material adverse effect on the Group's business, financial condition and/or results of operations and on the market price of an investment in the Notes.

In early 2014, political unrest and demonstrations in Ukraine led to a change in the national government. While the United States and the EU recognised the new government, Russia claimed that the new government was illegitimate and was violating the rights of ethnic Russians living in the Crimean peninsula and elsewhere in Ukraine. Escalating military activities in Ukraine and Russia's annexing of the Crimea combined with Ukraine's very weak economic conditions 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, natural 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. In particular, Turkey has been in conflict for many years with the PKK. Turkey has from time to time been the subject of terrorist attacks, including bombings in its tourist and commercial centres in İstanbul, Ankara and various coastal towns and (especially in the southeast of Turkey) attacks against its armed forces. In July 2015, following a suicide bomb attack in a Turkish town at the Syria border, Turkey started air strikes against the PKK in northern Iraq, which marked the beginning of a period with elevated tension. The PKK has since been suspected of further bombings in Turkey, and the clashes between Turkish security forces and the PKK have intensified in the southeastern part of Turkey. The conflict with the PKK might negatively impact political and social stability in Turkey.

The above 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.

Global Financial Crisis and Eurozone Uncertainty – Turkey and the Group have been, and might continue to be, subject to risks arising from the global financial crisis and continuing uncertainty in the eurozone

The global financial crisis and related economic slowdown 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. While unemployment levels have improved since the depth of the financial crisis, they remain elevated. There can be no assurance that the unemployment rate will not increase in the future. Continuing high levels of unemployment (14.7% as of January 2019) might affect the Group's retail customers and business confidence, which

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

Concerns about a sovereign debt crisis in certain European countries, including Cyprus, Greece, Ireland, Italy, Portugal and Spain, undermined investor confidence in recent years and resulted, and might continue to result, in a general deterioration of the financial markets. Although there have been indications of economic recovery in the eurozone, recent economic performance in Europe has been weak. Since the implementation of negative interest rates by the ECB in June 2014, an increasing number of central banks in Europe have taken their policy rates below zero. In January 2016, the Bank of Japan also adopted negative interest rates. There is uncertainty in the markets as to the possible impact of these policies.

In the United States, the U.S. Federal Reserve's stated intent of continuing to gradually reduce its quantitative easing policy is expected to lead to a reduction in global liquidity and a decrease in fund flows to emerging markets, as well as other macroeconomic conditions. In addition, the current U.S. administration has implemented and is expected to continue to implement new policies in a number of areas, including economy, finance, taxation, international trade and international diplomatic relations. Although the latest developments suggest that the U.S. Federal Reserve will increase policy rates at a slower pace in the upcoming period, which will be a positive driver for Turkey and other emerging markets, it is difficult to predict the economic and political impact of the implementation of such new policies. A number of such policies might negatively impact fund flows to emerging markets, increase volatility in financial and commodity markets and/or negatively impact international trade relationships, which might have a material adverse effect on the Group's business, financial condition and/or results of operations, including indirectly as a result of negative impacts experienced by debtors to the Group.

Furthermore, in July 2016, the United Kingdom (the "UK") voted to withdraw from the EU. The UK government invoked Article 50 of the Lisbon Treaty on 29 March 2017 marking the beginning of negotiations with the EU relating to the UK's exit. This means that the UK is expected to cease to be a member of the EU at 11:00 p.m. (London time) on 31 October 2019 unless a withdrawal agreement is entered into or an extension to negotiations is agreed upon between the UK and the EU. The economic and political consequences for the UK, the EU and other countries like Turkey as a result of this process, including any impact on the European and global economic and market conditions and its possible impact on Sterling, Euro and other European exchange rates, and the related uncertainty, during both the negotiations period and following the exit of the UK from the EU, are difficult to predict.

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.

In addition, the Group operates in countries outside of Turkey (such as the Netherlands and Romania). The Group's intention is to continue expanding its operations in such jurisdictions (particularly in Romania), and in the event there are financial crises affecting such jurisdictions or any other financial shock (such as the recent sharp decline in oil prices, which negatively affects certain Eastern European countries), this might result in the Group's foreign operations not growing or performing at the same rate or levels as planned. Should the Group's non-Turkish operations fail to grow at past rates, perform at past levels or meet growth expectations, the Group's business, financial condition and/or results of operations might be materially adversely affected.

Although the global economy has begun to recover from the economic deterioration of recent years, the recovery might be weak. A relapse in the global economy or continued uncertainty around the potential for such a relapse might have an adverse effect on the Turkish economy, which in turn might have a material adverse effect on the Group's business, financial condition and/or results of operations. In addition, any withdrawal by a member state from the EU and/or European Monetary Union, any uncertainty as to whether such a withdrawal or change might occur and/or any significant changes to the structure of the EU and/or the European Monetary Union might have an adverse effect on the Turkish economy, which might have a material adverse effect on the Group's business, financial condition and/or results of operations, including its ability to access the capital and financial markets and to refinance its debt in order to meet its funding requirements as a result of volatility in European economies and/or the euro and/or the potential deterioration of European institutions.

There has also been recent political tension between Turkey and certain members of the EU. Such circumstances might impact Turkey's relationship with the EU, including a potential suspension or termination of its

EU accession process, disruption to the agreement concluded to control the irregular flow of refugees from Turkey to the EU and/or a disruption of trade. See “-Terrorism and Conflicts.” As the EU remains Turkey’s largest export market, a decline in demand for imports from the EU might adversely impact Turkish exports and Turkey’s economic growth. See “-Current Account Deficit.” Any effect of such events might adversely affect the economic stability in Turkey and 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

A 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 (the sources for the data in this risk factor are Turkstat and the Central Bank) 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. In 2016, Turkey’s current account deficit remained almost flat at US\$32.6 billion due to a decline in the cost of energy imports, which offset the deterioration in tourism revenues. In 2017, Turkey’s current account deficit increased to US\$47.3 billion (5.5% of GDP) due to the rise in both energy and gold imports and strong domestic demand. In 2018, Turkey’s current account deficit decreased to US\$27.6 billion (3.5% of GDP) due to an increase in exports, a slowdown in domestic demand and an increase in tourism revenues. Various events, including a possible adverse impact on Turkey’s foreign trade and tourism revenues, geopolitical risks (see “-Terrorism and Conflicts”), political risks (see “-Political Developments”) and an increase in the price of oil, might result in an increase in the current account deficit, including due to the possible adverse impact on Turkey’s foreign trade and tourism revenues. See “-Emerging Market Risks.”

If the value of the Turkish Lira changes relative to the U.S. dollar and other relevant trading currencies, 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. The Turkish Lira depreciated against the U.S. dollar by 21.5% in 2016, reaching its then-lowest level against the U.S. dollar mainly due to the uncertainty resulting from the domestic political developments (see “-Political Developments”), the result of the presidential election in the United States and the then-existing expectation of a rate hike (and the actual rate hike on 14 December 2016) by the U.S. Federal Reserve.

The depreciation continued in 2017, with the Turkish Lira depreciating against the U.S. dollar by 7.9%. In August, October and November 2016, the Central Bank revised coefficients for certain tranches within the context of the Reserve Options Mechanism (which provides Turkish banks the option to hold a portion of the Turkish Lira reserve requirements in foreign exchange or standard gold) in order to increase liquidity in the Turkish banking system. In 2017, the Central Bank implemented several policy measures (including increasing average funding cost by 450 basis points, offering foreign exchange deposit against Turkish Lira deposit auctions and providing non-deliverable forwards that provided hedging with forward payments settled in Turkish Lira to mitigate the exchange rate volatility) to support price and financial stability. In May and August 2018, as a response to the depreciation of the Turkish Lira, the Central Bank further reduced the upper limit of the foreign exchange maintenance facility within the Reserve Options Mechanism from 55% to 45% and then to 40% (*i.e.*, Turkish banks have the option to hold 40% of the Turkish Lira reserve requirements in foreign exchange, resulting in the possibility that the foreign exchange that was used for reserve purposes previously might be applied by Turkish banks to the purchase of Turkish Lira).

In the third quarter of 2018: (a) the Central Bank: (i) reduced its reserve requirement ratios for non-core foreign exchange liabilities by 400 basis points for up to (and including) three year maturities and (ii) suspended its weekly repo auction, thereby requiring banks to borrow at the 150 basis points-higher overnight rate, (b) the BRSA: (i) limited the swap and swap-like transactions (where the banks in Turkey pay Turkish Lira and receive foreign currency from their foreign counterparts on initial exchange) entered into between banks in Turkey and their foreign counterparts to 25% of the relevant Turkish bank’s regulatory capital, aiming to limit short selling of Turkish Lira in favour of foreign exchange, reducing foreign counterparties’ access to Turkish Lira and restricting a bank in Turkey from entering into a new transaction if such bank is already over the limit imposed by the BRSA; *provided* that the restriction does not apply to the swap and other derivative transactions that are executed between the banks located in Turkey and their consolidated credit and financial institution subsidiaries established abroad, (ii) started to apply additional weightings to the calculation of the limitations of such swap and swap-like transactions, with Turkish Lira-denominated derivative transactions with a maturity of: (A) from and including 90 days to but excluding 360 days being subject to a 75% weighting and (B) 360 days or more being subject to a 50% weighting, (iii) suspended mark-to-market calculations of securities when determining a Turkish bank’s capital adequacy ratios, which new rule effectively results in the

securities portfolios to reflect the book values of the assets rather than their current market values, and (iv) decided that banks should not include the collateral provided for credit derivatives and derivative transactions in the calculations of their liquidity coverage ratios starting from 31 July 2018 until 31 December 2018 and (c) the Turkish government raised taxes on U.S. dollar deposits while waiving taxes on Turkish Lira deposits. Notwithstanding these changes, the Turkish Lira depreciated by 38.1% against the U.S. dollar in 2018.

The BRSA also has taken a series of temporary measures to support the liquidity management of banks in Turkey. For instance, the BRSA's temporary resolution dated August 2018 changed the foreign exchange rate references that could be used when calculating-risk weighted assets, which serve as the denominator in capital adequacy ratio calculations. This change resulted in the reporting of higher capital adequacy ratios. According to this resolution, banks were allowed to use the higher of the following two foreign exchange rates: (a) the rate as of the end of the second quarter of 2018 (*i.e.*, US\$1/TL 4.5756) or (b) the arithmetic average of foreign exchange rates for the last 252 İstanbul business days prior to the relevant calculation date. Additionally, in accordance with another temporary resolution of the BRSA, "financial assets measured at fair value through other comprehensive income" were allowed to be not included in the regulatory capital for capital adequacy ratio calculation purposes. These two temporary regulatory easing measures with respect to the calculation of capital adequacy ratios expired on 27 December 2018 and thus are not reflected in the Bank's Financial Statements as of and for the year ended 31 December 2018. On 13 September 2018, the Central Bank increased its benchmark lending rate by 6.25%, which increased the one-week repo rate from 17.75% to 24.00%. In 2019, through the date of this Base Prospectus, the Central Bank has continued to implement a tight stance by changing forward guidance via more hawkish statements in its statements (*e.g.*, after the volatility seen in March 2019, the Central Bank paused one week repo auctions and provided funding through overnight lending, which had a cost of 150 basis points higher than the policy rate, until 8 April 2019). See "Risks Relating to the Group's Business - Foreign Exchange and Currency Risk."

Although Turkey's economic growth dynamics depend to some extent upon domestic demand, Turkey is also dependent upon foreign trade, in particular with Europe. See "Turkish Economy." A significant decline in the economic growth of any of Turkey's major trading partners, such as the EU, might have an adverse impact on Turkey's balance of trade and adversely affect Turkey's economic growth. Turkey has diversified its export markets in recent years, but the EU remains Turkey's largest export market. There has been recent political tension between Turkey and certain members of the EU as described in "Political Developments" and "Global Financial Crisis and Eurozone Uncertainty" above. A decline in demand for imports from the EU might have a material adverse effect on Turkish exports and Turkey's economic growth and result in an increase in Turkey's current account deficit. To a lesser extent, Turkey also exports to markets in Russia and the Middle East, and the continuing political turmoil in certain of those markets might lead to a decline in demand for such imports, with a similar negative effect on Turkish economic growth and Turkey's current account deficit.

Turkey is an energy import-dependent country and recorded US\$43.0 billion of net energy imports in 2018, which increased from US\$32.9 billion in 2017, which itself had increased from US\$24.0 billion in 2016. Although the government has been heavily promoting new domestic energy projects, these have not yet significantly decreased the need for imported energy and thus any geopolitical development concerning energy security might have a material impact on Turkey's current account balance. Even though the relatively low levels of oil prices were positive from the perspective of the current account balance in 2016, more recent price increases have contributed to the worsening of Turkey's current account balance. Agreements among the members of the Organisation of the Petroleum Exporting Countries (*OPEC*) to cut output or any geopolitical development concerning energy security and prices (such as the United States' withdrawal from the Joint Comprehensive Plan of Action (*i.e.*, the Iran nuclear deal) and re-imposing oil-related sanctions on Iran or the decision of the United States to impose new sanctions on Venezuela dated 22 May 2018, which decisions are expected to reduce global supply and increase crude oil prices) might have a material impact on Turkey's current account balance.

If the current account deficit widens more than anticipated, then 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 might have a negative impact on Turkey's sovereign credit ratings. Any such difficulties might lead the Turkish government to seek to raise additional revenue to finance the current account deficit or to seek to stabilise the Turkish financial system, and any such measures might adversely affect the Group's business, financial condition and/or results of operations.

Emerging Market Risks – International investors might view Turkey negatively based upon adverse events in other emerging markets

Emerging markets such as Turkey are subject to greater risk than are more-developed markets of being perceived negatively by investors based upon external events, and financial turmoil in any emerging market (or global

markets generally) might disrupt the business environment in Turkey. Moreover, financial turmoil in one or more emerging market(s) tends to adversely affect prices for securities in other emerging market countries as investors move their money to countries that are perceived to be more stable and economically developed. An increase in the perceived risks associated with investing in emerging economies might dampen capital flows to Turkey and adversely affect the Turkish economy. As a result, investors' interest 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.

Investors' interest in Turkey might be negatively affected by events in other emerging markets or the global economy in general, which might have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

The Turkish economy has experienced significant inflationary pressures in the past with year-over-year consumer price inflation ("CPI") rates as high as 73.2% in the early 2000s. CPI was 7.4%, 8.2%, 8.8% and 8.5% in 2013, 2014, 2015 and 2016, respectively, with producer price inflation of 7.0%, 6.4%, 5.7% and 9.9%, respectively, in such years. In 2017, annual CPI was 11.9% due to an increase in the price of food and energy, the lagged impact of the depreciation of the Turkish Lira and strong domestic demand, while annual producer price inflation was 15.5% due to the increase in both intermediate and commodity prices in terms of Turkish Lira. The annual CPI was 20.3% in 2018, while annual domestic producer price inflation during the year was 33.6%, both increasing significantly due to the depreciation of the Turkish Lira. On 30 January 2019, the Central Bank published its first inflation report of 2019 and reduced its inflation forecasts, predicting a rate of 14.6% for 2019 (previously expecting a rate of 15.2% in the fourth inflation report of 2018) and 8.2% for 2020 (previously expecting a rate of 9.3% in the fourth inflation report of 2018). As of March 2019, the last 12 month CPI was 19.7% and the annual domestic producer price inflation was 29.6%. (Source of the above data in this paragraph: Turkstat).

Significant global price increases in major commodities such as oil, cotton, corn and wheat would be likely to increase inflation pressures in Turkey. Such inflation, particularly if combined with further depreciation of the Turkish Lira, might result in Turkey inflation exceeding the Central Bank's inflation target, which might cause the Central Bank to modify its monetary policy. Inflation-related measures that might be taken by the Turkish government and the Central Bank might have an adverse effect on the Turkish economy. If the level of inflation in Turkey were to continue to fluctuate or increase significantly, then this might have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several financial institutions. Following this crisis, the government made structural changes to the Turkish banking system to strengthen the private (i.e., non-governmental) banking sector and allow it to compete more effectively against the state-controlled banks Halkbank, Türkiye Vakıflar Bankası T.A.O. ("Vakıfbank") and T.C. Ziraat Bankası A.Ş. ("Ziraat") (which were three of the top 10 banks in the Turkish market based upon total assets as of 31 December 2018 according to the BRSA). Notwithstanding such changes, the Turkish banking sector remains subject to volatility. If the general macroeconomic 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 sector, which might have a material adverse effect on the Group's business, financial condition and/or results of operations.

Certain regulatory actions, investigations, allegations of past or current wrongdoing and similar actions (including the above-described conviction of an executive of Halkbank) might lead to related actions, rumours and/or uncertainties surrounding breaches by Turkish banks of international sanctions laws or other financial markets misconduct. Actual or perceived financial market instability in Turkey (and related actions, rumours 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 an investment in the Notes.

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

The Group has significant exposure to Turkish governmental and state-controlled entities. Securities issued by Turkey represented 79.5%, 84.7% and 91.1% of the Group's securities portfolio (which consists of: (a) financial assets at fair value through profit or loss (net) or, after the adoption of TFRS 9, financial assets measured at fair value through profit or loss (each excluding derivative financial assets), (b) financial assets available-for-sale (net) or, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income and (c) investments held-to-maturity or, after the adoption of TFRS 9, financial assets measured at amortised cost (collectively, the Group's "securities portfolio") as of 31 December 2016, 2017 and 2018, respectively. (12.0%, 12.2% and 11.9%, respectively, of its total assets and equal to 105.0%, 104.9% and 101.7%, respectively, of its shareholders' equity). Also, the Group has exposure to the Turkish government through the Group's participation in financing state-sponsored infrastructure projects, which might be susceptible to increased credit risk in the event of an economic downturn in Turkey or deterioration of the Turkish government's creditworthiness. In addition to any direct losses that the Group might incur, a default, or the perception of increased risk of default, by Turkish governmental entities in making payments on their debt or a downgrade in Turkey's credit rating would likely have a significant negative impact on the value of the government debt held by the Group and the Turkish banking system generally and might have a material adverse effect on the Group's business, financial condition and/or results of operations. Enforcing rights against governmental entities might be subject to structural, political or practical limitations.

Turkey's sovereign debt ratings have been subject to various downgrades recently and might be further downgraded. For example, Turkey's sovereign debt rating was downgraded by S&P on 20 July 2016 followed by a downgrade by Moody's on 23 September 2016 to below investment-grade status. On 27 January 2017, S&P revised the outlook of Turkey from "stable" to "negative" and Fitch downgraded Turkey's sovereign credit rating to sub-investment grade in line with the ratings of S&P and Moody's. On 17 March 2017, Moody's revised the outlook of Turkey from stable to negative. On 7 March 2018, Moody's announced a downgrade of Turkey's sovereign debt rating and revised the outlook from negative to stable. On 1 May 2018, S&P lowered its unsolicited foreign currency long and short-term sovereign credit ratings on Turkey to "BB-/B" from "BB/B" and its unsolicited local currency long- and short-term sovereign credit ratings to "BB/B" from "BB+/B," with a stable outlook. On 1 June 2018, Moody's placed Turkey's "Ba2" long-term issuer rating and "Ba2" senior unsecured bond rating on review for downgrade. On 13 July 2018, Fitch downgraded Turkey's long-term foreign-currency issuer default rating to "BB" from "BB+" and assigned the outlook as negative. On 17 August 2018, Moody's lowered Turkey's foreign currency long-term credit rating to "Ba3" from Ba2" and Turkey's foreign currency deposit ceiling to "B1" from "Ba3." On 24 September 2018, Moody's further lowered Turkey's foreign currency deposit ceiling to "B2" from "B1."

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

Certain sectors of the Turkish economy might have been (or might become) overdeveloped, including in particular the construction of luxury residences, shopping centres, office buildings, hotels and other real estate-related projects and various renewable energy-related projects. For example, significant growth in the number of hotels occurred over recent years in anticipation of a continuing growth in international tourism, whereas in fact tourism declined very significantly in 2015 and 2016 as a result of the conflicts in Syria and Iraq and Turkish political and security concerns and the tourism industry has suffered significantly (while Turkey's tourism revenues started to improve slightly starting from the second quarter of 2017, the industry remains significantly below full capacity). Any such overdevelopment might lead to a rapid decline in prices of these and other properties or the failure of some of these projects, which might then lead to a deterioration of the asset quality of Turkish banks and, in case of any restructuring with any borrowers resulting in more favourable terms to borrowers, might lead to a decrease in income for Turkish banks. 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.

Earthquakes – Turkey is subject to the risk of significant seismic events

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 Bank maintains earthquake insurance but does not have the wider business interruption insurance or insurance for loss of profits, as such insurance is not generally available in Turkey. In the event of future earthquakes, effects from the direct impact of such events on the Group and its employees, as well as measures that might be taken by the government (such as the imposition of taxes), might have a material adverse effect on the Group's business, financial condition and/or results of operations. In addition, an earthquake or other large-scale disaster might have an adverse impact on the Group's customers' ability to honour their obligations to the Group.

Risks Relating to the Group's Business

Counterparty Credit Risk – The Group is exposed to its counterparties' credit risk

As a large and diverse financial organisation, the Group is subject to a broad range of general credit risks, including with respect to its retail, corporate and commercial customers and other third parties with obligations to the Group. These parties include borrowers of loans from the Group, issuers whose securities are held by the Group, trading and hedging counterparties, customers of letters of credit provided by the Group and other financial counterparties of the Group, any of which might default in their obligations to the Group due to bankruptcy, *concordat* proceedings, lack of liquidity, economic downturns, operational failures or other reasons, as a result of which the Group might suffer material credit losses. See "Risk Management."

The Group's financial results can be significantly affected by the amount of provisions for probable loan losses. The provision expense for losses on loans and other receivables increased from TL 3,387,096 thousand in 2016 to TL 3,681,863 thousand (a 8.7% increase) in 2017. The Group's NPL ratio decreased from 3.0% as of 31 December 2016 to 2.6% as of 31 December 2017, which decline was due to a strong collection performance supported by NPL sales. As a result of the adoption of TFRS 9 as of 1 January 2018, the Group changed the provision calculation principles for loans and other receivables from the BRSA's rule-based provisioning approach to a forward-looking expected credit loss (ECL) approach. Based upon the new impairment principles of TFRS 9, the provision expense for losses on loans and other receivables in 2018 was TL 10,836,246 thousand, which was a considerable increase from previous periods; *however*, this is not comparable to the figures for the previous periods due to changes in the accounting policy and the implementation of TFRS 9. In 2018, the NPL ratio increased to 5.1%, which was primarily due to the inclusion of both lease and factoring receivables under both the loans and the non-performing receivables line items (as applicable) as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA, a reduction in the Group's loan growth and some transfers (generally with sufficient provisions for expected credit losses) from Stage 2 (significant increase in credit risk) to Stage 3 (credit-impaired) as a consequence of the recent contraction in the growth of the Turkish economy, particularly in the fourth quarter of 2018.

In addition to the changes introduced by the transition to TFRS 9, changes in the NPL ratio can occur for various reasons, including changes in the levels of new NPLs, collection performance, NPL sales and the amount and nature of the Group's cash loans. For example, the level of NPLs and Stage 3 loans might rise due to the challenging political and economic operating environment in Turkey, including as a result of foreign exchange volatility, and the Group's focus on the growth in lending toward higher-yielding consumer and SME loans. 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.

As of 31 December 2018, 10.4% and 21.6% of the Group's performing cash loans excluding financial leases and factoring receivables were credit card and consumer loans, respectively, which historically have had among the highest rate of payment default and are uncollateralised. Additionally, the Group's exposures to certain borrowers (particularly for loans for energy projects) are large and the Group is likely to continue making such large loans where such an investment is determined by the Group to be a credit-worthy transaction. For example, and as noted in Part 5.1.5.2 of the Group's 2017 BRSA Financial Statements, the Group granted loans amounting to US\$1,060 million and €8.1 million (including overdue interest) to Ojer Telekomünikasyon A.Ş. ("OTAŞ"), the then-majority shareholder of Türk Telekomünikasyon A.Ş. ("Türk Telekom"), which is a strategically important company operating in the telecommunication sector. OTAŞ defaulted in its debt service payments in September 2016, resulting in such loans being classified as watchlist loans in line with the BRSA Accounting and Reporting Legislation prior to the implementation of TFRS 9 and recorded as such in the BRSA Financial Statements as of and for the year ended 31 December 2017 (it was a performing loan for the year ended 31 December 2016). On 6 July 2018, all lenders of OTAŞ (including the Bank) reached an agreement on the restructuring of OTAŞ' debt, which is secured by 55% of Türk Telekom's issued share capital held by OTAŞ.

Pursuant to this agreement, OTAŞ' outstanding debt was restructured and the lenders obtained direct or indirect ownership in Levent Yapılandırma Yönetimi A.Ş. ("LYY"), which is a special purpose entity established for the restructuring of OTAŞ' debt. On 21 December 2018, as per the agreed structure, LY Y took over the Türk Telekom

shares held by OTAS (corresponding to 55% of Türk Telekom's shares). The Bank extended a loan to LYY amounting to TL 4,081,161 thousand (as of 31 December 2018) and this loan was classified as "Loans Measured at Fair Value through Profit or Loss" in the Bank's BRSA Financial Statements as of and for the year ended 31 December 2018 in accordance with TFRS 9. As of 31 December 2018, the Bank held 22.1265% of LYY's shares (in proportion with its share in OTAS' debt) and the relevant investment was considered within the scope of TFRS 5 (*Assets Held for Sale and Discontinued Operations*) in the Bank's BRSA Financial Statements as of and for the year ended 31 December 2018 as it meets the requirements of being an asset held for sale.

If a material volume of loans, particularly large loans, becomes non-performing or there is a slowdown in economic conditions related thereto, then this might have a material adverse effect on the asset quality of Turkish banks, including the Group. In addition to debtor-specific credit events, should any large debtor to the Turkish financial system experience financial difficulties, as has happened in the recent past, then that might have a negative impact on the Group, including indirectly through having a negative impact on the Turkish banking sector.

In December 2016, the Turkish government announced that the Turkish Treasury would provide a guarantee for SME loans up to an aggregate amount of TL 250 billion under the Credit Guarantee Fund (*Kredi Garanti Fonu*) (the "KGF") programme, which aimed to boost economic growth, support high potential companies that have difficulty accessing funding due to collateralisation constraints and help Turkish banks to grow by allowing 0% risk weight to be applied to the guaranteed portion of these loans. As this facility was fully utilised by the end of 2017, the available amount was increased by TL 55 billion in February 2018. A further increase of TL 35 billion was implemented in May 2018 to replace KGF-guaranteed loans that had already been repaid. Banks are assigned certain limits to grant these loans and the amount corresponding to 85% (for non-SMEs) or 90% (for SMEs) of such limit will be guaranteed by the Turkish Treasury. The guarantee also extends to NPLs from these SME loans that constitute up to 7% of a bank's NPL levels. If the NPLs from these loans exceed 7% of a bank's NPL ratio for the loans benefiting from the KGF guarantee, then the banks will bear the risk for the amount of the NPL in excess of such 7% level. The Bank started granting loans under the KGF programme on 1 April 2017 and, as of 31 December 2018, the Bank's total loan disbursements under the KGF programme were TL 26.5 billion (of which TL 15 billion remained outstanding). As of 31 December 2018, the gross NPL ratio as calculated solely for the loans granted under the KGF programme since 2017 was 3% against the maximum threshold of 7%. If the gross NPL ratio of these loans granted under the KGF programme since 2017 exceeds 7%, then the Bank would lose the advantages of the KGF programme in terms of collections and risk weights.

As of January 2019, an additional TL 20 billion limit was allocated by the government under the KGF guarantee for the use of SMEs with 2017 annual turnover of TL 25 million or less. On 6 March 2019, an additional TL 25 billion limit was allocated by the government for the use of SMEs with a yearly turnover of TL 125 million or less without any industry-specific limitations. Pursuant to Presidential Decree No. 162 dated 11 October 2018, loans guaranteed by the Turkish Treasury under the KGF programme may be restructured up to 96 months for working capital loans and up to 156 months for investment loans. Such Presidential Decree also requires lenders to provide an opportunity to the borrowers to restructure their KGF-guaranteed loans prior to any recourse to the KGF guarantee.

In 2016, 2017 and 2018, the Group periodically sold portions of its NPL portfolio when market conditions were attractive to do so. In 2018, NPLs amounting to TL 353,750 thousand were sold for a consideration of TL 30,734 thousand (TL 1,198,539 thousand and TL 86,303 thousand, respectively, in 2017 and TL 1,310,763 thousand and TL 129,836 thousand, respectively, in 2016). The effect of NPL sales on the NPL ratio was to reduce it by 0.61%, 0.50% and 0.12% in 2016, 2017 and 2018, respectively (*i.e.*, the NPL ratio for such periods would have been higher by such amounts had such sales not occurred).

On a Bank-only basis, SMEs (per the BRSA SME Definition) accounted for 25.3%, 28.0% and 30.0% of total NPLs as of 31 December 2016, 2017 and 2018, respectively. A negative impact on the financial condition of the Group's SME customers might have a material adverse effect on the Group's business, financial condition and/or results of operations.

Credit Risk Assessment – The Group might not correctly assess the creditworthiness of credit applicants or other counterparties

The Group might not correctly assess the creditworthiness of credit applicants or other counterparties (or their financial conditions might change) and, as a result, the Group might suffer material credit losses. While the Group seeks to mitigate credit risk, including through diversification of its assets and requiring collateral or guarantees for many of its loans, such efforts might be insufficient to protect the Group against material credit losses. For example, if the value of the collateral securing any portion of the Group's credit portfolio is insufficient (including through a decline in its value after the original taking of such collateral), then the Group will be exposed to greater credit risk and an increased risk of non-recovery if such credit exposure fails to perform. Estimates of the value of non-cash collateral are inherently

uncertain and are subject to change as a result of market and other conditions, which might lead to increased risk if such values decline. In addition, determining the amount of provisions and other reserves for probable credit losses involves the use of estimates and assumptions and an assessment of other factors that involve a great deal of judgment. As a result, the level of provisions that the Group has set aside (which take account of collateral where loans are secured) might not be sufficient and the Group might have to create additional provisions for probable credit losses in future periods.

The Group continues to seek to increase its lending activities and the growth in any business lines, or in the Group's credit portfolio generally, might have a negative impact on the quality of the Group's assets. Failure to maintain the Group's asset quality might result in higher loan loss provisioning and higher levels of write-offs or defaults, which might have a material adverse effect on the Group's business, financial condition and/or results of operations.

Competition in the Turkish Banking Sector – Intense competition in the Turkish banking sector might have a material adverse effect on the Group

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 31 December 2018, there was a total of 52 banks (including domestic and foreign banks, including participation banks, but excluding the Central Bank) licensed to operate in Turkey (source: Banks Association of Turkey), with the top seven banking groups (including the Group), three of which were state-controlled, holding approximately 71% of the banking sector's total loan portfolio in Turkey, 70% of the total bank assets in Turkey and 75% of the total deposits in Turkey (in each case, excluding participation banks and development and investment banks) (source: BRSA).

State-controlled banks in Turkey have historically had access to very inexpensive funding in the form of significant Turkish government deposits, which has provided them a competitive advantage over private banks. This competitive advantage has often resulted in such banks adopting aggressive pricing strategies on both deposit and loan products. As the domestic Turkish capital markets are small and there is thus only a limited ability to obtain Turkish Lira funding through local bond offerings, the competition for deposits is significant.

Foreign financial institutions have shown a strong interest in competing in the banking sector in Turkey. HSBC Bank plc, UniCredito Italiano, BBVA, BNP Paribas, Sberbank, Emirates NBD, Citigroup, ING, Bank Hapoalim, Bank Audi sal, Burgan Bank, Rabobank, Bank of China, Intesa Sanpaolo, MUFG Bank, Ltd., Industrial and Commercial Bank of China and Qatar National Bank (“QNB”) 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 priorities. The Bank's management believes that further entries into the sector by foreign competitors, either directly or in collaboration with existing Turkish banks, might 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.

Competition has been particularly strong in certain sectors where state-controlled banks and foreign-owned banks have been active, such as SME lending and general purpose loans, for which state-controlled banks have been aggressive in terms of pricing. To date, the Bank has been successful in competing with other banks and using advanced technology to launch new products and services; *however*, this might not continue in the future. Competitors might direct greater resources and be more effective in the development and/or marketing of new or technologically-advanced products and services that might compete directly with the Group's products and services, which might adversely affect the acceptance of the Group's products and services and/or lead to adverse changes in the spending and saving habits of the Group's customer base. Similarly, the Group might not be able to maintain its market share if it is not able to match its competitors' pricing and/or keep pace with the competitors' development of new products and services. Increased competition might affect the Group's growth, reduce the average interest rates that the Group can charge its customers or otherwise have a material adverse effect on the Group's business, financial condition and/or results of operations.

Pressure on Profitability – The Group's profitability might be negatively affected as a result of laws, competition and other factors impacting the Turkish banking sector

The Group's profitability might be negatively affected in both the short- and long-term 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” above)) and Central Bank and other governmental actions, including those that seek: (a) to limit the growth of Turkish banks and/or the Turkish economy through various conventional and unconventional policy measures, including increased reserve requirements, increased capital requirements and higher risk-weighting for general purpose loans, (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” below and “Risks Relating to Turkey – High Current Account Deficit” above) or (c) constrain the liquidity of the Turkish Lira (see “Risks Relating to Turkey – Turkish Economy”). There can be no assurance that such factors will not have a material adverse effect on the Group’s profitability or otherwise on its business, financial condition and/or results of operations.

Banking Regulatory Matters – The activities of the Group are highly regulated and changes to applicable laws, the interpretation or enforcement of such laws or any failure to comply with such laws might have a material adverse impact on the Group’s business

The Group is subject to extensive and detailed regulation and supervision by supervising authorities, including a number of banking, consumer protection, competition, antitrust and other laws 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 include Turkish laws (and in particular those of the BRSA), as well as laws of certain other countries in which the Group operates. These laws 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 “Turkish Banking System” below.

Turkish banks’ capital adequacy requirements have been and will continue to be 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. The Regulation on Equities of Banks was published in the Official Gazette No. 28756 dated 5 September 2013 (the “*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 transposed Basel III requirements into Turkish law and entered into effect on 1 January 2014. The Equity Regulation introduced core Tier 1 capital and additional Tier 1 capital as components of Tier 1 capital. Subsequently, the BRSA replaced the 2012 Capital Adequacy Regulation with the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (which entered into effect on 31 March 2016) (the “*2015 Capital Adequacy Regulation*”). The 2015 Capital Adequacy Regulation: (a) increased the risk weights of foreign currency-denominated required reserves held with the Central Bank from 0% to 50%; *however*, on 24 February 2017, the BRSA published a decision that enables banks to use 0% risk weight for such reserves, (b) lowered the risk weights of residential mortgage loans from 50% to 35%, (c) lowered the risk weights of consumer loans (excluding residential mortgage loans) qualifying as retail loans (*perakende alacaklar*) from 100% to 250% (depending upon their outstanding tenor) to 75% (irrespective of their tenor); *provided* that such receivables are not reclassified as “non-performing loans,” and (d) decreased the credit conversion factors of commitments for credit cards and overdrafts from 20% to 0%. These changes had (as of 31 December 2018) a positive impact on the Bank’s capital adequacy ratio.

According to amendments to the Equity Regulation and the 2015 Capital Adequacy Regulation that will be effective as of 1 January 2020, general provisions will no longer be allowed to be included in the supplementary capital (*i.e.*, Tier 2 capital) of Turkish banks and will be deducted from their risk-weighted assets.

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

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

The Regulation on Measurement of Liquidity Coverage Ratios of Banks (the “*Regulation on Liquidity Coverage Ratios*”) was published in the Official Gazette dated 21 March 2014 and numbered 28948 in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. According to this regulation, the liquidity coverage ratios of banks is not permitted to fall below 100% on an aggregate basis and 80% on a foreign currency-only basis. See “Turkish Regulatory Environment - Capital Adequacy.” If the Bank and/or the Group is unable to maintain its capital adequacy, leverage and liquidity ratios above the minimum levels required by the BRSA or other regulators (whether due to the inability to obtain additional capital on acceptable economic terms, if at all, losses or otherwise), then it might be required to seek additional capital and/or sell assets (including subsidiaries) at commercially unreasonable prices, which might have a material adverse effect on the Group’s business, financial condition and/or results of operations. See “Turkish Regulatory Environment” below for a further discussion on the implementation of Basel III in Turkey.

The BRSA also amended certain regulations and communiqués as published in the Official Gazette No. 29511 dated 23 October 2015 and No. 29599 dated 20 January 2016 (entering into force on 31 March 2016) in accordance with the Regulatory Consistency Assessment Programme (“*RCAP*”) of the Basel Committee on Banking Supervision (the “*Basel Committee*”), which programme is conducted by the Bank for International Settlements (the “*BIS*”) and reviews Turkey’s compliance with Basel regulations. These amendments include revisions to the Equity Regulation and the 2015 Capital Adequacy Regulation, and 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 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.

On 23 February 2016, the BRSA issued a domestic systemically important banks (“*D-SIBs*”) regulation (the “*D-SIBs Regulation*”), which introduced additional capital requirements for those banks classified as D-SIBs in line with the requirements of Basel III. As of the date of this Base Prospectus, the Bank is classified as a D-SIB. See “Turkish Regulatory Environment – Capital Adequacy.”

In June 2016, the BRSA published the Regulation on Procedures and Principles for Classification of Loans and Provisions to be Set Aside (as amended from time to time, the “*Classification of Loans and Provisions Regulation*”) (which replaced the former “Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside” (the “*Regulation on Provisions and Classification of Loans and Receivables*”) and became effective as of 1 January 2018) in order to ensure compliance with the requirements of IFRS and the Financial Sector Assessment Programme, which is a joint programme of the International Monetary Fund and the World Bank. This regulation requires banks (unless an exemption is granted by the BRSA) to adopt TFRS 9, which is the direct translation of IFRS 9 (“*Financial Instruments*”), related to the assessment of credit risk and to account for expected credit losses in line with such principles. See “Turkish Regulatory Environment – Loan Loss Reserves – Current Rules.”

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

Such measures might 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 laws might expose the Group to potential liabilities and fines and/or damage its reputation.

The Bank is also subject to competition and antitrust laws. In November 2011, the Turkish Competition Board (*Rekabet Kurulu*) (the “*Competition Board*”) initiated an investigation against the Bank (and two of its subsidiaries) and 11 other banks operating in Turkey with respect to allegations of acting in concert regarding interest rates and fees on credit cards, deposits and loans (including mortgage loans). On 8 March 2013, the Competition Board ruled that the economic group comprised of the Bank and two of its subsidiaries (*i.e.*, Garanti Ödeme Sistemleri A.Ş. (“*GPS*”) and Garanti Konut Finansmanı Danışmanlık Hiz. A.Ş. (“*Garanti Mortgage*”)) was to be fined TL 213 million in connection with this investigation, and on 16 August 2013 the Bank paid three quarters of this administrative penalty (*i.e.*, TL 160.04 million), in accordance with the provisions of law permitting a 25% reduction if paid within 30 days after the Bank’s receipt of the final decision (which was received on 17 July 2013). Notwithstanding this payment, the Bank has objected to this decision through an annulment action before the administrative courts, which action was rejected. The Bank has appealed the court’s decision; *however*, the 13th Chamber of Council of State has rejected the appeal. On 1 July 2016, the Bank requested the revision of such decision from the Council of State, Plenary Session of Administrative Law Chambers. As of the date of this Base Prospectus, the lawsuit is pending. See “The Group and its Business – Litigation and Administrative Proceedings.”

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

The significant and rapid increase in the Group’s loan portfolio (including a significant portion of unseasoned loans) over recent years has increased the Group’s credit exposure and requires continued monitoring by the Group’s management of its lending policies, credit quality and adequacy of provisioning levels through the Group’s risk management structure. The Group intends to increase its loan portfolio further, particularly with retail customers and SMEs, and any such increase might further increase the credit risk faced by the Group. Negative developments in the Turkish economy or in Turkey’s principal export markets might affect these borrowers more than large companies, resulting in higher levels of NPLs and, as a result, higher levels of provisioning. Any failure by the Group to manage the growth of its loan portfolio or the credit quality of its creditors within prudent risk parameters or to monitor and regulate the adequacy of its provisioning levels might have a material adverse effect on the Group’s business, financial condition, prospects and/or results of operations.

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

The Group’s interest spread (which is the difference between the interest rates that the Group earns on its interest-earning assets and the interest rates that it pays on its interest-bearing liabilities) as well as the Group’s net interest margin (which is its net interest income divided by its total average interest-earning assets) will be affected by changes in market interest rates and inflation. Sudden changes or significant volatility in interest rates might result in a decrease in the Group’s net interest income and/or net interest margin; *however*, high real yields provided by CPI-linked securities serve as a hedge against changes in interest rates. Accordingly, interest rate-related pressure on the Group’s net interest income and/or net interest margin might be alleviated by income on CPI-linked securities. As a result of volatile market interest rates, a globalisation of markets and increased competition, the Group’s net interest margin has varied and might be volatile in future periods. This volatility will require the Group to develop and enhance continuously its risk management systems.

The degree of the Group’s exposure to interest rate risk is largely a function of the relative tenors of its interest-earning assets and interest-bearing liabilities, its ability to reprice (and the timing of any such repricing of) its interest-earning assets and interest-bearing liabilities (*e.g.*, whether their interest rates are determined on a fixed or floating basis) and its ability to hedge against interest rate risk. For example, an increase in interest rates might cause interest expense on deposits (which are typically short-term and reset interest rates frequently) to increase more significantly and/or quickly than interest income from loans (which are short-, medium- and long-term), resulting in a potential reduction in net interest income and net interest margin. As of 31 December 2018, 20.0% of the Bank’s Turkish Lira-denominated cash loan portfolio carried a floating rate of interest (20.1% and 17.3% as of 31 December 2016 and 2017, respectively). See “Risk Management.”

Because the Group’s interest-bearing liabilities (principally deposits) generally reprice faster than its interest-earning assets, changes in the short-term interest rates in the economy generally are reflected in the rates of interest paid by the Group on its liabilities before such interest rates are reflected in the rates of interest earned by the Group on its assets. Therefore, when short-term interest rates fall, the Group is both positively affected (for example, the value of its fixed rate securities portfolio might increase and its interest margins might improve), but might also be negatively impacted (for example, through the decline in net interest margins on assets funded by 0% interest rate demand deposits). On the other hand, when short-term rates increase, interest expenses on deposits (which are typically short-term and reset interest rates frequently) to increase more significantly and/or quickly than interest income from loans (which are short-, medium- and long-term), resulting in a potential reduction in net interest income and net interest

margin. An increase in long-term rates generally has at least a short-term negative effect on the Group's net interest margin because its interest-earning assets generally have a longer repricing duration than its interest-bearing liabilities and because a portion of its interest-earning assets have fixed rates of interest (for example, 62.5%, 64.5% and 58.7% of the Bank's interest-earning assets were fixed-rate as of 31 December 2016, 2017 and 2018, respectively); *however*, 35.6% of the Group's securities portfolio consisted of consumer price index-linked securities as of 31 December 2018 (29.6% and 31.8% as of 31 December 2016 and 2017, respectively). The Group's yield on its securities increased significantly due mainly to higher CPI readings in 2018 as a consequence of the sharp increase in the inflation rate. The Group's net interest margin also increased in 2016, 2017 and 2018 due to an increasing interest rate environment and the significant increase in inflation, which increased from 11.9% in 2017 to 20.3% in 2018.

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) might reduce the demand for loans from the Group and might result in mark-to-market losses on certain of its securities holdings, reducing net profit/(loss) and/or shareholders' equity. On the other hand, a decrease in the general level of interest rates might affect the Group through, among other things, increased pre-payments on its fixed rate loan portfolio and increased competition for deposits. As interest rates are highly sensitive to many factors beyond the Group's control, including national monetary policies and domestic and international economic and political conditions, the Group might be unable to mitigate effectively the adverse effect of such movements.

The Central Bank has alternated between increasing and tightening liquidity in recent years. For example, on 24 March 2016, the Central Bank took its first step towards normalisation and reduced the upper limit of its interest rate corridor by 25 basis points to 10.50%. From then until September 2016, the Central Bank cut its rates each month, totalling 225 basis points; *however*, following the sharp depreciation of the Turkish Lira, upside risk on inflation and market volatility, the Central Bank stopped its interest rate-cutting process in October 2016 and, on 24 November 2016, the Central Bank's Monetary Policy Committee ("*Monetary Policy Committee*") increased the upper bound of the interest rate corridor by 25 basis points to 8.50% from 8.25% and its one-week repo rate (policy rate) by 50 basis points to 8.00% from 7.50% (which increase was the first rate hike since January 2014), while leaving its late liquidity window rate unchanged at 7.25%. On 24 January 2017, the Monetary Policy Committee kept the one-week repo rate at 8.00%, while increasing the upper bound of the interest rate corridor by 75 basis points to 9.25% and the late liquidity window lending rate by 100 basis points to 11.00%. Following the meeting of the Monetary Policy Committee, the Central Bank announced that a significant increase in inflation is expected in the short-term due to delayed pass-through effects and the volatility in food prices. Accordingly, the Monetary Policy Committee decided to increase its monetary tightening in order to attempt to mitigate the inflation outlook. On 16 March 2017, the Monetary Policy Committee increased the late liquidity window lending rate by 75 basis points to 11.75%, which was then further increased by 50 basis points to 12.25% on 26 April 2017 and further increased to 12.75% on 14 December 2017. In 2018, macroeconomic conditions in Turkey (including an increasing current account deficit, elevated inflation stemming from strong domestic demand and high external debt levels), an upward revision in market expectations of the number of interest rate hikes from the U.S. Federal Reserve, increased geopolitical tensions and inconsistent macroeconomic policies led the Turkish Lira to depreciate significantly. In order to try to reduce inflation expectations and enhance financial stability, the Central Bank increased its one week repo rate by 850 basis points, 75 basis points and 625 basis points (to 16.5%, 17.75 and 24.00%) in May, June and September, respectively.

If the Group is unable for any reason to reprice its interest-earning assets and interest-bearing liabilities in a timely or effective manner, or if interest rates rise as a result of economic conditions or other reasons, and its interest-earning assets and interest-bearing liabilities are not match-funded or hedged, then the Group's net interest margin will be affected, which might have a material adverse effect on the Group's business, financial condition and/or results of operations. As long as the Turkish financial markets remain volatile and subject to uncertainty, mismatch between the Group's short-term liabilities (*e.g.*, deposits) and long-term assets might have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

The Group is exposed to the effects of fluctuation in foreign currency exchange rates, principally the U.S. dollar and euro against the Turkish Lira, which can have an impact on its financial position, results of operations and/or capital. These risks are both systemic (*e.g.*, the impact of exchange rate volatility on the markets generally, including on the Group's borrowers) and specific to the Group (*e.g.*, due to the Group's own net currency positions) and these fluctuations 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. For example, exchange rate movements affect the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital, which can affect capital adequacy either positively (for example, if the Turkish Lira appreciates, then assets in foreign currencies convert into fewer Turkish Lira in the calculations of capital adequacy ratios and thus increase the capital adequacy ratios) or negatively (for example, if the

Turkish Lira depreciates, then assets in foreign currency convert into more Turkish Lira in the calculations of capital adequacy ratios and thus reduce the capital adequacy ratios).

As a result of the depreciation of the Turkish Lira by 38.1% in 2018, the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital increased significantly in 2018. The share of Turkish Lira-denominated assets and liabilities in the Group's balance sheet changed from 57.4% and 42.3%, respectively, as of 31 December 2017 to 51.6% and 38.0%, respectively, as of 31 December 2018, largely due to the depreciation of the Turkish Lira. In the first half of 2018, the Bank recorded growth of 9.0% in Turkish Lira-denominated loans; *however*, due to the high volatility and unexpected market developments in the second half of the year, new Turkish Lira-denominated originations in consumer and business loans were lower than the amount of such loans that matured during the period and, as a result, the growth for all of 2018 was only 2.2%. In addition, there was in 2018 a 17.3% increase in foreign currency-denominated loans primarily due to the depreciation of the Turkish Lira. Accordingly, the growth in total loans during 2018 was only 7.0%, with the increase resulting from the depreciation of the Turkish Lira and the corresponding increase (in Turkish Lira terms) of the remaining foreign currency-denominated loans.

In preparing its BRSA Financial Statements, transactions in currencies other than Turkish Lira are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. As a result, the Group's net profit/(loss) is affected by changes in the value of the Turkish Lira with respect to foreign currencies. 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.

From a systemic perspective, if the Turkish Lira were to depreciate materially against the U.S. dollar or the euro (which represent a significant portion of the foreign currency debt of the Group's corporate and commercial customers), then it would be more difficult for the Group's customers with income primarily or entirely denominated in Turkish Lira to repay their foreign currency-denominated debt (including to the Group). A number of Turkish borrowers have significant amounts of debt denominated in foreign currency and thus are susceptible to this risk. As of 31 December 2018, foreign currency-denominated loans comprised 43.4% of the Group's loan portfolio (of which U.S. dollar-denominated obligations were the most significant), compared to 39.8% as of 31 December 2017 and 43.6% as of 31 December 2016. The share of foreign currency-denominated loans increased in the Group's loan portfolio as of 31 December 2018 compared to previous years primarily due to the depreciation of the Turkish Lira. In addition, a significant portion of the Group's off-balance sheet commitments, such as letters of credit, were foreign currency-risk-bearing. 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.

In 2015, in nominal terms, 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 in "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 normalisation process by the U.S. Federal Reserve, proposes the implementation of tight liquidity for the Turkish Lira, a balanced foreign exchange liquidity and financial sector policies that are supportive of a tighter monetary policy. In December 2015, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25%. This initial step towards normalisation reduced some volatility, permitting the Turkish Lira and certain other emerging market currencies to appreciate. In the first quarter of 2016, the Turkish Lira appreciated against the U.S. dollar by 2.6%. In this context, instead of responding to the U.S. Federal Reserve's actions by changing interest rates and implementing the roadmap, the Central Bank 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. This continued until September 2017, when the U.S. Federal Reserve indicated that it would likely increase rates (and, in fact, the U.S. Federal Reserve made three rate hikes in 2017 and, in 2018, it made four rate hikes and started shrinking its balance sheet). The Central Bank's weighted average cost of funding was 24.0% on 31 December 2018, increasing from 12.75% on 31 December 2017, which itself had increased from 8.31% at the end of 2016. On 22 March 2019, the Central Bank sought to tighten monetary policy by suspending its one week repo auctions for an unspecified period following the depreciation of the

Turkish Lira by 5.8% on the same date, thereby resulting in an effective interest rate hike as banks would then be required to access the more expensive options, which suspension was lifted on 8 April 2019.

The Turkish Lira depreciated against the U.S. dollar by 21.5% in 2016 and then depreciated further by 7.9% in 2017, which depreciation was in part a result of geopolitical risks (see “Risks Relating to Turkey - Terrorism and Conflicts”), the uncertainty resulting from domestic political developments (see “Risks Relating to Turkey - Political Developments”) and the pressure on emerging market currencies. As a response to the depreciation of the Turkish Lira, the Central Bank has adopted certain monetary policies. For instance, in October and November 2016, the Central Bank revised certain reserve option coefficients within the context of the Reserve Options Mechanism (which provides Turkish banks the option to hold a portion of the Turkish Lira reserve requirements in foreign exchange or standard gold) in order to increase liquidity in the Turkish banking system. Additionally, the Central Bank reduced the borrowing limit for Turkish banks in the Interbank Money Market (*Bankalararası Para Piyasası*) initially to TL 22 billion and subsequently to TL 11 billion and then to zero on 10 January 2017, 13 January 2017 and 21 November 2017, respectively. The Central Bank also launched the Foreign Exchange Deposits against Turkish Lira Deposits Market in order to increase the Central Bank’s flexibility and diversity in managing the Turkish Lira and foreign exchange liquidity. To improve the ability of Turkish companies to manage their currency exposures, the Central Bank introduced non-deliverable forwards, which provide hedging with forward payments settled in Turkish Lira.

From 31 December 2017 to 22 May 2018, the Turkish Lira depreciated a further 18.0% against the U.S. dollar, as a result of which the Central Bank increased the late liquidity window lending rate by 300 basis points to 16.5% on 23 May 2018. On 13 September 2018, the Central Bank increased its benchmark lending rate by 6.25%, which increased the one-week repo rate from 17.75% to 24.00%. Notwithstanding these changes, the Turkish Lira depreciated by 38.1% against the U.S. dollar in 2018. On 22 March 2019, the Central Bank sought to tighten monetary policy by suspending its one week repo auctions for an unspecified period following the depreciation of the Turkish Lira by 5.8% on the same date, which suspension was lifted on 8 April 2019. The Central Bank might implement additional monetary tightening policies in the near future for price stability, if needed; *however*, there is no assurance that any of the Central Bank’s policies would be effective to achieve stability in the Turkish Lira. Any failure of the Central Bank to implement effective policies might adversely affect the Turkish economy in general, including leading to higher inflation and a higher current account deficit. See also “Risks Relating to Turkey - High Current Account Deficit” and “Risks Relating to Turkey - Inflation Risk.”

The Central Bank’s monetary policy is subject to a number of uncertainties, including global macroeconomic conditions and political conditions in Turkey. As global conditions have been volatile in recent years, 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. The fluctuations of foreign currency exchange rates and increased volatility of the Turkish Lira might adversely affect the Group’s customers and the Turkish economy in general; thus these might have a negative effect on the value of the Group’s assets and/or the Group’s business, financial condition and/or results of operations.

These and other domestic and international circumstances might result in continued or increasing volatility in the value of the Turkish Lira. Any actions taken by the Central Bank or Turkish government to protect the value of the Turkish Lira (such as increased interest rates or capital controls) might adversely affect the financial condition of Turkey as a whole, including its inflation rate, and might have a negative effect on the Group’s business, financial condition and/or results of operations.

A significant portion of the Group’s assets and liabilities (including off-balance sheet commitments such as letters of credit) is denominated in, or indexed to, foreign currencies, primarily U.S. dollars and euro. If the Turkish Lira is devalued or depreciates, then (when translated into Turkish Lira) the Group would incur currency translation losses on its liabilities denominated in (or indexed to) foreign currencies (such as the Group’s U.S. dollar-denominated long-term loans and other debt) and would experience currency translation gains on its assets denominated in (or indexed to) foreign currencies. Therefore, if the Group’s liabilities denominated in (or indexed to) foreign currencies exceed its assets denominated in (or indexed to) foreign currencies, including any financial instruments entered into for hedging purposes, then a devaluation or depreciation of the Turkish Lira might adversely affect the Group’s financial condition even if the value of these assets and liabilities has not changed in their original currency. In addition, the Group’s lending operations depend significantly upon the Group’s capacity to match the cost of its foreign currency-denominated (or indexed) liabilities with the rates charged by the Group on its foreign currency-denominated (or indexed) assets. A significant devaluation or depreciation of the Turkish Lira might affect the Group’s ability to attract customers on such terms or to charge rates indexed to the foreign currencies and might have a material adverse effect on the capital ratios of the Bank and the Group and/or the Group’s business, financial condition and/or results of operations.

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 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. The Group's and the Bank's foreign currency net long open position ratios were 4.2% and 3.8%, respectively, as of 31 December 2018, 5.0% and 5.2%, respectively, as of 31 December 2017 and 3.1% and 3.4%, respectively, as of 31 December 2016.

Liquidity Risk – The Group might have difficulty borrowing funds on acceptable terms, if at all

Liquidity risk is the risk that a company will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance upon a particular source of funding (such as short-term deposits), changes in credit ratings or market-wide dislocation. Perceptions of counterparty risk between banks (such as during the global financial crisis) can also increase significantly, which can lead to reductions in banks' access to traditional sources of liquidity such as the debt markets and asset sales. The Group's access to these wholesale sources of liquidity might be restricted or available only at a high cost and the Group might have difficulty extending and/or refinancing its existing wholesale financing such as syndicated and bilateral loans and eurobonds. In addition, the Group's significant reliance upon deposits as a funding source makes it susceptible to changes in customer perception of the strength of the banking sector in general and the Group in particular, and the Group might be materially and adversely impacted by substantial customer withdrawals of deposits.

The Bank relies primarily on short-term liabilities in the form of deposits (typically deposits with terms of less than three months) as its source of funding and has a mix of short-, medium- and long-term assets in the form of retail, commercial and corporate loans, mortgages and credit cards, which might result in asset versus liability maturity gaps and ultimately liquidity concerns in the event of a banking crisis or similar event. The Group's customer deposits are its primary source of funding, although (when market conditions are favourable) the Group also obtains funding from international and domestic markets in order to manage duration mismatch (particularly to fund long-term assets such as project finance loans, other foreign currency-denominated loans and mortgages) and optimise funding costs. These alternative funding sources include the issuance of securities, future flow transactions, loans (both syndicated and bilateral) and money market transactions.

The rate of growth of loans and advances (including leasing and factoring receivables) to the Group's customers has in recent years outpaced the rate of growth of deposits from the Group's customers, leading to a trend of increases in the Group's loan-to-deposit ratio, which was 112.0%, 113.6% and 104.4% as of 31 December 2016, 2017 and 2018, respectively. Accordingly, the Group has funded this growth in loans through the sale of securities and the use of borrowing facilities and future flow transactions, in addition to deposits, and it might do so in the future.

If deposit growth does not fully fund loan and asset growth, then the Group would become increasingly dependent upon other sources of financing, including long-term funding via syndicated and bilateral loans, "future flow" transactions and eurobonds. If any member of the Group were to seek to raise long-term financing but were to be unable to do so at an acceptable price, or at all, then such funds would need to be raised in the short-term money market, thereby reducing the Group's ability to diversify funding sources and adversely affecting the length of the Group's funding profile.

The Group might expand its activities in commercial banking, which is constituted in considerable part by project financing and granting commercial loans. Project financing loans are often denominated in foreign currency and generally have longer maturities than traditional funding provided to corporations. Such longer maturities might exacerbate any liquidity mismatch (that is, a mismatch between the maturities of the Group's assets and liabilities) between the Group's deposit and other funding and its loans. The need to rely upon shorter-term funds, or the inability to raise financing via the capital or long-term loan markets, might adversely impact the Group's liquidity profile and might have a material adverse effect on the Group's business, financial condition and/or results of operations. See "Risk Management."

In the event of a liquidity crisis affecting the Group, any liquidity mismatch might require the Group to liquidate some of its assets. Any liquidation of the Group's assets in such circumstances might be executed at prices below the level that the Group believes to be their intrinsic values.

A rising interest rate environment might compound the risk of the Group not being able to access funds at favourable rates or at all. As central banks unwind the expansive liquidity that has been provided during the global financial crisis, competition among banks and other borrowers for the reduced global liquidity might result in increased costs of funding. These and other factors might lead creditors to form a negative view of the Group's liquidity, which might result in lower credit ratings, higher borrowing costs and/or less access to funds. In addition, the Group's ability to raise or access funds might be impaired by factors that are not specific to its operations, such as general market conditions, disruptions of the financial markets or negative views about the prospects of the sectors to which the Group lends. While the Group aims to maintain at any given time an adequate level of liquidity reserves, 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 a credit rating of Turkey and/or members of the Group is downgraded or put on negative watch, then the Group might experience higher levels of cost of funding and/or difficulty accessing certain sources of international or wholesale funding.

Securities Portfolio Risk – Members of the Group invest in securities for long- and medium-term periods, which might lead to significant losses

In addition to trading activities, members of the Group invest in securities for long- and medium-term periods for their own account, including investments in Turkish government securities and (to a limited extent) securities issued by Turkish and foreign corporations. The Group has historically made significant investments in high-yielding Turkish government securities, resulting in a material percentage of the Group's net profit/(loss) being derived from these investments. In addition to the credit risks of its investments in securities, the value of the portfolio is subject to market risks, including the risk that possible declines in interest rates might reduce interest income on any new investments whereas possible increases in interest rates might result in a decline in the market price of the securities held by the Group, whether or not the Group is required to record such losses in its financial statements, either of which might have a material adverse effect on the Group's business, financial condition and/or results of operations.

While securities issued by Turkey represent substantially all of the Group's securities portfolio, and the Group thus does not have significant direct exposure to the credit risk of foreign governments, the disruptions to the capital markets caused by investors' concerns over the fiscal deficits in certain countries have had and might continue to have a material negative impact on the valuation of securities and thus on the market price of the Group's securities portfolio. See "Risks Relating to Turkey - Government Default."

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

While the Group's principal source of funding comes from deposits, these funds are short-term by nature and thus do not enable the Group 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 Group has raised (and likely will seek to continue to raise) longer term funds from syndicated and bilateral loans, "future flow" transactions, bond issuances and other transactions, many of which are denominated in foreign currencies. The Group's total foreign currency-denominated funds borrowed, securities issued, subordinated debts and financial liabilities measured at fair value through profit or loss constituted 20.2% of its liabilities and equalled 36.9% of its foreign currency-denominated assets as of 31 December 2018 (19.5% and 40.5%, respectively, as of 31 December 2017 and 20.0% and 39.8%, respectively, as of 31 December 2016). 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 depreciation of the Turkish Lira (which would thus increase the amount of Turkish Lira that it would need to make payments on its foreign currency-denominated obligations). Should these risks materialise, these circumstances might have a material adverse effect on the Group's business, financial condition 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 debt. The Bank calculates its capital adequacy ratios according to the 2015 Capital Adequacy Regulation, which allows the Bank to use ratings of eligible external credit assessment institutions (namely Fitch, S&P, Moody's, Japan Credit Rating Agency, Ltd., DBRS Ratings Ltd. and, as of 12 January 2017, International Islamic Rating Agency) while calculating the risk-weighted assets for capital adequacy purposes. On 27 January 2017, Fitch (whose ratings the Bank has been using to calculate its risk-weighted assets) downgraded Turkey's sovereign credit rating to "BB+" (with a stable outlook) from "BBB-" (with a negative outlook). According to guidance published by the BRSA on 24 February 2017, foreign exchange-required reserves held with the Central Bank are subject to a 0% risk weight, which amendment offset the negative impact on capital adequacy that otherwise would have resulted from the Fitch downgrade.

On 9 March 2018, following the downgrade of the sovereign rating of Turkey to "Ba2" (outlook stable) from "Ba1" (outlook negative), Moody's downgraded the Bank's Long-Term Foreign Currency Issuer Rating to "Ba2" from "Ba1." On 20 July 2018, following the downgrade of the sovereign rating of Turkey to "BB" from "BB+," Fitch downgraded the Bank's Long Term Foreign Currency Issuer Default Rating to "BB (Negative Outlook)" from "BBB- (Rating Watch Negative)." On 28 August 2018, following the downgrade of Turkey's sovereign rating, Moody's downgraded certain ratings of the Bank, including the Bank's senior unsecured rating, by one notch. See "The Group and its Business - Credit Ratings" for the Bank's current credit ratings. The Bank's management estimates that the downgrades to below investment grade bond status had (and might continue to have) a negative impact on the Turkish economy as well as on capital adequacy ratios in the banking sector, and the banking sector might experience further capital erosion if the Turkish Lira were to face further depreciation pressures or if Turkish Lira bonds were to suffer a sell-off that negatively affects bond prices.

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. 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.

Reduction in Earnings on Securities 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 portion of its interest income from its securities portfolio, with interest income on the Group's securities portfolio in 2016, 2017 and 2018, accounting for 16.3%, 16.9% and 20.0%, respectively, of its total interest income (and 13.9%, 12.7% and 17.3%, respectively, of its total operating profit before deducting interest expense, fees and commissions expense and personnel expense when net trading gains/(losses) on securities are also considered. The Group also has obtained large realised and unrealised gains from the mark-to-market valuation and sale of securities, which gains represented 15.4% and 19.5% of the Group's other operating income in 2016 and in 2018, respectively. The Group also incurred realised and unrealised losses from mark-to-market valuation and sale of securities representing 20.0% of the Group's other operating income in 2017. The CPI-linked securities in the Bank's investment securities portfolio provided high real yields compared to other government securities in each of such years, benefiting from the high inflation environment, but their impact on the Bank's earnings might vary as inflation rates change.

The Group's securities portfolio principally contains Turkish government debt securities, with more limited holdings of other securities such as corporate and foreign government debt securities. The Group's investment securities portfolio (which: (a) excludes its trading portfolio and, following the adoption of TFRS 9, financial assets measured at fair value through profit or loss and (b) includes: (i) available-for-sale securities and, following the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income and (ii) held-to-maturity securities and, following the adoption of TFRS 9, financial assets measured at amortised cost) represented 15.1%, 14.2% and 13.0%, respectively, of the Group's total assets as of 31 December 2016, 2017 and 2018. The share of the Group's investment securities portfolio in its total assets decreased slightly in 2017 and 2018 as the Group increased its cash loan lending, in part due to higher loan demand and the Group's strategy to improve its net interest margin. Until adoption of TFRS 9 as of 1 January 2018, as the Group's investment securities portfolio is comprised largely of high quality securities (principally Turkish government debt, most of which is held in the financial assets available-for-sale portfolio), the Group experienced insignificant credit losses on its investment securities portfolio and established immaterial provisions relating thereto during each of 2016 and 2017. As of 1 January 2018, the Group started to apply TFRS 9 in its BRSA financial statements, which standard replaced TAS 39 (*Financial Instruments: Recognition and Measurement*). Accordingly, as of 1 January 2018, both financial instrument classifications and impairment calculation principles have fundamentally changed. The TAS 39 measurement categories of "financial assets valued at fair value through profit or loss/financial assets held for trading," "financial assets available-for-sale" and "investments held-to-

maturity” have been replaced by “financial assets measured at fair value through profit or loss,” “financial assets measured at fair value through other comprehensive income” and “financial assets measured at amortised cost,” respectively, as a consequence of the first time adoption of TFRS 9. TFRS 9 also changed the accounting for loan loss impairments by replacing TAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. See Note 3.8 of the Group’s BRSA Financial Statements as of and for the year ended 31 December 2018. Therefore, the Group has started to recognise expected losses at initial recognition for all financial assets measured at fair value through other comprehensive income (excluding equity instruments) and financial assets measured at amortised cost in profit or loss effective from 1 January 2018 and, accordingly, the credit losses on the securities portfolio have increased considerably compared to previous periods. Due to accounting policy changes and reclassifications made as a consequence of the implementation of TFRS 9, the figures as of 31 December 2018 are not comparable to the figures for the previous periods. See Notes 5.1.4, 5.1.5 and 5.1.8 of the Group’s BRSA Financial Statements as of and for the year ended 31 December 2018.

While the contribution of income from the Group’s securities portfolio (including interest earned, trading income and other income) 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. As such, the Group might experience declining levels of earnings from its securities portfolio. If the Group is unable to sustain its level 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 “Risks Relating to Turkey – Government Default” above.

Trading Activities Risk – Members of the Group engage in market trading activities, including hedging, that might lead to significant losses

Members of the Group engage in various trading activities as both agent and (to a limited extent) principal, and the Group derives a proportion of its income from trading profits. The Group’s proprietary trading involves a degree of risk and future results will in part depend largely upon market conditions that are outside of the Group’s control. Trading risks include (among others) the risk of unfavourable market price movements relative to the Group’s long or short positions, a decline in the market liquidity of such instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that the instruments with which the Group chooses to hedge certain positions do not track the market price of those positions and exchange rates. The Group might incur significant losses from its trading activities, which might have a material adverse effect on its business, financial condition and/or results of operations.

Risk Management Strategies – The Group’s efforts to control and manage risk might be inadequate

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

Some of the Group’s methods of managing risk are based upon the use of historical market data, which might not always accurately predict future risk exposures that might be significantly greater than historical measures indicate. If its measures to assess and mitigate risk prove insufficient, then the Group might experience material unexpected losses that might have a material adverse effect on the Group’s business, financial condition and/or results of operations. For example, assets held by the Group that are not traded on public markets might be assigned values that the Group calculates using mathematical risk-based models, which models might not accurately measure the actual risks of such assets, resulting in potential losses that the Group has not anticipated.

The Bank’s subsidiaries have their own risk management teams and procedures, which (in the context of their respective businesses and regulatory environment) are generally consistent with those of the Bank. The Bank’s audit and risk committees coordinate with, and monitor the risk management policies and positions of, the Bank’s subsidiaries. Such coordination and monitoring might not be sufficient to ensure that the subsidiaries’ respective risk management teams and procedures will be able to manage risks to the same degree as the Bank’s risk management team and procedures. Any failure of a subsidiary’s risk management procedures to manage risk effectively might have a

material adverse impact on the Group's reputation, together with its 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 Banking and Other Licences – Group members might be unable to maintain or secure the necessary licences for carrying on their business

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

Access to Capital – The Group might have difficulty raising capital on acceptable terms, if at all

By law, each of the Bank and the Group is required to maintain certain capital levels and capital ratios in connection with its business. Such capital ratios depend in part upon the level of risk-weighted assets. The Bank's management expects that continued growth in Turkey's economy and further penetration of banking services will result in increased lending (both in absolute terms as well as proportionately in comparison to the Group's zero risk-weighted investment in Turkish government securities). As a result, the Bank's management expects that there will be a continuing increase in the Group's risk-weighted assets.

The increase in lending might adversely affect the Group's capital adequacy ratios, which also might be affected by potential changes in law as to the manner in which capital ratios are calculated (see "Banking Regulatory Matters" and "Pressure on Profitability" above). Additionally, it is possible that the Bank's and/or the Group's capital levels might decline due to, among other things, credit losses, increased credit reserves, currency fluctuations, dividend payments or a downgrade in Turkey's credit ratings. In addition, the Group might need to raise additional capital in the future to ensure that it has sufficient capital to support future growth in its assets in order to remain competitive in the Turkish banking environment, particularly in line with the Group's growth strategy. Should the Group desire or be required to raise additional capital, that capital might not be available to the Group at all or at a price that the Group considers to be reasonable. If any or all of these risks materialise, then this might have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

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

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), unauthorised transactions by employees and other operational errors (including clerical or record-keeping errors and errors resulting from faulty computer or telecommunications systems). The Group's risk management and expanded control capabilities are also limited by the information tools and techniques available to the Group. 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 interruptions to services to the Group's branches and/or impact customer service. In addition, given the Group's high volume of transactions, fraud or errors might be repeated or compounded before they are discovered and rectified. Furthermore, 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 control these or any other operational 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.

Money Laundering and/or Terrorist Financing – The Group is subject to risks associated with money laundering or terrorist financing

The Group is required to comply with applicable anti-money laundering and anti-terrorist financing laws and has adopted various policies and procedures, including internal control and "know-your-customer" procedures, aimed at preventing use of the Group for money laundering or terrorist financing. In addition, while the Group reviews its correspondent banks' internal policies and procedures with respect to such matters, the Group to a large degree relies upon its correspondent banks to maintain and properly apply their own appropriate anti-money laundering and anti-terrorist financing procedures. Such measures, procedures and compliance might not be completely effective in preventing third parties from using the Group (and its correspondent banks) as a conduit for money laundering (including illegal cash operations), terrorist financing or other criminal activities without the Group's (and its correspondent banks') knowledge. If the Group is associated with, or even accused of being associated with, money laundering, terrorist financing or other criminal activities, then its reputation might suffer and/or it might become subject to criminal or regulatory fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with the Group), any one of which might have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

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

Leverage Risk – The Group might become over-leveraged

One of the principal causes of the 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, particularly in the Group's İstanbul headquarters, is very high and requires the Group to re-assess continually its compensation and employment policies. If members of the Group's senior management were to leave, particularly if they were to join competitors, then those employees' relationships that have benefited the Group might not continue with the Group. In addition, the Group's 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.

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

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

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

International Operations – Adverse changes in the regulatory and economic environment in Turkey or other jurisdictions in which the Group operates might have a material adverse effect on the Group

While a substantial majority of the Group's operations are in Turkey, it also (as of the date of this Base Prospectus) maintains operations in countries such as Romania and the Netherlands. 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. Adverse changes in the regulatory environments, tax and/or other laws, economic and political conditions, relevant exchange rates and/or other circumstances in Turkey or the other jurisdictions in which the Group operates might have a material adverse effect on the Group's business, financial condition and/or results of operations.

Risks relating to the Group's Relationship with the Bank's Principal Shareholder BBVA – The Group intends to continue its dealings with the BBVA Group and other shareholders although these might give rise to apparent or actual conflicts of interest

The Banking Law places limits on a Turkish bank's exposure to related parties. The Group is within the limits of the Banking Law in terms of its exposure to its related parties (including Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") and its affiliates (collectively, the "BBVA Group")). With respect to the Bank, all credits with respect to, and services provided to, its related parties (including members of the BBVA Group) are made on an arm's-length basis and all credit decisions with respect to its related parties are required to be approved by the affirmative vote of two-thirds of the Board (other members of the Group have similar requirements). From time to time the Group has purchased and sold assets (including equity participations and real estate) and services to/from BBVA Group companies and the Bank believes that the terms of such transactions have been at least as favourable as those the Group would have received from an unaffiliated party. Where applicable, the value estimations (to the extent that market prices were not available) were made by independent appraisers engaged by the Group's management. Although the Group intends to continue to enter into transactions with related parties on terms similar to those that would be offered to an unaffiliated third party, such transactions create the potential for, or might result in, conflicting interests. See "Related Party Transactions."

The interests of the Bank's shareholders (including BBVA) might not be consistent with the interests of investors in the Notes and the Bank's shareholders might take (or cause the Bank to take) actions that might be harmful to investors in the Notes.

Independent Directors – Independent directors constitute a minority of the Bank’s directors

As a majority of the members of the Board are associated with BBVA, the opinions held by the Bank’s directors might be the same as the views of the Bank’s management and thus the Bank’s Board might not present an independent voice to balance against the views of the Bank’s management. See “Management.”

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

The Group maintains its accounting systems and prepares its accounts in accordance with the relevant law and publishes quarterly financial results in accordance with the BRSA Accounting and Reporting Legislation. These accounts are not prepared on a basis consistent with IFRS as applied in preparing IFRS Financial Statements. The Bank only publishes consolidated IFRS Financial Statements. There are differences between the BRSA Financial Statements and the IFRS Financial Statements. A narrative description 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 A - “Overview of Significant Differences Between IFRS and the BRSA Accounting and Reporting Legislation”). Potential investors in the Notes 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 reports in relation to the Group’s financial statements have included a qualified opinion and reports in relation to future financial statements might include similar qualifications

The Group’s audit reports for the BRSA Financial Statements for 2016, 2017 and 2018 were qualified with respect to general reserves that were allocated by the Group. In 2016, the Bank’s management reversed a net TL 42,000 thousand of general reserves, resulting in a level of general reserves to TL 300,000 thousand as of the end of 2016. In 2017, the Bank’s management increased the general reserves by TL 860,000 thousand to TL 1,160,000 thousand. In 2018, the Bank’s management further increased the general reserves by TL 1,090,000 thousand to TL 2,250,000 thousand for the possible effects of negative circumstances that might arise in the economy or market conditions.

The Bank’s auditors have qualified their respective audit reports for such periods as general reserves are not permitted under the BRSA Accounting and Reporting Legislation or IFRS. Similar qualifications have been taken with respect to the IFRS Financial Statements. Although these reserves do not impact the Group’s level of tax, the Group’s capital adequacy ratios and net profit/(loss) might otherwise be higher in the periods in which such reserves are established and lower in the periods in which such reserves are reversed. Future financial statements might include similar qualifications. Each auditor’s statements on such qualification can be found in its report attached to each of the applicable financial statements incorporated by reference herein.

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

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

Risks Relating to the Structure of a Particular Issue of Notes

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

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

An optional redemption feature of Notes is likely to limit their market price. During any period in which the Issuer may elect to redeem Notes, the market price of an investment in 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. In addition, in the case of any Floating Rate Notes, redemption might take place on any day during an Interest Period. See Condition 8.3 (*Redemption at the Option of the Issuer (Issuer Call)*).

Change of Interest Basis – If a Series of Notes includes a feature to convert the interest basis from a fixed rate to a floating rate, or vice versa, then this might affect the secondary market and the market price of an investment in such Notes

Notes 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. Such a feature to convert the interest basis, and any conversion of the interest basis with respect to a Series of Notes, might affect the secondary market and the market price of investments in such Notes as the change of interest basis might result in a lower interest return for investors. Where Notes convert from a fixed rate to a floating rate, the spread on such Notes might be less favourable than then-prevailing spreads on comparable securities tied to the same reference rate. In addition, the new floating rate at any time might be lower than the rates on other Notes. Where Notes convert from a floating rate to a fixed rate, the fixed rate might be lower than then-prevailing rates on those Notes and might affect the market price of an investment in such Notes.

Settlement Currency – In certain circumstances, investors might need to open a bank account in the Specified Currency of their Notes, 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 an investment the Notes or such payment to the relevant Noteholder

For Notes denominated in a “Specified Currency” (as specified in the applicable Final Terms or Pricing Supplement) 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 Condition 7.9.

In the case of Turkish Lira-denominated Notes held other than through DTC, unless a USD Payment Election is specified as being applicable in the applicable Final Terms or Pricing Supplement and 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 inside 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.

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. If, for illegality or any other reason, it is not possible for the Fiscal Agent to purchase U.S. dollars with any Turkish Lira funds received, then the relevant payments in respect of the Notes will be made in Turkish Lira.

As any currency election in respect of any payment to be made under such Turkish Lira-denominated Notes for the purposes of Condition 7.8 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 – The market price of an investment in the Notes might be subject to a significant degree of volatility

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

The market 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 completely 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 completely freely convertible as of the date of this Base Prospectus. The government of the PRC (the "PRC Government") continues to regulate conversion between Renminbi and foreign currencies despite significant reduction in the control by the PRC Government in recent years over trade transactions involving the import and export of goods and services and other frequent routine foreign exchange transactions. These transactions are known as current account items.

As of the date of this Base Prospectus, participating banks in Hong Kong and a number of other jurisdictions have been permitted to engage in the settlement of current account trade transactions in Renminbi; *however*, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are (as of the date of this Base Prospectus) being developed.

Although Renminbi was, as of 1 October 2016, added to the Special Drawing Rights basket created by the International Monetary Fund and policies further improving accessibility to Renminbi to settle cross-border transactions in foreign currencies were implemented by the People's Bank of China (the "PBoC") in 2018, there is no assurance that the PRC Government will continue to liberalise control over cross-border remittance of Renminbi in the future or that new regulations in the PRC will not be promulgated that have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this might affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Renminbi Notes.

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

As a result of the restrictions imposed by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. As of the date of this Base Prospectus, licensed banks in Singapore and Hong Kong may offer limited Renminbi-denominated banking services to Singapore residents, Hong Kong residents and specified business customers. While the PBoC has entered into agreements on the clearing of Renminbi business (the "Settlement Agreements") with financial institutions in a number of financial centres and cities (the "RMB Clearing Banks") including, but not limited to, Hong Kong, and is in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the size of Renminbi denominated financial assets outside the PRC is limited.

Renminbi business participating banks do not have direct Renminbi liquidity support from the PBoC. The relevant RMB Clearing Bank only has access to onshore liquidity support from the PBoC for the purpose of settling open positions of participating banks for limited types of transactions. The relevant RMB Clearing Bank is not obliged to settle 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 settle 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 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 so as to have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC might 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 the RMB Currency Event is specified as being applicable in the applicable Final Terms or Pricing Supplement, 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 7.11), 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 Spot Rate, all as provided in Condition 7.11. The value of these Renminbi payments in U.S. dollar terms might vary with the prevailing exchange rates in the market.

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. On 11 December 2015, the China Foreign Exchange Trade System (the "CFETS"), a sub-institutional organisation of the PBoC, published the CFETS Renminbi exchange rate index for the first time, which weighs the Renminbi based upon 13 currencies, to guide the market in order to measure the Renminbi exchange rate. This change, and others that might be implemented, 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 the RMB Currency Event is

specified as being applicable in the applicable Final Terms or Pricing Supplement, and a RMB Currency Event occurs, in which case payment will be made in U.S. dollars converted at the spot rate. 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 applicable 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 liberalised its regulation of interest rates in recent years. Further liberalisation might increase interest rate volatility. If a Series of Renminbi Notes carries a fixed interest rate, then the trading price of an investment in such Renminbi Notes will vary with fluctuations in Renminbi interest rates. If an investor in Renminbi Notes tries to sell such investment, 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 Centre(s) as may be specified in the applicable Final Terms or Pricing Supplement. 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 depositary (a “*Common Depositary*”) or common safekeeper (a “*Common Safekeeper*”), as the case may be, for Euroclear and Clearstream, Luxembourg or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or any such other RMB Settlement Centre(s) in accordance with prevailing Euroclear and/or Clearstream, Luxembourg rules and procedures or the rules and procedures of such alternative clearing system, or (b) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or such other RMB Settlement Centre(s) in accordance with prevailing rules and regulations. Other than as described in Condition 7.11, 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).

PRC Tax Consequences – There might be PRC tax consequences with respect to investment in the Renminbi Notes

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

Risks Relating to the Notes Generally

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

Unsecured Obligations - The Notes will constitute unsecured obligations of the Bank

The Bank’s obligations under the Notes will (subject to Condition 4) constitute unsecured obligations of the Bank. The ability of the Bank to pay such obligations will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows, which might be affected by (*inter alia*) the circumstances described in these “Risk Factors.”

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

While Notes issued with the terms and conditions set out in this Base Prospectus (the “*Conditions*”) will rank *pari passu* with all of the Bank’s other unsecured and unsubordinated indebtedness, the Notes will be effectively subordinated to the Bank’s secured indebtedness and securitisations, if any, to the extent of the value of the assets securing such transactions, and will be subject to certain preferential obligations under Turkish law (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 programme) 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 or Pricing Supplement, the Issuer will have the right to redeem a Series of Notes upon the occurrence of certain changes in law requiring it to pay withholding taxes in excess of levels, if any, applicable to interest or other payments on such Series on or before the date on which agreement is reached to issue the first Tranche 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. 2009/14593 dated 12 January 2009, which was amended by Decree No. 2010/1182 dated 20 December 2010, Decree No. 2011/1854 dated 26 April 2011 and Presidential Decree No. 842 dated 20 March 2019 (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 7%, (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 3%, and (c) with respect to bonds with a maturity of three years and more, the withholding tax rate on interest is 0%. Also, in the case of early redemption, the redemption date might be considered to be the maturity date and (if so) higher withholding tax rates might apply accordingly.

Unless provided otherwise in the applicable Final Terms or Pricing Supplement, the Issuer will have the right to redeem a Series of Notes at any time (including in the case of Floating Rate Notes) prior to their maturity date if, as a result of: (a) any change in, or amendment to, the laws of a Relevant Jurisdiction (as defined in Condition 9) or (b) any change in the application or official interpretation of the laws of a Relevant Jurisdiction, which change or amendment becomes effective after the date on which agreement is reached to issue the first Tranche of Notes of such Series (which shall, for the avoidance of doubt, be the date on which the applicable Final Terms or Pricing Supplement is signed by the Issuer), on the next Interest Payment Date, the Issuer would be required to: (i) pay additional amounts as provided or referred to in Condition 9 and (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on such date on which agreement is reached to issue the first Tranche of Notes of such Series, and such requirement cannot be avoided by the Issuer taking reasonable measures available to it. Upon such a redemption, investors in such Series of Notes might not be able to reinvest the amounts received at a rate that will provide an equivalent rate of return as their investment in the redeemed Notes and, in the case of any Floating Rate Notes, redemption might take place on any day during an Interest Period.

This redemption feature is also likely to limit the market price of an investment in the Notes at any time when the Issuer 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 is yet to become effective.

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

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and for Extraordinary Resolutions to be passed in writing or by way of electronic consents. These provisions permit investors in the Notes holding defined percentages of the Notes to bind all investors in the Notes of a Series, including investors that did not attend and vote at the relevant meeting (or did not sign such a written resolution or provide such electronic consent, as applicable) and investors that voted in a manner contrary to the decision of the deciding group. As a result, decisions might be taken by the holders of such defined percentages of the Notes of a Series that are contrary to the preferences of any particular investor in such Series.

In addition, the consent or approval of the Noteholders or the Couponholders is not required in the case of amendments to the Conditions pursuant to the benchmark discontinuation provisions described below under “-Benchmarks Uncertainty” to vary the method or basis of calculating the rate(s) or amount of interest or the basis for calculating any Interest Amount in respect of the Notes or for any other variation of the Conditions and/or the Agency Agreement required to be made in the circumstances described in the benchmark discontinuation provisions.

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

Although the CMB has issued the CMB Approval authorising the issuance of a maximum amount of Notes pursuant to Decree 32, the Capital Markets Law, the Debt Instruments Communiqué and other related laws as debt securities to be offered outside of Turkey: (a) the Notes have not been and are not expected to be registered under the Securities Act or any state's or other jurisdiction's securities laws and (b) other than by the Central Bank of Ireland as described herein, this Base Prospectus has not been approved by any jurisdiction's regulatory authorities (including the SEC). 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 the applicable Clearing System(s) for the accounts of their respective direct participants, 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 direct participant in the applicable Clearing System. The ability to pledge interests in the Notes (or beneficial interests therein) might be limited due to the lack of a physical certificate. In the event of the insolvency of a Clearing System or any of their respective participants in whose name interests in the Notes are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on the Notes might be impaired.

Further Issues – The Bank may issue further Notes of any Series, which would dilute the existing Noteholders' share of such Series

As permitted by Condition 17, the Bank may from time to time without the consent of the Noteholders of a Series create and issue further Notes of such Series; *provided* that such further Notes will be required to be fungible 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) unless the original Notes were, and such further Notes are, offered and sold by (or on behalf of) the Bank solely in reliance upon Regulation S in offshore transactions to Persons other than U.S. persons. To the extent that the Bank issues such further Notes of a Series, the existing Noteholders' share of such Series (*e.g.*, in respect of any meeting of holders of the Notes of that Series (see "Consent for Modifications" 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 organised under the laws of Turkey (specifically, under the Banking Law). Certain of the directors and officers of the Bank reside inside Turkey and all or a substantial portion of the assets of such persons might be, and substantially all of the assets of the Bank are, located in Turkey. As a result, it might not be possible for investors in the Notes to effect service of process upon such persons outside Turkey or to enforce against them in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions.

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

Change in Law – The value or market price of an investment in the Notes might be adversely affected by a change in the laws of England or Turkey or in administrative practice in these jurisdictions

The Conditions of the Notes are based upon the applicable laws of England and Turkey and administrative practice in effect as of the date of this Base Prospectus, and having regard to the expected tax treatment of all relevant entities under such applicable laws and practice. No assurance can be given as to the impact of any possible judicial decision or change to the applicable laws of England or Turkey (or the applicable laws of any other jurisdiction)

(including any change in regulation that might occur without a change in the primary legislation) or administrative practice in England or Turkey after the date of this Base Prospectus, nor can any assurance be given as to whether any such change might materially adversely affect the ability of the Issuer to make payments under the Notes or the value or market price of an investment in the Notes affected by such change.

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

In relation to any issue of Global Notes and having denominations consisting of a minimum specified denomination plus one or more higher integral multiples of another smaller amount (the “*Specified Denomination*”), it is possible that interests in such Global Notes might 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, an investor who, as a result of trading such amounts, holds an amount that is less than the minimum Specified Denomination in an account with the relevant clearing system: (a) would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination and (b) may not receive a Definitive Note in respect of such holding (should Definitive Notes replace the applicable 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 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 Systems – Investors in 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, the Notes will be represented on issue by one or more Global Note(s) that will be: (a) deposited with and (if issued in registered form) registered in the name of a nominee for a Common Depositary or a Common Safekeeper, as the case may be, for Euroclear and/or Clearstream, Luxembourg or (b) deposited with and registered in the name of a nominee for DTC. Except in the circumstances described in the applicable Global Note and Final Terms, investors in a Global Note will not be entitled to receive Notes in definitive form. Each of the Clearing Systems and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While Notes are represented by a Global Note, investors will be able to trade their beneficial interests therein only through the relevant Clearing Systems and their respective direct and indirect participants.

Except in certain circumstances described in Condition 7.9 with respect to non-U.S. dollar payments for Global Notes for which DTC is the clearing system, for so long as any Notes are represented by Global Notes, the Issuer will discharge its payment obligations thereunder by making payments through the relevant Clearing System(s). 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 such Global Note. The Issuer will have 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 be subject to the applicable procedures of the applicable Clearing System, its participants or any other intermediary and will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) and its participants to appoint appropriate proxies or to act directly. Similarly, holders of beneficial interests: (a) in a Global Note might have to prove their interests in order to take enforcement action against the Issuer in the event of a default under the relevant Notes and (b) in a Global Note for which DTC is the clearing system might not have a direct right to take enforcement action against the Issuer in the event of a default under the relevant Notes.

Benchmarks Uncertainty – The regulation and reform of “benchmarks” might adversely affect the value of investments in Notes linked to or referencing such “benchmarks”

Interest rates and indices that are deemed to be “benchmarks” (including LIBOR, SONIA, EURIBOR, TRLIBOR, ROBOR, PRIBOR, HIBOR, SIBOR, NIBOR, WIBOR and CNH HIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms might cause such benchmarks to perform differently than in the past, to disappear entirely or to have other consequences that cannot be predicted. Any such consequences might have a material adverse effect on any Notes linked to or referencing such a “benchmark.”

The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and has applied, subject to certain transitional provisions, from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it: (a) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (b) prevents certain uses by EU supervised entities (as defined in Article 3(1)(17) of the Benchmarks Regulation) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation might have a material impact on any Notes linked to or referencing a benchmark, in particular, if the methodology or other terms of such benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes might, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, might increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the UK Financial Conduct Authority (the “FCA”) confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “FCA Announcements”). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average (“SONIA”) over the next four years across sterling bond, loan and derivative markets so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based upon a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (“€STR”) as the new risk free rate. €STR is expected to be published by the ECB by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro-denominated cash products, including bonds. The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts might increase the risk to the euro area financial system.

It is not possible to predict with certainty whether and to what extent certain benchmarks (including LIBOR, SONIA, EURIBOR, TRLIBOR, ROBOR, PRIBOR, HIBOR, SIBOR, NIBOR, WIBOR and CNH HIBOR) will be supported going forward. This might cause LIBOR, SONIA, EURIBOR, TRLIBOR, ROBOR, PRIBOR, HIBOR, SIBOR, NIBOR, WIBOR and/or CNH HIBOR to perform differently than they have done in the past, and might have other consequences that cannot be predicted. Such factors might have (without limitation) the following effects on certain benchmarks: (a) discouraging market participants from continuing to administer or contribute to a benchmark, (b) triggering changes in the rules or methodologies used in the benchmark and/or (c) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations might have a material adverse effect on the value of and return on any investment in Notes linked to or referencing a benchmark.

Condition 6.7 provides for certain fallback arrangements (the “*benchmark discontinuation provisions*”) in the event that LIBOR, SONIA, EURIBOR, TRLIBOR, ROBOR, PRIBOR, HIBOR, SIBOR, NIBOR, WIBOR, CNH HIBOR or any other relevant benchmark is discontinued or no longer published or a Benchmark Event otherwise occurs, including the possibility that the rate of interest on the applicable Notes could be set by reference to a successor rate or an alternative reference rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to Noteholders or Couponholders arising out of the replacement of the relevant benchmark; *however*, to the extent that any relevant benchmark is discontinued or no longer published or a Benchmark Event otherwise occurs, and no alternative, successor or replacement reference rate is identified or selected in accordance with the benchmark discontinuation provisions, then the rate of interest on the applicable Notes will be determined by the fallback provisions provided for under Condition 6.2(b), although such provisions, being dependent

in part upon the provision by reference banks, might not operate as intended depending upon market circumstances and the availability of interest rate information at the relevant time and might in certain circumstances result in the effective application of a fixed rate based upon the rate that applied in the previous period when LIBOR, SONIA, EURIBOR, TRLIBOR, ROBOR, PRIBOR, HIBOR, SIBOR, NIBOR, WIBOR, CNH HIBOR or any other relevant benchmark was available, in effect resulting in such Notes becoming fixed rate notes. Any of these alternative methods might result in interest payments that are lower than or that do not otherwise correlate over time with the payments that would have been made on the applicable Notes if LIBOR, SONIA, EURIBOR, TRLIBOR, ROBOR, PRIBOR, HIBOR, SIBOR, NIBOR, WIBOR, CNH HIBOR or any other relevant benchmark were available in their current form. Additionally, if LIBOR, SONIA, EURIBOR, TRLIBOR, ROBOR, PRIBOR, HIBOR, SIBOR, NIBOR, WIBOR, CNH HIBOR or any other relevant benchmark rate is discontinued or no longer published, then there can be no assurance that the applicable fallback provisions under any related swap agreements would operate so as to ensure that the benchmark rate used to determine payments under any related swap agreements is the same as that used to determine interest payments under the applicable Notes.

Notwithstanding any other provision of the Conditions or the Agency Agreement, the consent or approval of the Noteholders or the Couponholders is not required in the case of amendments to the Conditions pursuant to the benchmark discontinuation provisions to vary the method or basis of calculating the rate(s) or amount of interest or the basis for calculating any Interest Amount in respect of the applicable Notes or for any other variation of the Conditions and/or the Agency Agreement required to be made in the circumstances described in the benchmark discontinuation provisions where the Issuer has delivered to the Calculation Agent a certificate in the form and manner required by the benchmark discontinuation provisions. Any such amendment made pursuant to the benchmark discontinuation provisions might have unexpected commercial consequences and there can be no assurance that, due to the particular circumstances of each Noteholder or Couponholder, any such amendment will be favourable to each Noteholder or Couponholder.

In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of the Issuer and/or an Independent Adviser in accordance with the benchmark discontinuation provisions, the relevant benchmark discontinuation provisions might not operate as intended at the relevant time. More generally, any of the above matters or any other significant change to the setting or existence of LIBOR, SONIA, EURIBOR, TRLIBOR, ROBOR, PRIBOR, HIBOR, SIBOR, NIBOR, WIBOR, CNH HIBOR or any other relevant benchmark might have a material adverse effect on the value or liquidity of, and the amount payable under, the applicable Notes. No assurance may be provided that relevant changes will not be made to LIBOR, SONIA, EURIBOR, TRLIBOR, ROBOR, PRIBOR, HIBOR, SIBOR, NIBOR, WIBOR, CNH HIBOR or any other relevant benchmark and/or that such benchmarks will continue to exist. Investors should consider these matters when making their investment decision with respect to the Notes.

Any of the factors above and their consequences might have a material adverse effect on the trading market for, value of and return on, any Notes linked to or referencing a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the current uncertainty related to the discontinuation of benchmarks, the benchmark discontinuation provisions set out in Condition 6.7 and the Benchmarks Regulation in making any investment decision with respect to any Notes linked to or referencing a benchmark.

SONIA – The market continues to develop in relation to SONIA as a reference rate for Floating Rate Notes

Where the applicable Final Terms for a Tranche of Notes specifies that the interest rate for such Notes will be determined by reference to SONIA, interest will be determined on the basis of Compounded Daily SONIA (as defined in Condition 6.2(b)(iii)). Compounded Daily SONIA differs from sterling LIBOR in a number of material respects, including (without limitation) that Compounded Daily SONIA is a backwards-looking, compounded, risk-free overnight rate, whereas sterling LIBOR is expressed on the basis of a forward-looking term and includes a credit risk element based upon inter-bank lending. As such, investors should be aware that sterling LIBOR and SONIA might behave materially differently as interest reference rates for Notes. The use of SONIA as a reference rate for debt instruments is nascent, and is subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of debt securities referencing SONIA.

Accordingly, prospective investors in any Notes referencing Compounded Daily SONIA should be aware that the market continues to develop in relation to SONIA as a reference rate in the capital markets and its adoption as an alternative to sterling LIBOR. For example, in the context of backwards-looking SONIA rates, market participants and relevant working groups are, as at the date of this Base Prospectus, assessing the differences between compounded rates

and weighted average rates, and such groups are also exploring forward-looking ‘term’ SONIA reference rates (which seek to measure the market’s forward expectation of an average SONIA rate over a designated term). The adoption of SONIA might also see component inputs into swap rates or other composite rates transferring from sterling LIBOR or another reference rate to SONIA.

The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in Condition 6.2(b)(iii) as applicable to Notes referencing a SONIA rate. In addition, the Issuer may in the future issue Notes referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA-referenced Notes issued by it. The nascent development of Compounded Daily SONIA as an interest reference rate for the capital markets, as well as continued development of SONIA-based rates for such market and the market infrastructure for adopting such rates, might result in reduced liquidity or increased volatility or might otherwise affect the market price of any SONIA-referenced Notes from time to time.

Furthermore, interest on Notes that reference Compounded Daily SONIA is only capable of being determined at the end of the relevant Observation Period and immediately or shortly prior to the relevant Interest Payment Date. It might be difficult for investors in Notes that reference Compounded Daily SONIA to estimate reliably the amount of interest that will be payable on such Notes, and some investors might be unable or unwilling to trade such Notes without changes to their information technology systems, both of which might adversely impact the liquidity of such Notes. Further, in contrast to LIBOR-based Notes, if Notes referencing Compounded Daily SONIA become due and payable as a result of an Event of Default under Condition 11, or are otherwise redeemed early on a date other than an Interest Payment Date, the rate of interest payable for the final Interest Period in respect of such Notes shall only be determined immediately or shortly prior to the date on which such Notes become due and payable.

In addition, the manner of adoption or application of SONIA reference rates in the eurobond market might differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA reference rates across these markets might impact any hedging or other financial arrangements that they might put in place in connection with any acquisition, holding or disposal of investments in Notes referencing Compounded Daily SONIA.

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 might adversely affect the price at which an investor could sell its investment in the Notes

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

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

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

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

Exchange Rate Risks and Exchange Controls – If an investor has investments in 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 such investor's 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 an investment in the Notes.

Government and monetary authorities might impose exchange controls that might adversely affect an applicable exchange rate and/or the ability to convert and/or transfer currency. If this occurs, particularly if it directly affects the Bank's payments on the Notes, then an investor in the Notes might receive less interest or principal than expected, or no interest or principal, and/or might receive payment in a currency other than the 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 an investment in the Notes. There might also be tax consequences for investors of any such currency changes.

Interest Rate Risk – The market price of an investment in the Notes might be adversely affected by movements in market interest rates

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the interest rate paid on such Fixed Rate Notes, then this will adversely affect the market price of an investment in such Fixed Rate Notes. Investment in any Notes involves the risk of adverse changes in the market price of an investment in 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 the Final Terms or Pricing Supplement for such Tranche. Any relevant rating agency may lower, suspend or withdraw its rating if, in its sole judgment, the credit quality of the applicable Notes has declined or is in question. If any credit rating assigned to a Series is lowered, suspended or withdrawn, then the market price of an investment in the applicable Notes might decline.

In addition to the ratings of the Programme and/or a Series of Notes provided by Moody's and Fitch, and the ratings of the Bank by Moody's, Fitch, S&P and JCR Eurasia, one or more other independent credit rating agency(ies) might assign credit ratings to a Series of Notes and/or the Issuer. Also, if any credit rating assigned to BBVA is lowered or put on negative watch, then such change might have a negative impact on the Issuer's credit rating. In addition, the ratings might not reflect the potential impact of all risks related to the structure, market, additional factors discussed above and other factors that might affect the value or market price of an investment in the Notes.

A credit rating is not a recommendation to buy, sell or hold securities and might be revised, suspended or withdrawn by the applicable rating agency at any time. Similar ratings on different types of securities do not necessarily mean the same thing. Ratings on any Notes also do not address the marketability of investments in such Notes or any market price. Any change in the credit ratings of any Notes or the Bank might adversely affect the price that a

subsequent purchaser will be willing to pay for investments in such Notes. The significance of each rating should be analysed independently from any other rating.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). 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 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.

ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

The Bank is a public joint stock company organised under the laws of Turkey (specifically, under the Banking Law). Certain of the directors and officers of the Bank named herein reside inside Turkey and all or a significant 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 to effect service of process upon such persons or the Bank outside Turkey or to enforce against them in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions. In 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 or the State of New York, except that the courts of New York have rendered at least one judgment in the past confirming *de facto* reciprocity between Turkey and the State of New York. Turkish courts have also rendered at least one judgment confirming *de facto* reciprocity between Turkey and the United Kingdom; *however*, since *de facto* reciprocity is decided by the relevant court on a case-by-case basis, there is uncertainty as to the enforceability of court judgments obtained in the United States or the United Kingdom by Turkish courts. Moreover, there is uncertainty as to the ability of an investor to bring an original action in Turkey based upon the U.S. federal or any other non-Turkish securities laws.

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

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

In any lawsuit, debt collection proceeding or action against the Bank in the Turkish courts, a foreign plaintiff might be required to deposit security for court costs (*cautio judicatum solvi*); *provided* that the court may in its discretion waive such requirement for security in the event that the plaintiff is considered to be: (a) a national of one of the contracting states of the Convention Relating to Civil Procedures signed at The Hague on 1 March 1954 (ratified by Turkey by Law No. 1574), except for legal entities incorporated under the laws of such contracting states, or (b) a national of a state that has signed a bilateral treaty with Turkey that is duly ratified and contains (*inter alia*) a waiver of the *cautio judicatum solvi* requirement on a reciprocal basis. In addition, if Turkish nationals do not deposit such a security in the country of the foreign plaintiff, then the relevant Turkish court may waive such requirement for security

relying upon the *de facto* reciprocity. If the foreign plaintiff deposits such security and the proceeding ends in favour of such plaintiff, then such security will be returned to such plaintiff.

Furthermore, any claim against the Bank that is denominated in a foreign currency would, in the event of bankruptcy of the Bank, only be payable in Turkish Lira. The relevant exchange rate for determining the Turkish Lira-equivalent amount of any such claim would be the Central Bank's exchange rate for the purchase of the relevant currency that is effective on the date the relevant court decides on bankruptcy of the Bank in accordance with Turkish law.

In connection with the Programme, service of process may be made upon the Bank at Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London EC2V 7EX, England, with respect to any proceedings in England.

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 and Euronext Dublin, shall be incorporated into, and form part of, this Base Prospectus:

(a) the audited unconsolidated BRSA financial statements of the Bank as of and for the years ended 31 December 2016 (but excluding the 2015 information therein), 2017 and 2018, including, in each case, any applicable notes thereto and the independent auditors' report thereon,

(b) the audited consolidated BRSA financial statements of the Group as of and for the years ended 31 December 2016 (but excluding the 2015 information therein), 2017 and 2018, including, in each case, any applicable notes thereto and the independent auditors' report thereon),

(c) the Terms and Conditions of the Notes contained in the previous base prospectus dated 19 April 2013 (on pages 68 to 98 (inclusive)) prepared by the Issuer in connection with the Programme,

(d) the Terms and Conditions of the Notes contained in the previous base prospectus dated 27 March 2014 (on pages 80 to 113 (inclusive)) prepared by the Issuer in connection with the Programme,

(e) the Terms and Conditions of the Notes contained in the previous base prospectus dated 24 March 2016 (on pages 79 to 112 (inclusive)) prepared by the Issuer in connection with the Programme,

(f) the Terms and Conditions of the Notes contained in the previous base prospectus dated 25 April 2017 (on pages 74 to 104 (inclusive)) prepared by the Issuer in connection with the Programme, and

(g) the Terms and Conditions of the Notes contained in the previous base prospectus dated 25 April 2018 (on pages 66 to 97 (inclusive)) prepared by the Issuer in connection with the Programme.

Following the publication of this Base Prospectus, a supplement to this Base Prospectus might be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with the Prospectus Directive. Statements contained in any such supplement (or contained in any document (or portions thereof) 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 (or portions thereof) 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 are 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) <https://www.garantiinvestorrelations.com/en/financial-information/brsa-unconsolidated-financials-pdf/PDF/1281/0/0> (with respect to the Bank's BRSA Financial Statements),

(b) <https://www.garantiinvestorrelations.com/en/financial-information/Consolidated-Financial-Statements-full-report/BRSA-Consolidated-Financials/66/0/0> (with respect to the Group's BRSA Financial Statements),

(c) https://www.garantiinvestorrelations.com/en/images/pdf/BaseProspectusDatedApril2013_2.pdf (with respect to the Terms and Conditions of the Notes contained in the previous base prospectus dated 19 April 2013),

(d) <https://www.garantiinvestorrelations.com/en/images/pdf/BaseProspectusdated-March2014.pdf> (with respect to the Terms and Conditions of the Notes contained in the previous base prospectus dated 27 March 2014),

(e) <https://www.garantiinvestorrelations.com/en/images/pdf/BaseProspectusdated-March2016.pdf> (with respect to the Terms and Conditions of the Notes contained in the previous base prospectus dated 24 March 2016),

(f) https://www.garantiinvestorrelations.com/en/images/pdf/Base_Prospectus_Dated_April_2017.pdf (with respect to the Terms and Conditions of the Notes contained in the previous base prospectus dated 25 April 2017), and

(g) <https://www.garantiinvestorrelations.com/en/debt-information/detay/2018BaseProspectus/48/473/0> (with respect to the Terms and Conditions of the Notes contained in the previous base prospectus dated 25 April 2018).

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.

Any statement contained in a document (or a portion thereof) that is incorporated by reference herein shall be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained herein or in any other document incorporated by reference herein, or in any supplement hereto, modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus. Where there is any inconsistency between the information contained in this Base Prospectus and the information contained in (or incorporated by reference into) the information incorporated by reference herein, the information set out in this Base Prospectus shall prevail.

The information set out in any part 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 set out elsewhere in this Base Prospectus, in each case, subject to and in accordance with the provisions of the Prospectus Directive.

The contents of any website (except for the documents (or portions thereof) 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 PROGRAMME

The Group

The following overview should be read in conjunction with, and is qualified in its entirety by, the detailed information appearing elsewhere in this Base Prospectus, including in the BRSA Financial Statements (including the notes thereto) incorporated by reference into this Base Prospectus.

The Group is a leading Turkish banking group with a significant market share in Turkey, being (as per published BRSA financial statements as of 31 December 2018) the second largest private banking group in Turkey in terms of total assets. The Group's customers are comprised mainly of commercial enterprises, small and medium enterprises ("SMEs"), foreign multinational corporations with operations in Turkey and customers from across the Turkish consumer market.

The Group served more than 16 million customers as of 31 December 2018 (per the Bank's internal definition: 15.9 million retail customers, 435,000 SME customers, more than 40,000 commercial customers and 2,500 corporate customers) by offering a broad range of products and services, many of which are tailored to identified customer segments. These products and services include (*inter alia*) deposits, corporate loans, project finance loans, leasing, factoring, foreign exchange transactions, investment and cash management products, consumer loans, mortgages, pension and life insurance, portfolio management, securities brokerage and trading, investment banking, payment systems (including credit and debit cards) and technology and data processing operations. The Group also acts as an agent for the sale of a number of financial products such as securities, insurance and pension contracts and leasing services. As of 31 December 2018, the Bank's services in Turkey were provided through a nationwide network of 926 domestic branches as well as sophisticated digital channels ("DCs"), such as automated teller machines ("ATMs"), call centres, internet banking and mobile banking. As of the same date, the Bank had eight foreign branches (one in Malta and seven in Northern Cyprus (together with a Country Directorate in Northern Cyprus that was established in order to comply with the legal requirements in Northern Cyprus)) and two representative offices (one each in Düsseldorf and Shanghai), together with bank subsidiaries in the Netherlands (Garanti Bank International NV ("GBI")) and Romania (Garanti Bank SA ("Garanti Romania")).

The Group had total assets of TL 399,153,601 thousand, performing loans (which excludes lease, factoring, non-performing receivables and expected credit losses) (as used herein, "*cash loans*") of TL 247,542,010 thousand and shareholders' equity of TL 46,886,842 thousand as of 31 December 2018. The Group's return on average shareholders' equity was 14.8% during 2018. As of 31 December 2018, the Group's total capital adequacy ratio was 16.52% (14.20% when calculated using Tier 1 capital only or common equity Tier 1 capital only) calculated in accordance with applicable Basel III rules.

The Group's net profit/(loss) was TL 6,706,605 thousand in 2018, TL 6,387,974 thousand in 2017 and TL 5,147,759 thousand in 2016.

The Bank's shares have been listed on the Borsa İstanbul (or its predecessor the İstanbul Stock Exchange) since 1990 and, in 1993, it became the first Turkish company to list its shares internationally, listing global depositary receipts on the London Stock Exchange. In 2012, the Bank joined the top tier of the U.S. over-the-counter (OTC) market, OTCQX International Premier, for which companies must meet high financial standards and have an effective disclosure process. Trading on this market with 62 leading companies from around the world, the Bank ranked 30th by market capitalisation as of 31 December 2018, 61st by dollar volume of trading during 2018 and 42nd by volume of shares traded in 2018. The Bank has been included in the Borsa İstanbul's Sustainability Index and Corporate Governance Index since 2014 and, in 2018, was the only bank from Turkey listed in the Dow Jones Sustainability™ Emerging Markets Index (DJSI), for which it qualified in 2015.

Organisation

The Bank is organised into six major business lines: retail (excluding payment systems such as credit and debit cards), payment systems (which includes the Bank's credit and debit card business and is operated together with its subsidiary GPS), SME banking, commercial banking, corporate banking and other operations (the most significant of which is global markets). Each of the Bank's business lines is managed by a separate department within the Bank, except that the payment systems business line is managed by the Bank together with GPS. The Bank also conducts certain international banking operations through its foreign branches, foreign representative offices and subsidiaries. All of the Group's business lines are supported by head office and other support functions. The Bank's subsidiaries (described in "The Group and its Business – Subsidiaries" below) provide various specialty products to clients of the Group.

Principal Shareholder

As of the date of this Base Prospectus, BBVA holds a 49.85% interest in the Bank. On 22 March 2017, BBVA acquired 9.95% of the common shares of the Bank from members of the Doğuş Group of companies (the “*Doğuş Group*”), resulting in the termination of a shareholders’ agreement between members of the Doğuş Group and BBVA. See “Ownership” and “Management – Board of Directors.”

Key Strengths

The Bank’s management believes that the Group’s success in the competitive Turkish banking sector is due to the following strengths:

- a robust and dynamic balance sheet management and sound capital adequacy ratios,
- strong liquidity ratios and a solid funding mix, particularly deposits,
- a high-quality and dynamic employee base with an experienced management team,
- a strong operating platform, including a sophisticated proprietary IT platform that drives efficiency and is well-integrated with the Group’s businesses,
- a strong brand and reputation as a product and service innovator,
- blending customer needs and tendencies with evolving trends to offer innovative customer-oriented products and services,
- superior customer relationship management solutions that allow for greater cross-selling and customer satisfaction through the use of sophisticated segmentation models and advanced technological capabilities,
- a centralisation ratio of 99%, which references the share of the transactions of the Bank’s branches that are processed through the Bank’s centralised operations centre (the Bank being the first bank from Turkey to establish such centralised operations),
- sound asset quality due to its proactive and consistent risk management and a disciplined credit approval process,
- conservative provisions with a sophisticated and efficient collection procedure,
- broad geographic coverage through extensive branch network and omni-channel convenience with seamless experience across all of the Bank’s channels, and
- commitment to corporate governance, ethics and corporate values.

Strategy

The Group’s mission is to continuously and noticeably increase the value created for its customers, shareholders and employees, society and the environment by leveraging its effectiveness, agility and organisational efficiency. The Group’s strategy has three pillars: customers, employees and business models. The strategic priorities of the Group are as follows:

- improving customers’ experience,
- increasing digitalisation of the customer base and the share of the use of digital platforms in total sales,
- increasing employee satisfaction,
- improving efficiencies,
- optimising capital allocation to ensure sustainable growth, and
- ensuring a responsible and sustainable development.

Risk Factors

Investing in the Notes entails 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 shareholder BBVA 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 Programme

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

This overview constitutes a general description of the Programme for the purposes of the Prospectus Directive.

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

Issuer: Türkiye Garanti Bankası A.Ş.

Issuer Legal Entity Identifier (LEI): 5493002XSS7K7RHN1V37

Risk Factors: There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Notes. These are set out under “Risk Factors” and include risks relating to the Group and its business, the Group’s relationship with the Issuer’s principal shareholder BBVA, Turkey and the Turkish banking industry. In addition, there are certain factors that are material for the purpose of assessing the risks associated with the Notes. These are set out under “Risk Factors” and include certain risks relating to the structure of particular Series of Notes and certain market risks.

Description: Global Medium Term Note Programme

Arranger: Merrill Lynch International

Dealers: Banco Bilbao Vizcaya Argentaria, S.A.
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
Morgan Stanley & Co. International plc
MUFG Securities EMEA plc
SMBC Nikko Capital Markets Limited
Société Générale
Standard Chartered Bank

and any other Dealer(s) appointed in accordance with the Programme 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 that comply therewith (see “Subscription and Sale and Transfer and Selling Restrictions”), including the following restriction applicable at the date of this Base Prospectus.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 (as amended, “FSMA”) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent.

Fiscal Agent:	The Bank of New York Mellon, London Branch
Programme Size:	Up to US\$6,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding as of the time of each issuance of Notes. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or (other than in the United States) public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	<p>Notes may be denominated and payments in respect of the Notes may be made in euro, Renminbi, Sterling, U.S. dollars, Turkish Lira, Czech Koruna, Romanian Leu or, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer(s) or investor(s), and as set out in the Conditions and specified in the applicable Final Terms or Pricing Supplement.</p> <p>Each payment in respect of Notes denominated in Turkish Lira and held other than through DTC may be made in U.S. dollars under Condition 7.8 if an irrevocable election to receive such payment in U.S. dollars is made. See “Terms and Conditions of the Notes – Condition 7.8.”</p> <p>In the case of Notes held through DTC and denominated in a Specified Currency other than U.S. dollars, payments will be made in U.S. dollars unless the participant in DTC with an interest in such Notes has elected to receive any part of such payment in that Specified Currency. See “Terms and Conditions of the Notes – Condition 7.9.”</p> <p>Payment in respect of Notes denominated in Renminbi may be made in U.S. dollars if RMB Currency Event is specified as being applicable in the applicable Final Terms or Pricing Supplement and a RMB Currency Event occurs. See “Terms and Conditions of the Notes – Condition 7.11.”</p>
Maturities:	<p>Each Series of Notes will have such maturity as may be agreed between the Issuer and the relevant Dealer(s) or investor(s), subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.</p> <p>Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see “Certain Restrictions – Notes having a maturity of less than one year” above.</p>
Issue Price:	Notes may be issued at an issue price that 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: A Final Terms or Pricing Supplement may provide that the corresponding Notes bear interest at a fixed rate (“*Fixed Rate Notes*”). Fixed interest will be payable on such Interest Payment Date(s) as may be agreed between the Issuer and the relevant Dealer(s) or investor(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and such Dealer(s) or investor(s).

Floating Rate Notes: A Final Terms or Pricing Supplement may provide that the corresponding Notes bear interest at a floating rate (“*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 of the Issue Date of the first Tranche of Notes of the relevant Series),
- (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 a Tranche of Floating Rate Notes will be agreed between the Issuer and the relevant Dealer(s) or investor(s).

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

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 such Dealer(s) or investor(s).

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

Benchmark Discontinuation - Reference Rate Replacement: On the occurrence of a Benchmark Event for a Series of Floating Rate Notes, the Issuer may (subject to certain conditions and following consultation with an Independent Adviser) determine a Successor Rate, failing which an Alternative Rate and, in either case, an Adjustment Spread, if any, and any Benchmark Amendments in accordance with Condition 6.7.

Redemption: The applicable Final Terms or Pricing Supplement 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, see “Certain Restrictions – Notes having a maturity of less than one year” above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the EEA or offered to the public in a Member State in circumstances that 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).

Unless otherwise set forth in the applicable Final Terms or Pricing Supplement, the minimum denomination of each IAI Definitive Note, and of Notes sold to Institutional Accredited Investors in the form of an IAI Global Note, will be not less than US\$500,000 or its approximate equivalent in other Specified Currencies.

Taxation; Payment of Additional Amounts: 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 (subject to certain exceptions) pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts that would have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of the withholding or deduction. See “Taxation – Certain Turkish Tax Considerations” and “Terms and Conditions of the Notes – Condition 9.1”

All payments in respect of the Notes (including on Coupons) 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 Conditions (except, for any Series, as altered in the Final Terms or Pricing Supplement, as applicable, for such Series) provide that the Bank agrees to certain covenants, including covenants limiting transactions with affiliates. See “Terms and Conditions of the Notes – Condition 5.”

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

Status of the Notes: The Notes will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) will rank *pari passu*, without any

preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

Rating:..... The Programme has been rated “BB-” (for long-term issuances) and “B” (for short-term issuances) by Fitch and the Notes are expected to be rated upon issuance “B1” (for long-term issuances) and “Not - Prime” (for short-term issuances) by Moody’s. Series of Notes may be rated or unrated. Where a Tranche of Notes is rated, the initial such rating(s) will be disclosed in the applicable Final Terms or Pricing Supplement and will not necessarily be the same as the rating (if any) assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

ERISA:..... Subject to certain conditions, the Notes (or beneficial interests therein) may be acquired with assets of an “employee benefit plan” (as defined in Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”)), that is subject to Title I of ERISA, a “plan” as defined in and subject to Section 4975 of the Code and any entity deemed to hold “plan assets” of the foregoing. “Certain Considerations for ERISA and other U.S. Employee Benefit Plans.”

Listing and Admission to Trading: Application has been made to Euronext Dublin for Notes issued within 12 months from the date of this Base Prospectus to be admitted to the Official List and to trading on the Regulated Market; *however*, no assurance can be given that such application will be accepted.

Notes of a Series may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer(s) or investor(s). Notes that are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms or Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or market(s).

Governing Law: The Notes, the Agency Agreement, the Programme Agreement, the Deed of Covenant and the Deed Poll, and any non-contractual obligations arising out of or in connection therewith, are or will be (as applicable) governed by, and construed in accordance with, English law.

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Notes (or beneficial interests therein) in (*inter alia*) Turkey, the United States, the EEA (including the United Kingdom and Belgium), the PRC, Hong Kong, Singapore, Japan and Switzerland, and there will be such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes; see “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 with a term of greater than one year will be issued in compliance with rules identical to those provided in: (a) U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (“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 or Pricing Supplement. Such rules impose certain additional restrictions on

transfers of Bearer Notes (or, for Bearer Global Notes, beneficial interests therein).

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), in each case either as Global Notes or Definitive Notes. Bearer Notes may be issued only in “offshore transactions” to Persons who are not U.S. persons in reliance upon Regulation S and Registered Notes may be issued both in “offshore transactions” to Persons who are not U.S. persons in reliance upon Regulation S, to Dealers for re-sale to QIBs in reliance upon Rule 144A or otherwise in transactions that are exempt from, or not subject to, the registration requirements of the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will initially be issued in the form of a temporary global note (a “*Temporary Bearer Global Note*”) or, if so specified in the applicable Final Terms or Pricing Supplement, 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 such Bearer Global Notes are issued in new global note (“NGN”) form, as stated in the applicable Final Terms or Pricing Supplement, be delivered on or prior to the original Issue Date of such Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg, and

(b) if such Bearer Global Notes are not issued in NGN form, be delivered on or prior to the original Issue Date of such Tranche to a Common Depositary for Euroclear and Clearstream, Luxembourg.

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

“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 investors, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes or interest coupons with respect thereto and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Bearer Notes or interest coupons.

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

NGN Form. Where the Bearer Global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms or Pricing Supplement will indicate whether such Bearer Global Notes are intended to be held in a manner that would allow Eurosystem eligibility (though, as at the date of this Base Prospectus, Bearer Global Notes of the Issuer issued in respect of any Tranche in NGN form do not comply with certain of the conditions of the Eurosystem eligibility criteria so as to be recognised by the ECB as eligible collateral for 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 recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any time during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Temporary Bearer Global Notes. 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 Note 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 owners of beneficial 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, after the date (the “*Exchange Date*”) that begins immediately upon the expiration of a 40-day period after the later of the commencement of the offering of the applicable Tranche and such Tranche’s Issue Date, beneficial interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for: (a) beneficial interests in a Permanent Bearer Global Note of the same Series or (b) definitive Bearer Notes of the same Series with, where applicable, Coupons and Talons attached (as indicated in the applicable Final Terms or Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms or Pricing Supplement), 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 a beneficial interest 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.

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

Exchange from Global Notes to Definitive Notes. The applicable Final Terms or Pricing Supplement of a Tranche of Permanent Bearer Global Notes will specify that such Global Notes will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, Coupons and Talons attached, only upon the occurrence of an Exchange Event. For these purposes, “*Exchange Event*” means that: (a) an Event of Default (as defined in Condition 11) has occurred and is continuing with respect to the applicable Series, (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of at least 14 days (other than by reason of holiday, whether 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 (c) the Issuer has or will become subject to adverse tax consequences that would not be suffered were the Notes represented by a Permanent Bearer Global Note in definitive form and, accordingly, the Issuer has elected to request the exchange of such Permanent Bearer Global Note.

The Issuer will promptly give notice to the applicable Noteholders in accordance with Condition 15 upon the occurrence of an Exchange Event specified in clause (a) or (b) of the definition of “*Exchange Event*” in the preceding paragraph, in which event Euroclear and/or Clearstream, Luxembourg (or the Common Depositary or 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 the applicable Global Note, may give notice to the Fiscal Agent requesting exchange. In the event of the occurrence of an Exchange Event as described in clause (c) of the definition of “*Exchange Event*” in the preceding paragraph, the Issuer may give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur no later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

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

Registered Notes

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

The portion of 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 other Person acting on its behalf: (a) to Institutional Accredited Investors who execute and deliver to the Issuer an IAI Investment Letter in which they agree to purchase such Notes (or beneficial interests therein) for their own account and

not with a view to the distribution thereof, (b) to QIBs pursuant to Rule 144A or (c) in transactions that are otherwise exempt from, or not subject to, the registration requirements of the Securities Act. The Registered Notes of each Tranche sold to Institutional Accredited Investors as described in clause (a) will be represented by one or more global note(s) in registered form (each an “*IAI Global Note*”) or in definitive form (each an “*IAI Definitive Note*” and, with the IAI Global Notes, the “*IAI Notes*”) and the Registered Notes of each Tranche sold to QIBs as described in clause (b) will be represented by one or more global note(s) in registered form (each a “*Rule 144A Global Note*” and, together with the Regulation S Registered Global Notes and the IAI Global Notes, each a “*Registered Global Note*,” each Registered Global Note and Bearer Global Note being a “*Global Note*”). Unless otherwise set forth in the applicable Final Terms or Pricing Supplement, IAI Notes will be issued only in minimum denominations of US\$500,000 and integral multiples of US\$1,000 in excess thereof. IAI Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described in “Subscription and Sale and Transfer and Selling Restrictions - Transfer Restrictions.”

Registered Global Notes will either be: (a) deposited with a custodian for, and registered in the name of a nominee of, DTC or (b) deposited with: (i) a Common Depositary or (ii) if the Registered Global Notes are to be held under the “new safekeeping structure” for registered global securities that are intended to constitute eligible collateral for Eurosystem monetary policy operations (the “*NSS*”), a Common Safekeeper, in each case, for Euroclear and Clearstream, Luxembourg, and will be registered in the name of a nominee of that Common Depositary or Common Safekeeper, as specified in the applicable Final Terms or Pricing Supplement.

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 Registered Global Notes issued in respect of any Tranche are to be held under the NSS, the applicable Final Terms or Pricing Supplement will also indicate whether such Registered Global Notes are intended to be held in a manner that would allow Eurosystem eligibility (though, as at the date of this Base Prospectus, Registered Global Notes of the Issuer issued in respect of any Tranche to be held under the NSS do not comply with certain conditions of the Eurosystem eligibility criteria so as to be recognised by the ECB as eligible collateral for 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 recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any time during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for Registered Global Notes to be held under the NSS will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Payments of principal, interest and any other amount in respect of a Registered Note will, in the absence of provision to the contrary, be made in the manner provided in Condition 7 to the Person shown on the Register as the registered holder of such Registered Note as of 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.

Exchange from Global Notes to Definitive Notes. The applicable Final Terms or Pricing Supplement will specify that 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 with respect to the applicable Series, (b) in the case of Registered Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depositary for such Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act and no alternative clearing system is available, (c) in the case of Registered Notes registered in the name of a nominee for a Common Depositary or, as the case may be, Common Safekeeper 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 at least 14 days (other than by reason of holiday, whether 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 that would not be suffered were the Notes represented by the applicable Registered Global Note in definitive form and, accordingly, the Issuer has elected to request the exchange of such Registered Global Note.

The Issuer will promptly give notice to the applicable Noteholders in accordance with Condition 15 upon the occurrence of an Exchange Event specified in clause (a), (b) or (c) of the definition of “*Exchange Event*” in the preceding paragraph, in which event the applicable Clearing System(s) or any Person acting on their/its behalf (acting

on the instructions of any holder of an interest in the applicable Global Note) may give notice to the Registrar requesting exchange. In the event of the occurrence of an Exchange Event specified in clause (d) of the definition of “Exchange Event” in the preceding paragraph, the Issuer may give notice to the Registrar requesting exchange. Any such exchange shall occur no later than 45 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Beneficial interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a Person who wishes to hold: (a) such interest in another Registered Global Note other than an IAI Global Note or (b) upon the delivery of an IAI Investment Letter, an IAI Note (including an interest in an IAI Global Note). IAI Definitive Notes may, subject to compliance with all applicable restrictions and if there is a Registered Global Note for the applicable Series, be transferred to a Person who wishes to hold such Notes in the form of an interest in such Registered Global Note; *provided* that if such Registered Global Note is an IAI Global Note, such transferee shall have delivered an IAI Investment Letter. 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, the Fiscal Agent will arrange that, where a further Tranche of Notes is issued that is intended to be consolidated with, and form a single Series with, an existing Tranche of Notes on a date after the Issue Date of the further Tranche, the Notes of such further Tranche will, as applicable, be assigned an ISIN, Common Code, CUSIP, CINS, CFI and/or FISN number that are different from the ISIN, Common Code, CUSIP, CINS, CFI and/or FISN (as applicable) assigned to Notes of any other Tranche of the same Series until such time as such Tranches are consolidated and form a single Series, which shall not be prior to the expiration of any applicable distribution compliance period (as defined in Regulation S) applicable to the Notes of such further Tranche.

Repayment of the principal of 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 such Global Note (or any part thereof) has become due and repayable in accordance with the Conditions of the applicable Series and payment in full of the amount due has not been made in accordance with the provisions of such Global Note, then, from 8:00 p.m. (London time) on the day immediately following the applicable due date, holders of beneficial interests in such Global Note credited to their accounts with a Clearing System will, on the basis of statements of account provided by such Clearing System, become entitled to proceed directly against the Issuer on and subject to the terms of the deed of covenant dated 26 April 2019 and made by the Issuer (such deed as amended, restated or supplemented from time to time, the “*Deed of Covenant*”).

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

FORM OF APPLICABLE FINAL TERMS/PRICING SUPPLEMENT

Set out below is the form of Final Terms or Pricing Supplement that, subject (for any transaction not listed on Euronext Dublin) to any necessary amendment, will be completed for each Tranche of Notes. Text in this section appearing in italics does not form part of the Final Terms or Pricing Supplement, as the case may be, but denotes directions for completing the Final Terms or Pricing Supplement, as the case may be.

[NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW. THE CENTRAL BANK OF IRELAND HAS NEITHER APPROVED NOR REVIEWED THIS PRICING SUPPLEMENT.]¹

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS]

The Notes [(and beneficial interests therein)] are not intended to be offered, sold or otherwise made available to (and should not be offered, sold or otherwise made available to) any retail investor in the European Economic Area (each an “**EEA Retail Investor**”). For these purposes: (a) a retail investor means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”), (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the “**Prospectus Directive**”), and (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes [(or beneficial interests therein)] to be offered so as to enable an investor to decide to purchase or subscribe such Notes [(or beneficial interests therein)]. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes [(or beneficial interests therein)] or otherwise making them available to EEA Retail Investors has been prepared and, therefore, offering or selling the Notes [(or beneficial interests therein)] or otherwise making them available to any EEA Retail Investor might be unlawful under the PRIIPs Regulation.²

[MIFID II PRODUCT GOVERNANCE / ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS ONLY TARGET MARKET]

Solely for the purposes of [each][the] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (a) the target market for the Notes [(and beneficial interests therein)] is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, “**MiFID II**”)] [MiFID II], and (b) all channels for distribution of the Notes [(and beneficial interests therein)] to eligible counterparties and professional clients are appropriate. Any Person subsequently offering, selling or recommending the Notes [(or beneficial interests therein)] (a “**distributor**”) should take into consideration the manufacturer[’s][s’] target market assessment; *however*, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes [(or beneficial interests therein)] (by either adopting or refining the manufacturer[’s][s’] target market assessment) and determining appropriate distribution channels.³

[NOTIFICATION UNDER SECTION 309B(1)(c) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (AS AMENDED, THE “SFA”)]

In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined the classification of the Notes [(and beneficial interests therein)] to be capital markets products other than: (a) prescribed capital markets products (as defined in the CMP Regulations 2018) and (b) Excluded Investment Products (as defined in the Monetary

¹ *Include for Notes having a maturity of less than one year or which 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 where in each case a Pricing Supplement is to be completed in place of Final Terms.*

² *Only applicable where paragraph 8(f) of Part B of the Final Terms is marked as “Applicable.”*

³ *Delete where: (a) none of the Managers/Dealers are MiFID II investment firms that are manufacturers pursuant to MiFID II for the purposes of the offering of the relevant Tranche of Notes, or revise where the relevant manufacturers have determined that an alternative target market is appropriate for the offering of the relevant Tranche of Notes (or beneficial interests therein), or (b) this matter is already addressed in the issue-specific prospectus for the issue of Notes. If this paragraph is included but the paragraph regarding the PRIIPs Regulation is not included, then include the definition of MiFID II in this paragraph.*

[FINAL TERMS][PRICING SUPPLEMENT]

[Date]

TÜRKİYE GARANTİ BANKASI A.Ş.

Legal Entity Identifier (LEI): 5493002XSS7K7RHN1V37

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] (the “Notes”)
under the US\$6,000,000,000
Global Medium Term Note Programme (the “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 26 April 2019 [and the supplement[s] to it dated [date] [and [date]]], which [together] constitute[s] a base prospectus [for the purposes of the Prospectus Directive [(Directive 2003/71/EC, as amended or superseded)]]⁵ (the “**Base Prospectus**”). This document constitutes the [Final Terms][Pricing Supplement] of the Notes described herein [for the purposes of the Prospectus Directive]⁵ 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][this Pricing Supplement] and the Base Prospectus. The Base Prospectus [and these Final Terms/Pricing Supplement] [has/have] been published on the Issuer’s website ([insert website address]).

[The following alternative language for the above paragraph applies if the first Tranche of Notes of a Series that is being increased was issued under a base prospectus with an earlier date.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the base prospectus dated [original date] [and the supplement[s] to it dated [date] [and [date]]] that [is][are] incorporated by reference in the base prospectus dated [date of previous base prospectus]. This document constitutes the [Final Terms][Pricing Supplement] of the Notes described herein [for the purposes of the Prospectus Directive [(Directive 2003/71/EC, as amended or superseded)]]⁵ and must be read in conjunction with the base prospectus dated 26 April 2019 [and the supplement[s] to it dated [date] [and [date]]], which [together] constitute[s] a base prospectus [for the purposes of the Prospectus Directive]⁵ (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][this Pricing Supplement] and the Base Prospectus. The Base Prospectus [and these Final Terms/this Pricing Supplement] [has/have] been published on the Issuer’s website ([insert website address]).]

[The following alternative language applies in the case of Notes having a maturity of less than one year or that are neither admitted to trading on a regulated market in the EEA nor offered in the European Economic Area in circumstances in which a prospectus is required to be published under the Prospectus Directive.]¹

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Conditions**”) set forth in the base prospectus dated [[original date] [and the supplement[s] to it dated [date] [and [date]]] which are incorporated by reference in the base prospectus dated] 26 April 2019 [and the supplement[s] to it dated [date] [and [date]]] (the “**Base Prospectus**”). This document constitutes the Pricing Supplement for the Notes described herein 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 this Pricing Supplement and the Base Prospectus. The

⁴ Legend to be included on front of the Final Terms if the Notes (and, if applicable, beneficial interests therein): (a) do not constitute prescribed capital markets products as defined under the CMP Regulations 2018 and (b) will be offered in Singapore.

⁵ 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.

Base Prospectus has been published on the Issuer's website (<https://www.garantiinvestorrelations.com/en/debt-information/GMTN/GMTN/48/2723/0>).

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

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.]⁶

1. Issuer: Türkiye Garanti Bankası A.Ş.
2. (a) Series Number: []
 (b) Tranche Number: []
 (c) Date on which the Notes will be consolidated and form a single Series: [The Notes will be consolidated and form a single Series with *[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].”)

⁶ Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000, as amended, unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent.

- (b) Calculation Amount [for Notes in [] definitive form (in relation to the calculation of interest for Notes in global form, see the Conditions)]:
- (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]]⁷
9. Interest Basis: [[] per cent. per annum Fixed Rate]
- [[SONIA][] [month] [[currency]
[LIBOR/EURIBOR/TRLIBOR/ROBOR/PRIBOR/HIBOR/SIBOR/NIBOR/WIBOR/CNH HIBOR]] +/- []
per cent. per annum Floating Rate]
- [Zero Coupon]
- (see further particulars in paragraph [14]/[15]/[16] below)*
10. Redemption 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 [] [Not Applicable]

⁷ 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.

Notes obtained:

(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, then delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [] per cent. per annum payable in arrear on [the/each] Interest Payment Date
- (b) Interest Payment Date(s): [] in each year up to and including the Maturity Date/[specify other]⁸
- (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: (i) 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 (ii) such payment dates are not otherwise to be subject to adjustment by reference to any other Business Day Convention.)*
- (c) Fixed Coupon Amount(s) [for Notes in definitive form (in relation to Notes in global form, see the Conditions)]: [[] per Calculation Amount] [Not Applicable]
- (Applicable only to Notes initially issued in definitive form. Not applicable to Renminbi-denominated Fixed Rate Notes and Modified Fixed Rate Notes where Interest Periods and Interest Amounts are subject to adjustment)*
- (d) Broken Amount(s) [for Notes in definitive form (in relation to Notes in global form, see the Conditions)]: [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []][Not Applicable]
- (Applicable only to Notes initially issued in definitive form. Not applicable to Renminbi-denominated Fixed Rate Notes and Modified Fixed Rate Notes where Interest Periods and Interest Amounts are subject to adjustment)*

⁸ For certain Renminbi-denominated Fixed Rate Notes, Interest Periods and Interest Amounts are subject to adjustment and the following proviso should be added: “; provided that if any Interest Payment Date falls on a day that is not a Business Day, then such Interest Payment Date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day.”

- (e) [Day Count Fraction: [30/360][Actual/Actual (ICMA)]
[Actual/365 (Fixed)]]⁹
- (Delete this sub-paragraph in the case of Modified Fixed Rate Notes)*
- (f) [Determination Date(s): [[] in each year][Not Applicable]]
- (Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*
- (Delete this sub-paragraph in the case of Modified Fixed Rate Notes)*
- (g) Modified Fixed Rate Notes: [Applicable][Not Applicable]
- (Modified Fixed Rate Notes are Fixed Rate Notes: (i) the terms of which provide for Interest Periods and Interest Amounts to be subject to adjustment or (ii) for which Interest Periods and Interest Amounts are not subject to adjustment but a specified Payment Business Day Convention is to apply to any date for payment that is not a Payment Business Day. If not applicable, then 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)]

⁹ Applicable to Renminbi-denominated Fixed Rate Notes.

- (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, then delete the remaining sub-paragraphs of this paragraph)*
- (a) Specified Period(s)/Specified Interest Payment Dates: [] [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]¹⁰
- (Complete unless paragraph (m) below is applicable. See note to paragraph (a) above for guidance)*
- (c) Specified Business Centre(s): [] [Not Applicable]¹¹
- (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 Fiscal Agent): [] [Not Applicable]

¹⁰ Only not applicable in the case of Modified Floating Rate Notes.

¹¹ Only not applicable in the case of Modified Floating Rate Notes.

- (f) Screen Rate Determination: [Applicable][Not Applicable]
- Reference Rate: [SONIA] [[●] month [[currency] LIBOR/EURIBOR/TRLIBOR/ROBOR/PRIBOR/HIBOR /SIBOR/NIBOR/WIBOR/CNH HIBOR]]
 - Specified Time: []

(11:00 a.m. in the case of LIBOR, SONIA, 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 noon in the case of NIBOR)
 - Relevant Financial Centre: [London] [Brussels] [İstanbul] [Bucharest] [Prague] [Hong Kong] [Singapore] [Oslo] [Warsaw] []
 - 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, the second Hong Kong business day prior to the start of each Interest Period if CNH HIBOR and the fifth (or other number specified under Observation Look-Back Period below) London Banking Day prior to the end of each Interest Period if SONIA.)
 - Relevant Screen Page: []

(In the case of EURIBOR, if not Reuters EURIBOR01, then ensure it is a page that shows a composite rate or amend the fallback provisions appropriately)
 - Observation Look-Back Period: [[] London Banking Day[s]][Not Applicable]¹²

(N.B. A minimum of five London Banking Days should be specified unless otherwise agreed with the Fiscal Agent (or such other Person specified in the applicable Final Terms or Pricing Supplement as the party responsible for calculating the Rate of Interest))

¹² Only relevant for SONIA Reference Rate

(g)	ISDA Determination:	[Applicable][Not Applicable]
	• Floating Rate Option:	[]
	• Designated Maturity:	[]
	• Reset Date:	[]
	<i>(In the case of a LIBOR or EURIBOR-based option, the first day of the Interest Period)</i>	
	<i>(N.B. The fall-back provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending upon market circumstances, might not be available at the relevant time)</i>	
(h)	Linear Interpolation:	[Not Applicable][Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (<i>specify for each short or long interest period</i>)]
(i)	Margin(s):	[+/-] [] <i>per cent. per annum</i>
(j)	Minimum Rate of Interest:	[[] <i>per cent. per annum</i>][Not Applicable]
(k)	Maximum Rate of Interest:	[[] <i>per cent. per annum</i>][Not Applicable]
(l)	Day Count Fraction:	[Actual/Actual (ICMA)] [Actual/Actual (ISDA)][Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)]
(m)	Modified Floating Rate Notes:	[Applicable][Not Applicable]
	<i>(If not applicable, then delete the remaining sub-paragraphs of this paragraph)</i>	
	(i) Payment Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
	(ii) Specified Financial Centre(s):	[][Not Applicable]
16.	Zero Coupon Note Provisions:	[Applicable][Not Applicable]
	<i>(If not applicable, then delete the remaining sub-paragraphs of this paragraph)</i>	
	(a) Accrual Yield:	[] <i>per cent. per annum</i>
	(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, then delete the remaining subparagraphs 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 five clearing system business days' notice for a call) and custodians, as well as any other notice requirements that may apply, for example, as between the Issuer and the Fiscal Agent)

19. Investor Put: [Applicable][Not Applicable]

(If not applicable, then delete the remaining subparagraphs of this paragraph)

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

- (b) Optional Redemption Amount: [] per Calculation Amount

- (c) Notice periods: Minimum period: [] days
Maximum period: [] days

(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which, in the case of Euroclear and Clearstream, Luxembourg, require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements that

may apply, for example, as between the Issuer and the 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 that is exchangeable for Definitive Notes only upon the occurrence of an Exchange Event]

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

[Permanent Bearer Global Note exchangeable for Definitive Notes only upon the occurrence of an Exchange Event]

[Definitive Bearer Notes]

[Bearer Notes shall not be physically delivered: (i) in Belgium, except to a clearing system, a depositary or other institution for the purpose of their 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 option for an issue of Notes to be represented on issue by a Temporary Bearer Global Note exchangeable for Definitive Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: “[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000].”)

[Registered Notes:]

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

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

[Definitive Regulation S Registered Note]

[Rule 144A Definitive Registered Note]

[IAI Definitive Notes]

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

(N.B. In the case of an issue with more than one Global Note or a combination of one or more Bearer Global Note(s) and IAI Definitive Notes, specify the nominal amounts of each Global Note and, if applicable, the aggregate nominal amount of all IAI Definitive 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 subparagraph 15(c) relates. Delete this paragraph if subparagraphs 14(g)(vi) or 15(m)(ii) are completed)

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

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

PROVISIONS APPLICABLE TO TURKISH LIRA NOTES

25. USD Payment Election:

[Applicable][Not Applicable]

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

PROVISIONS APPLICABLE TO RMB NOTES

26. RMB Currency Event:

[Applicable][Not Applicable]

(If not applicable, then delete the remaining subparagraphs of this paragraph.)

(a) Party responsible for calculating the Spot Rate:

[] (the “**Calculation Agent**”)

(b) RMB Settlement Centre(s):

[] [Not Applicable]

[THIRD PARTY INFORMATION]

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

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

By:

By:

Duly authorised

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (a) Listing and admission to trading: [Application [has been/is expected to 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 Regulated Market of the Irish Stock Exchange plc trading as Euronext Dublin with effect from [●]; *however*, no assurance can be given that such application will be accepted.][Not Applicable]

(When documenting an issue of Notes that is to be consolidated and to form a single Series with a previous listed 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: [Not Applicable][The Notes [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

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

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

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

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

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

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

[Save for any fees [of [insert relevant fee disclosure]] 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 [its][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 the Prospectus Directive.)]

4. YIELD (Fixed Rate Notes only)

Indication of yield: [] per cent. per annum

The yield is calculated as of 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 [[SONIA] [currency] LIBOR/EURIBOR/TRLIBOR/ROBOR/PRIBOR/HIBOR/SIBOR/NIBOR/WIBOR/CNH HIBOR] rates can be obtained from [Reuters] at [].

6. BENCHMARKS REGULATION (Floating Rate Notes only)

The below is provided in connection with the EU Benchmarks Regulation (Regulation (EU) 2016/1011) of 8 June 2016 (the “**Benchmarks Regulation**”).

- (a) Name of “benchmark administrator” as described in the Benchmarks Regulation: [[LIBOR/EURIBOR/TRLIBOR/HIBOR/ROBOR/PRIBOR/SIBOR/NIBOR/WIBOR/CNH HIBOR] is provided by [administrator legal name]
- (b) Such “benchmark administrator” appears on the register of administrators maintained pursuant to Article 36 of the Benchmarks Regulation: [As of the date hereof, [administrator legal name] [appears]/[does not appear] in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of the Benchmarks Regulation. [As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply such that such benchmark administrator is not currently required to obtain authorisation or registration (or, if located outside of the European Union, recognition, endorsement or equivalence.)][As far as the Issuer is aware, The Bank of England as benchmark administrator of SONIA does not fall within the scope of the Benchmark Regulation by virtue of Article 2 of that regulation and is not required to appear on the register of administrators]

maintained pursuant to Article 36 of the Benchmarks Regulation.][Not Applicable]

7. OPERATIONAL INFORMATION

- (a) ISIN: [] [Not Applicable]
- (b) Common Code: [] [Not Applicable]
- (c) CUSIP: [] [Not Applicable]
- (d) CINS: [] [Not Applicable]
- (e) CFI: [See/[include code], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN][Not Applicable][Not Available]
- (f) FISN: [See/[include code], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN][Not Applicable][Not Available]
- (If the CFI and/or FISN is not required or requested as of the completion of the Final Terms, then it/they should be specified to be “Not Applicable,” but if it/they is/are not available as of the completion of the Final Terms, then it/they should be specified to be “Not Available.”)*
- (g) Any clearing system(s) other than Depository Trust Company, Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (h) Delivery: Delivery [against/free of] payment
- (i) Name(s) and address(s) of additional Paying Agent(s) (if any): [] [Not Applicable]
- (j) 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]
- (k) Intended to be held in a manner that would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)][include this text for Registered Notes that are to be held under the NSS] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or

all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as “no” at the date of [these Final Terms/this Pricing Supplement], 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.]

8. DISTRIBUTION

- | | | |
|-----|-----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) | Method of distribution: | [Syndicated/Non-syndicated] |
| (b) | If syndicated, names of Managers: | [Not Applicable/give name(s)] |
| (c) | Stabilisation Manager(s) (if any): | [Not Applicable/give name(s)] |
| (d) | If non-syndicated, name of relevant Dealer: | [Not Applicable/give name] |
| (e) | U.S. selling restrictions: | [Reg. S Compliance Category 2] [Rule 144A]
[Section 4(a)(2)][Rules identical to those provided in [TEFRA C][TEFRA D] applicable][TEFRA not applicable] |
| (f) | Prohibition of sales to EEA Retail Investors: | [Applicable][Not Applicable]

<i>(If the Notes clearly do not constitute “packaged” products, then “Not Applicable” should be specified. If the Notes might constitute “packaged” products and no key information document will be prepared, then “Applicable” should be specified.)</i> |
| (g) | Prohibition of sales to Belgian Consumers: | [Applicable][Not Applicable]

<i>(N.B. advice should be taken from Belgian counsel before disapplying this selling restriction.)</i> |

9. 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 is the text of the Terms and Conditions of the Notes that, unless otherwise agreed by the Issuer and the relevant Dealer(s) or investor(s) at the time of issue, will be incorporated by reference into, or be 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 Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of Applicable Final Terms/Pricing Supplement” for a description of the content of the Final Terms or Pricing Supplement, which will specify which of such terms are to apply in relation to the relevant Notes.

Terms and Conditions of the Notes

This Note is one of a Series (as defined below) of Notes issued by Türkiye Garanti 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) issued in exchange for a Global Note in bearer form (a “**Bearer Global Note**”); and
- (d) any definitive Registered Notes (as defined in Condition 1.1) whether or not issued in exchange for a Global Note in registered form (a “**Registered Global Note**”).

The Notes and the Coupons (as defined below) have the benefit of an amended and restated agency agreement dated 26 April 2019 (as further amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) and made among the Issuer, The Bank of New York Mellon, London Branch as fiscal and principal paying agent and exchange agent (the “**Fiscal Agent**” and the “**Exchange Agent**,” which expression shall, in each case, include any successor fiscal agent and exchange agent) and the other paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**,” which expression shall include any additional or successor paying agents), The Bank of New York Mellon, New York Branch as transfer agent (together with the Registrar (as defined below), the “**Transfer Agents**,” which expression shall include any additional or successor transfer agent) and The Bank of New York Mellon SA/NV, Luxembourg Branch, as registrar (the “**Registrar**,” which expression shall include any successor registrar).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms or the Pricing Supplement, as the case may be, attached to or endorsed on this Note and complete these Terms and Conditions (these “**Conditions**”). References to the “**applicable Final Terms**” or “**Pricing Supplement**” are, unless otherwise stated, to Part A of the Final Terms or the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note. The expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended or superseded) and includes any relevant implementing measure in a relevant Member State of the European Economic Area (the “**EEA**”).

If so specified in the applicable Final Terms or Pricing Supplement, the Issuer will also appoint a calculation agent with respect to a Series of Notes (the “**Calculation Agent**,” which expression shall include any successor calculation agent and any other calculation agent specified in such Final Terms or Pricing Supplement).

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

Any reference to a “**Noteholder**” or “**holder**” in relation to any Note shall mean (in the case of a Bearer Note) the holder of such Note and (in the case of a Registered Note) the Person(s) in whose name such Note is registered, and

shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to a **“Couponholder”** shall mean the holder of a Coupon and shall, unless the context otherwise requires, include the holder of the related Talons.

As used herein, **“Tranche”** means Notes that are identical in all respects (including as to the listing and admission to trading) and **“Series”** means a Tranche of Notes together with any further Tranche or Tranches of Notes: (a) that are expressed in the applicable Final Terms or Pricing Supplement 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 (each an **“Issue Date”**) 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 or Pricing Supplement.

The Noteholders and the Couponholders are entitled to the benefit of a deed of covenant dated 26 April 2019 and made by the Issuer (such deed as amended, restated and/or supplemented from time to time, the **“Deed of Covenant”**). The original of the Deed of Covenant is held by the common depositary for Euroclear Bank SA/NV (**“Euroclear”**) and Clearstream Banking S.A. (**“Clearstream, Luxembourg”**).

Copies of the Agency Agreement, a deed poll dated 26 April 2019 and made by the Issuer (such deed poll as amended, restated and/or supplemented from time to time, the **“Deed Poll”**) 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 plc trading as Euronext Dublin (**“Euronext Dublin”**), then the applicable Final Terms or Pricing Supplement will be published on the Issuer’s website (as of the date hereof, at: <https://www.garantiinvestorrelations.com/en/debt-information/GMTN/GMTN/48/2723/0>). If this Note is neither admitted to trading on a regulated market in the EEA nor offered in the EEA in circumstances in which a prospectus is required to be published under the Prospectus Directive, then the applicable Final Terms or Pricing Supplement 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 or Pricing Supplement that are applicable to them. The statements in these 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 or Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms or Pricing Supplement, the applicable Final Terms or Pricing Supplement, as the case may be, shall prevail.

In these Conditions: (a) **“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, and (b) **“Renminbi”** and **“RMB”** refer to the lawful currency of the People’s Republic of China (the **“PRC”**), which (for the purposes of these Conditions) excludes the Hong Kong Special Administrative Region of the PRC, the Macao Special Administration Region of the PRC and Taiwan.

For the purposes of these Conditions, the term **“law”** shall (unless the context otherwise requires) be deemed to include legislation, regulations and other legal requirements.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in bearer form (**“Bearer Notes”**) or registered form (**“Registered Notes”**) as specified in the applicable Final Terms or Pricing Supplement and serially numbered in the Specified Currency and Specified Denomination, in each case, as specified in the applicable Final Terms or Pricing Supplement. 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 on Debt Instruments No. VII-128.8 issued by 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 or Pricing Supplement.

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

1.2 Title

Subject as set out below, title to the Bearer Notes and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfer in accordance with the provisions of the Agency Agreement. The Issuer and each of the Agents 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, subject to the following paragraph, in the case of a Registered Global Note, registered in the name of a nominee for a common depository or a common safekeeper, as the case may be, for Euroclear and/or Clearstream, Luxembourg, each Person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the 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 or proven error) shall, upon receipt of such certificate or other document by the Issuer or an Agent, be treated by the Issuer or such Agent (as applicable) as if such Person were the holder of such nominal amount of such Notes (and the bearer or registered holder of such Global Note shall be deemed not to be the holder) for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and each Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note, and the expressions “Noteholder” and “holder” and related expressions shall be construed accordingly.

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

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

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of Interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by direct and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such beneficial interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for a Note of the same Series in definitive form or for a beneficial interest in another Registered Global Note of the same Series, in each case, only in the Specified Denomination(s) (and provided that the aggregate nominal amount of any balance of such beneficial interest of the transferor not so transferred is an amount of at least the Specified Denomination) and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement, the relevant Registered Global Note and/or 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 or Pricing Supplement) (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 such Registered Note for registration of the transfer of such Registered Note (or of the relevant part of such 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 deliver 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(s) making the request. Any such transfer will be subject to such additional reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 10 to the Agency Agreement).

Subject as provided in the preceding paragraph, 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), authenticate (or procure the authentication of) and: (x) deliver, or procure the delivery of, at its specified office to the transferee or (y) if so requested by the specified transferee (and then at the risk of such transferee), send by uninsured mail, to such address as such 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 then at the risk of such 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 charged by the Issuer or any of the Agents for any costs and expenses of effecting any registration of transfer of the Notes in the Register (as defined in Condition 7.4 below) as provided in this Condition 2, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer and/or any Agent may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration and/or transfer.

3. STATUS OF THE NOTES

The Notes and any related 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 Note of a Series 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 of such Series; or
- (d) such Security Interest is provided as is approved by an Extraordinary Resolution of the Noteholders of such Series.

Nothing in this Condition 4.1 shall prevent the Issuer from creating or permitting to subsist any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof that is created pursuant to: (i) a bond, note or other indebtedness whereby the payment obligations are secured by a segregated pool of assets (whether held by the Issuer or any third party guarantor) (any such bond, note or other indebtedness, a **“Covered Bond”**), or (ii) any securitisation of receivables or other payment rights, asset-backed financing or similar financing structure (created in accordance with normal market practice) and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest are to be discharged principally from such assets or revenues (or in the case of Direct Recourse Securities, by direct unsecured recourse to the Issuer); *provided* that the aggregate 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 all 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 that (with the consent of the issuer of the indebtedness) are for the time being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other organised securities market or any loan disbursed to the Issuer as a borrower under a loan participation note or similar transaction, where such securities or loans have an initial maturity at issue or disbursement in excess of 365 days, and (b) any guarantee or indemnity of any such indebtedness.

5. COVENANTS

5.1 Maintenance of Authorisations

So long as any Note 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, that 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) the conduct by it of the Permitted Business, save for any consents, permissions, licences,

approvals, authorisations, registrations, recordings and filings that are immaterial in the conduct by the Issuer 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 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, 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 120 days after the end of the first six months of each financial year of the Issuer, English language copies of its unaudited (or, if published, audited) consolidated financial statements for such six month period, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the corresponding period of the previous financial year, and all such interim financial statements of the Issuer shall be accompanied by the 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.

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

“**Person**” means any individual, company, unincorporated association, government, state agency, international organisation or other entity.

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

6. INTEREST

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

6.1 Interest on Fixed Rate Notes

This Condition 6.1 applies to Fixed Rate Notes only. The applicable Final Terms or Pricing Supplement, as the case may be, 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 or Pricing Supplement specifies 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 applicable Rate(s) of Interest. Interest on Fixed Rate Notes will, subject as provided in these Conditions, be payable in arrear on the applicable 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 or Pricing Supplement, 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 or Pricing Supplement, 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 or Pricing Supplement, interest shall be calculated in respect of any period by applying the then-applicable Rate of Interest to:

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

and, in each case, multiplying such sum by the applicable Day Count Fraction. The resultant figure (including the application of any Fixed Coupon Amount or Broken Amount to the Calculation Amount in the case of Fixed Rate Notes in definitive form) shall be rounded 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 applicable market convention). Where the Specified Denomination of a Fixed Rate Note in definitive form is an amount other 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 or Pricing Supplement, and Interest Periods and Interest Amounts are specified as being subject to adjustment, then a Business Day Convention shall also be specified in the applicable Final Terms or Pricing Supplement and (where applicable) Interest Payment Dates shall be postponed or brought forward, as the case may be, in accordance with Condition 6.6(b) and the relevant Interest Period and Interest Amount payable on the Interest Payment Date for such Interest Period will be adjusted accordingly.

6.2 Interest on Floating Rate Notes

This Condition 6.2 applies to Floating Rate Notes only. The applicable Final Terms or Pricing Supplement, as the case may be, 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 or Pricing Supplement identifies 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 or Pricing Supplement 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 or Pricing Supplement will also specify the applicable Reference Rate, Specified Time, Relevant Financial Centre, Interest Determination Date(s) and Relevant Screen Page.

(a) **Interest Payment Dates**

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

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

Such interest shall 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 shall be determined in the manner specified in the applicable Final Terms or Pricing Supplement.

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

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

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

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

(ii) Screen Rate Determination for Floating Rate Notes (other than for SONIA)

Where “Screen Rate Determination” is specified in the applicable Final Terms or Pricing Supplement for a Tranche as the manner in which the Rate of Interest for such Tranche is to be determined and the Reference Rate is one of LIBOR, EURIBOR, TRLIBOR, ROBOR, PRIBOR, HIBOR, SIBOR, NIBOR, WIBOR or CNH HIBOR or any other Reference Rate other than SONIA, the Rate of Interest for such Tranche 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 or Pricing Supplement) that appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service that displays the information) as of 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 or Pricing Supplement) the Margin (if any), all as determined by the Fiscal Agent or the Calculation Agent, as applicable. If five or more of such offered quotations are available on the Relevant Screen Page, then the highest (or, if there is more than one such highest quotation, then only one of such quotations) and the lowest (or, if there is more than one such lowest quotation, then only one of such quotations) shall be disregarded by the Fiscal Agent or the Calculation Agent, as applicable, for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

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

(iii) Screen Rate Determination for Floating Rate Notes that reference SONIA

Where “Screen Rate Determination” is specified in the applicable Final Terms or Pricing Supplement for a Tranche as the manner in which the Rate of Interest for such Tranche is to be determined and the Reference Rate is specified in the applicable Final Terms as being “SONIA,” then:

- (A) the Rate of Interest for each Interest Accrual Period shall, subject as provided below, be Compounded Daily SONIA plus or minus (as indicated in the applicable Final Terms) the Margin.
- (B) If, in respect of any London Banking Day in the relevant Observation Period, the applicable SONIA Reference Rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, then the SONIA Reference Rate in respect of such London Banking Day shall be: (1) the Bank of England’s Bank Rate (the “**Bank Rate**”) prevailing at the close of business on such London Banking Day *plus* (2) the mean of the spread of the SONIA Reference Rate to the Bank Rate over the previous five London Banking Days on which a SONIA Reference Rate has been published, excluding the highest spread (or, if there are more than one highest spread, then only one of those highest spreads) and the lowest spread (or, if there are more than one lowest spread, then only one of those lowest spreads).
- (C) Notwithstanding clause (B) of this Condition 6.2(b)(iii), in the event the Bank of England publishes guidance as to: (1) how the SONIA Reference Rate is to be determined or (2) any rate that is to replace the SONIA Reference Rate, then the Calculation Agent shall, to the extent that is reasonably practicable and as set forth

in a direction from the Issuer in writing, follow such guidance in order to determine SONIA for purposes of the Notes and for so long as the SONIA Reference Rate is not available or has not been published by the relevant authorised distributors.

- (D) If, on any Interest Determination Date, the Rate of Interest cannot be determined by reference to any of clauses (A) to (C) of this Condition 6.2(b)(iii), then the Rate of Interest for the relevant Interest Accrual Period shall be: (1) the Rate of Interest determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period) or (2) if there is no such preceding Interest Determination Date, the initial Rate of Interest that would have been applicable to such Notes for the first scheduled Interest Period had the Notes been in issue for a period equal in duration to the first scheduled Interest Period but ending on (and excluding) the Interest Commencement Date (and applying the Margin and, if applicable, any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first scheduled Interest Period).
- (E) If the Notes become due and payable in accordance with Condition 11, then the final Rate of Interest shall be calculated for the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the date on which the Notes become so due and payable, and such Rate of Interest shall continue to apply to the Notes for so long as interest continues to accrue thereon as provided in Condition 6.5.
- (F) As used in this Condition 6.2(b)(iii):

“**Calculation Agent**” means the Fiscal Agent or such other entity specified in the applicable Final Terms as the Person responsible for the calculation of the Rate(s) of Interest and the Interest Amount(s) or such other amounts as may be specified in the applicable Final Terms.

“**Compounded Daily SONIA**” means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment during the Observation Period corresponding to such Interest Accrual Period (with the daily SONIA rate as reference rate for the calculation of interest) and will be calculated by the Calculation Agent on the relevant Interest Determination Date, as follows, and the resulting percentage shall be rounded if necessary to the fifth decimal place (with .000005 being rounded upwards),

where:

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{SONIA_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

“**d**” is the number of calendar days in the relevant Interest Accrual Period;

“**do**” is the number of London Banking Days in the relevant Interest Accrual Period;

“**i**” is a series of whole numbers from one to do, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Accrual Period;

“Interest Accrual Period” means: (a) each Interest Period and (b) any other Relevant Period;

“London Banking Day” or **“LBD”** means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

“ni”, for any London Banking Day **“i”**, means the number of calendar days from and including such London Banking Day **“i”** up to but excluding the following London Banking Day;

“Observation Look-Back Period” is as specified in the applicable Final Terms;

“Observation Period” means the period from (and including) the date falling **“p”** London Banking Days prior to the first day of the relevant Interest Accrual Period to (but excluding) the date falling **“p”** London Banking Days prior to the Interest Payment Date for such Interest Accrual Period, or such other date on which the relevant payment of interest falls due;

“p” is the number of London Banking Days included in the Observation Look-Back Period, as specified in the applicable Final Terms;

“SONIA Reference Rate”, in respect of any London Banking Day, is a reference rate equal to the daily Sterling Overnight Index Average (**“SONIA”**) rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors, in each case on the London Banking Day immediately following such London Banking Day; and

“SONIAi-pLBD” means, in respect of any London Banking Day falling in the relevant Observation Period, the SONIA Reference Rate for the London Banking Day falling **“p”** London Banking Days prior to the relevant London Banking Day **“i”**.

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

If the applicable Final Terms or Pricing Supplement for a Tranche of Floating Rate Notes 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 Condition 6.2(b) is less than such Minimum Rate of Interest, the Rate of Interest for such Tranche for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms or Pricing Supplement for a Tranche of Floating Rate Notes 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 Condition 6.2(b) is greater than such Maximum Rate of Interest, the Rate of Interest for such Tranche for such Interest Period shall be such Maximum Rate of Interest.

A Final Terms or a Pricing Supplement may specify both a Minimum Rate of Interest and a Maximum Rate of Interest for a Tranche. Unless otherwise stated in the applicable Final Terms or Pricing Supplement, 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 or the Calculation Agent, as applicable, will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period (or any other relevant period).

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is an amount other 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 or Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Fiscal Agent or the Calculation Agent, as applicable, by straight line linear interpolation by reference to two rates based upon the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms or Pricing Supplement) or the relevant Floating Rate Option (where “ISDA Determination” is specified as applicable in the applicable Final Terms or Pricing Supplement), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period; *provided* that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Fiscal Agent or the Calculation Agent, as applicable, shall determine such rate at such time and by reference to such sources as the Issuer, in consultation with an independent adviser acting in good faith and in a commercially reasonable manner as an expert appointed by the Issuer in its reasonable discretion, 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 in respect of which Interest Periods and Interest Amounts are specified in the applicable Final Terms or Pricing Supplement as being subject to adjustment, the Fiscal Agent or the Calculation Agent, as applicable, will cause: (a) to be notified to the Issuer and any stock exchange on which the relevant Notes are for the time being listed: (i) each Interest Amount for each Interest Period and the relevant Interest Payment Date and (ii) in the case of Floating Rate Notes, the Rate of Interest, and (b) notice thereof to be published in accordance with Condition 15, in each case, as soon as possible after their determination but in no event later than the fourth London Business Day thereafter (or, in the case of Notes where the applicable Final Terms specify the Reference Rate as being SONIA, no later than the second London Banking 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 (if any) on which the relevant Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

6.4 **Certificates to be Final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6 and Condition 7.11, 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 upon 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 and duties 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 or Pricing Supplement:
 - (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, then 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 or Pricing Supplement) 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, then the sum of:
 - (1) 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
 - (2) 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 or Pricing Supplement, then the number of days in the Interest Period (or other Relevant Period) divided by 360, calculated on a formula basis as follows:

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

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

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

where:

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

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

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

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

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

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

- (iii) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms or Pricing Supplement, the actual number of days in the Interest Period (or other Relevant Period) 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 or Pricing Supplement, the actual number of days in the Interest Period (or other Relevant Period) divided by 365;
- (v) if “Actual/365 (Sterling)” is specified in the applicable Final Terms or Pricing Supplement, the actual number of days in the Interest Period (or other Relevant Period) 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 or Pricing Supplement, the actual number of days in the Interest Period (or other Relevant Period) divided by 360;
- (vii) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms or Pricing Supplement, then the number of days in the Interest Period (or other Relevant Period) divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

(b) Business Day Convention

If a Business Day Convention is specified in the applicable Final Terms or Pricing Supplement 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 that 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 that is a Business Day unless it would thereby fall into the next calendar month, in which event: (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Interest Payment Date occurred;

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

6.7 Benchmark Discontinuation – Reference Rate Replacement

(a) *Independent Adviser*

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part(s) thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 6.7(b)) and, in each case, an Adjustment Spread, if any (in accordance with Condition 6.7(c)) and any other required Benchmark Amendments (in accordance with Condition 6.7(d)).

An Independent Adviser appointed pursuant to this Condition 6.7 shall act in good faith and in a commercially reasonable manner and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Issuer, the Fiscal Agent, the Paying Agents, the Noteholders or the Couponholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 6.7.

(b) *Successor Rate or Alternative Rate*

Notwithstanding the provisions of Condition 6.2(b), if the Issuer, following consultation with an Independent Adviser pursuant to Condition 6.7(a) and acting in good faith and in a commercially reasonable manner, determines that a Benchmark Event has occurred and that:

- (i) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 6.7(c)) subsequently be used in place of the Original Reference Rate to determine the Rate(s) of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the subsequent operation of, and adjustment as provided in, this Condition 6.7); or
- (ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 6.7(c)) subsequently be used in place of the Original Reference Rate to determine the Rate(s) of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the subsequent operation of, and adjustment as provided in, this Condition 6.7).

(c) *Adjustment Spread*

If the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines: (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) that has been determined in accordance with Condition 6.7(b) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Issuer is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or the Alternative Rate (as the case may be) will be used as described in Condition 6.7(b) without application of any Adjustment Spread (subject to the subsequent operation of, and to adjustment as provided in, this Condition 6.7).

(d) *Benchmark Amendments*

If any Successor Rate, Alternative Rate and/or Adjustment Spread, as the case may be, is determined in accordance with the foregoing provisions of this Condition 6.7 and the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines: (i) that additional amendments to these Conditions and/or the Agency Agreement are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 6.7(e), without any requirement for the consent or approval of Noteholders or Couponholders, vary these Conditions and/or the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 6.7(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on or by which the Notes are for the time being listed or admitted to trading.

(e) *Notices, etc.*

Any Successor Rate or Alternative Rate, Adjustment Spread (if any) and the specific terms of any Benchmark Amendments, each as determined under this Condition 6.7, will be notified promptly by the Issuer to the Calculation Agent and the other Paying Agents and, in accordance with Condition 15, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

Prior to any Benchmark Amendments taking effect and no later than one London Business Day following the date of notifying the Calculation Agent of the same, the Issuer shall deliver to the Calculation Agent a certificate signed by two authorised signatories of the Issuer:

- (i) confirming: (A) that a Benchmark Event has occurred, (B) the Successor Rate or, as the case may be, the Alternative Rate, (C) where applicable, any Adjustment Spread, and (D) where applicable, the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 6.7; and
- (ii) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread, if applicable.

The Calculation Agent shall display such certificate at its offices for inspection by the Noteholders at all reasonable times during normal business hours.

The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any)) be binding upon the Issuer, the Calculation Agent, the other Paying Agents, the Noteholders and the Couponholders.

(f) *Survival of Original Reference Rate and Fallback Provisions*

Without prejudice to the obligations of the Issuer under Condition 6.7(a) through Condition 6.7(e), the Original Reference Rate and the fallback provisions provided for in Condition 6.2(b) will continue to apply unless and until a Benchmark Event has occurred in relation to the Original Reference Rate and the Calculation Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), any Adjustment Spread and any Benchmark Amendments, in each case, in accordance with Condition 6.7(e).

If, following the occurrence of a Benchmark Event and in relation to the determination of the Rate of Interest on the relevant Interest Determination Date, no Successor Rate or Alternative Rate (as applicable) is determined and notified to the Calculation Agent pursuant to this Condition 6.7, then the Original Reference Rate will continue to apply for the purposes of determining such Rate of Interest on such Interest Determination Date, with the effect that the fallback provisions provided for in Condition 6.2(b) will (if applicable) continue to apply to such determination.

For the avoidance of doubt, the preceding paragraph shall apply to the determination of the Rate of Interest on the relevant Interest Determination Date only and the Rate of Interest applicable to any subsequent Interest Period(s) is subject to the subsequent operation of, and to adjustment as provided in, this Condition 6.7.

(g) *Defined Terms*

As used in this Condition 6.7:

“Adjustment Spread” means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in each case, that the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology that:

- (a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body;
- (b) in the case of a Successor Rate where no such formal recommendation as described in clause (a) has been made or in the case of an Alternative Rate, the Issuer determines, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, is recognised or acknowledged as being in customary market usage in international debt capital market transactions that reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or
- (c) if the Issuer determines that neither clause (a) nor clause (b) applies, the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines to be appropriate;

“Alternative Rate” means an alternative to the Original Reference Rate that the Issuer determines in accordance with Condition 6.7(b) has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining floating rates of interest (or the relevant component part thereof) for a commensurate interest period and in the same Specified Currency as the Notes;

“Benchmark Amendments” has the meaning given to it in Condition 6.7(d);

“Benchmark Event” means, with respect to an Original Reference Rate:

- (a) the Original Reference Rate ceasing to be published or administered or ceasing to exist;
- (b) the later of: (i) the date of a public statement by the administrator of the Original Reference Rate that it will, by a specified date, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances in which no successor administrator has been appointed that will continue publication of the Original Reference Rate) and (ii) the date falling six months prior to the specified date referred to in clause (i);
- (c) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been permanently or indefinitely discontinued;
- (d) the later of: (i) the date of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will, by a specified date, be permanently or indefinitely discontinued and (ii) the date falling six months prior to the specified date referred to in clause (i);

- (e) the later of: (i) the date of a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used (either generally or in respect of the Notes) or that its use will be subject to restrictions or adverse consequences, in each case on or before a specified date and (ii) the date falling six months prior to the specified date referred to in clause (i);
- (f) it has, or will prior to the next Interest Determination Date, become unlawful for the Calculation Agent, any other Paying Agent or the Issuer to calculate any payments due to be made to any Noteholder or Couponholder using the Original Reference Rate; or
- (g) the making of a public statement by the supervisor of the administrator of the Original Reference Rate announcing that such Original Reference Rate is no longer representative or may no longer be used;

“Calculation Agent” means the Fiscal Agent or, for any Series, such other entity specified in the applicable Final Terms as the Person responsible for the calculation of the Rate(s) of Interest and the Interest Amount(s);

“Independent Adviser” means an independent financial institution of international repute or an independent financial adviser with appropriate expertise in the international debt capital markets appointed by the Issuer, at its own expense, under Condition 6.7(a);

“Original Reference Rate” means the originally-specified Reference Rate used to determine the Rate of Interest (or any component part thereof) in respect of any Interest Period(s) on the Notes, as specified in the applicable Final Terms;

“Relevant Nominating Body” means, in respect of an Original Reference Rate:

- (a) the central bank for the currency to which such Original Reference Rate relates, or any central bank or other supervisory authority that is responsible for supervising the administrator of such Original Reference Rate; or
- (b) any working group or committee established, approved or sponsored by, chaired or co-chaired by or constituted at the request of: (i) the central bank for the currency to which such Original Reference Rate relates, (ii) any central bank or other supervisory authority that is responsible for supervising the administrator of such Original Reference Rate, (iii) a group of the aforementioned central banks or other supervisory authorities or (iv) the Financial Stability Board or any part thereof; and

“Successor Rate” means a successor to or replacement of the Original Reference Rate that is formally recommended by any Relevant Nominating Body.

6.8 Interpretation

In these Conditions:

“Business Day” means:

- (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 (or any successor thereto) (the **“TARGET 2 System”**)) specified in the applicable Final Terms or Pricing Supplement;
- (b) if the TARGET 2 System is specified as a Specified Business Centre in the applicable Final Terms or Pricing Supplement, then a day on which the TARGET 2 System is open; and
- (c) either: (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre

of the country of the relevant Specified Currency, or (ii) in relation to any sum payable in euro, a day on which the TARGET 2 System is open;

“Interest Amount” means the amount of interest;

“Interest Period” means the period 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 Rate” means, unless otherwise specified in the applicable Final Terms or Pricing Supplement: (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**”), (j) the CNH Hong Kong interbank offered rate (“**CNH HIBOR**”) or (k) SONIA, in each case, as specified in the applicable Final Terms or Pricing Supplement;

“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; 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 in this Condition 7 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 will be subject in all cases to: (a) any fiscal or other laws applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9, and (b) any withholding or deduction required pursuant to FATCA.

In these Conditions, **“FATCA”** means: (a) an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **“Code”**), (b) Sections 1471 through 1474 of the Code, (c) any regulations or agreements thereunder or official interpretations thereof, (d) any intergovernmental agreement between the United States and any other governmental authority entered into in connection with the implementation of the foregoing or (e) any applicable law implementing such an intergovernmental agreement.

7.2 Presentation of Definitive Bearer Notes and Coupons

Notwithstanding any other provision of these Conditions to the contrary, payments of principal in respect of definitive Bearer Notes will (subject as provided below in this Condition 7.2) 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) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have

become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

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

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

7.3 Payments in Respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified in Condition 7.2 in relation to definitive Bearer Notes or otherwise in the manner specified in the relevant Bearer Global Note, where applicable against surrender or, as the case may be, presentation and endorsement, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note either by the Paying Agent to which it was presented or in the records of Euroclear or 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 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” for registered global securities that are intended to constitute eligible collateral for Eurosystem monetary policy operations, 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 before the relevant due date (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, then the first such day prior to such 15th day) (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. For these purposes, **“Designated Account”** means the account maintained by a holder with a Designated Bank and identified as such in the Register and **“Designated Bank”** means any bank that processes payments in such Specified Currency.

Except as set forth in the next and final sentences of this paragraph, payments of interest in respect of a 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 such 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 such holder’s risk. Upon application of such 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, such 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 such Registered Note that become payable to the holder thereof 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 a Registered Note on redemption will be made in the same manner as the final payment of the principal of such Registered Note as described in the preceding paragraph.

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 7.9.

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

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

7.5 General Provisions Applicable to Payments

Except as provided in the Deed of Covenant, the registered holder of a Registered Global Note or the holder of a Bearer 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, such holder in respect of each amount so paid. Each of the Persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg, 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 DTC, Euroclear or Clearstream, Luxembourg, 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 registered holder of such Global Note (or the holder of a Bearer Global Note). Except as provided in the Deed of Covenant, no Person other than the registered holder of the relevant Global Note (or the holder of a Bearer Global Note) shall have any claim against the Issuer in respect of any payments due on that Global Note.

Notwithstanding the foregoing provisions of this Condition 7.5, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, then such payments will be made at the specified office of a Paying Agent in the United States only 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 or Pricing Supplement, in which case such holder will be entitled to payment on the Payment Business Day in the relevant place as determined in accordance with the Payment Business Day Convention so specified) and, in any such case, shall not be entitled to further interest or other payment in respect of such delay.

For these purposes:

“Payment Business Day” means any day that (subject to Condition 10) is:

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

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

7.7 Interpretation of Principal and Interest

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

- (a) any additional amounts that may be payable with respect to such principal under Condition 9;
- (b) the Final Redemption Amount of such Note;
- (c) the Early Redemption Amount of such Note;
- (d) the Optional Redemption Amount(s) (if any) of such Note; and
- (e) any premium and any other amounts (other than interest) that may be payable by the Issuer under or in respect of such Note.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts that may be payable with respect to such interest under Condition 9.1.

7.8 U.S. Dollar Exchange and Payments on Turkish Lira-denominated Notes held other than through DTC

- (a) If “USD Payment Election” is specified as being applicable in the applicable Final Terms or Pricing Supplement, the Specified Currency is Turkish Lira and interests in the Notes are not represented by a Registered Global Note registered in the name of DTC or its nominee, then a Noteholder (as of, in the case of Registered Notes only, the applicable Record Date) may, not more than 10 and not less than

five Business Days before the due date (the “**Relevant Payment Date**”) for the next payment of interest and/or principal on a Note (such period, the “**USD Election Period**”), give an irrevocable election to any Agent to receive such payment in U.S. dollars instead of Turkish Lira (each a “**USD Payment Election**”). Each Agent to which such an election is given shall notify the Fiscal Agent on the Business Day following each USD Election Period of the USD Payment Elections made by the Noteholders during such USD Election Period and upon its receipt of such notification the Fiscal Agent shall notify the Exchange Agent of the total amount of Turkish Lira (the “**Lira Amount**”) to be paid by the Issuer in respect of the Notes the subject of such USD Payment Elections and that is to be converted into U.S. dollars and paid to the holders of such Notes on the Relevant Payment Date in accordance with the provisions of this Condition 7.8 and Clause 7 of the Agency Agreement.

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

- (b) Upon receipt of the Lira Amount from the Issuer and by no later than 11:00 a.m. (London time) on the Relevant Payment Date, the Fiscal Agent shall transfer the Lira Amount to the Exchange Agent, which shall (on or prior to the Relevant Payment Date) 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 such Notes in full on its due date, its obligation shall remain the payment of the relevant outstanding Turkish Lira amount and it shall have no obligation to pay any greater or other amount as a result of any change in the Applicable Exchange Rate between the due date and the date on which such payment is made in full.

- (c) Following conversion of the Lira Amount into U.S. dollars in accordance with this Condition 7.8 and the Agency Agreement, the Exchange Agent shall promptly 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 so notify the Fiscal Agent, which shall, as soon as practicable after receipt of such notification from the Exchange Agent, notify the applicable Noteholders of such event in accordance with Condition 15 and all payments on the applicable Notes on the Relevant Payment Date will be made in Turkish Lira in accordance with this Condition 7, irrespective of any USD Payment Election made.
- (e) To give a USD Payment Election:
 - (i) in the case of Notes in definitive form, a Noteholder must deliver at the specified office of any Agent, on any Business Day falling within the USD Election Period, a duly signed and completed USD Payment Election in the form (for the time being current) obtainable from

any specified office of any Agent and in which the holder must specify a USD bank account to which payment is to be made under this Condition 7.8 accompanied by the relevant Notes or evidence satisfactory to the Agent concerned that such Notes will, following the delivery of the USD Payment Election, be held to the Fiscal 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 DTC, Euroclear or Clearstream, Luxembourg, as applicable (which may include notice being given on such holder's instruction by DTC, Euroclear or Clearstream, Luxembourg or any depository for any of them to the Fiscal Agent by electronic means) in a form acceptable to DTC, Euroclear or Clearstream, Luxembourg, as applicable, from time to time.
- (f) Notwithstanding any other provision in these 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 or Pricing Supplement, 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 to be closed in New York City.

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

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

7.10 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 or Pricing Supplement as RMB Settlement Centre(s) in accordance with applicable laws, rules and guidelines issued from time to time (including all applicable laws 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 or Pricing Supplement in accordance with applicable laws. If no RMB Settlement Centre is specified in the relevant Final Terms or Pricing Supplement, then the RMB Settlement Centre shall be deemed to be in Hong Kong.

7.11 RMB Currency Event

If RMB Currency Event is specified as being applicable in the applicable Final Terms or Pricing Supplement 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 or Pricing Supplement (and subject, in the case of any determination of the Calculation Agent, to the provisions of Condition 6.4):

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

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

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

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

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

“RMB Illiquidity” means the general RMB exchange market in Hong Kong becomes illiquid as a result of which the Issuer cannot obtain sufficient RMB in order to make a payment, 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 enacted by any Governmental Authority (unless such law is enacted after the Issue Date of the first Tranche of Notes of this Series and it is impossible for the Issuer, due to an event beyond the control of the Issuer, to comply with such law);

“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 enacted by a Governmental Authority (unless such law is enacted after the Issue Date of the first Tranche of Notes of this Series and it is impossible for the Issuer due to an event beyond its control, to comply with such law); and

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

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 or Pricing Supplement in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms or Pricing Supplement.

8.2 Redemption for Taxation Reasons

If:

- (a) as a result of any change in, or amendment to, the laws of a Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of the laws of a Relevant Jurisdiction, which change or amendment becomes effective after the date on which agreement is reached to issue the first Tranche of Notes of this Series (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 or Pricing Supplement is signed by the Issuer), on the next Interest Payment Date, the Issuer would be required to:
 - (i) pay additional amounts as provided or referred to in Condition 9; and
 - (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on such date on which agreement is reached to issue the first Tranche of Notes of this Series; 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 or Pricing Supplement to the applicable Noteholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes of this Series at any time at their Early Redemption Amount together (if applicable) with all interest accrued and unpaid to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent: (i) a certificate signed by two authorised signatories of the Issuer stating that the requirement referred to in sub-paragraph (a) above will apply on the next Interest Payment Date and 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 that are subject to redemption prior to the Maturity Date at the option of the Issuer (other than for taxation reasons pursuant to Condition 8.2), such option being referred to as an “**Issuer Call**.” The applicable Final Terms or Pricing Supplement, as the case may be, contain 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 or Pricing Supplement identifies any Optional Redemption Date(s), any Optional Redemption Amount, any minimum or maximum amount of Notes that can be redeemed and the applicable notice periods.

If an Issuer Call is specified as being applicable in the applicable Final Terms or Pricing Supplement, then the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms or Pricing Supplement to the Noteholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms or Pricing Supplement together (if applicable) with all 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 (if any) and not more than the

Maximum Redemption Amount (if any), in each case, as may be specified in the applicable Final Terms or Pricing Supplement.

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

8.4 Redemption at the Option of the Noteholders (Investor Put)

This Condition 8.4 applies to Notes that are subject to redemption prior to the Maturity Date at the option of the Noteholder, such option being referred to as an “**Investor Put**.” The applicable Final Terms or Pricing Supplement, as the case may be, contain 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 or Pricing Supplement identifies any Optional Redemption Date(s), any Optional Redemption Amount and the applicable notice periods.

If Investor Put is specified as being applicable in the applicable Final Terms or Pricing Supplement, 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 or Pricing Supplement, the Issuer will, upon the expiry of such notice, redeem such Note (or, for Global Notes, the indicated part thereof) on the relevant Optional Redemption Date and at the Optional Redemption Amount together (if applicable) with all interest accrued and unpaid to (but excluding) such Optional Redemption Date. Registered Notes (or, for Global Notes, a nominal amount thereof) may be redeemed under this Condition 8.4 in any Specified Denomination.

To exercise the right to require redemption of this Note (or a portion hereof):

- (a) if this Note is in definitive form and held outside of a clearing system, 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 such 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, then the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to such Paying Agent’s order or under its control, and
- (b) if this Note is represented by a Global Note or is held through Euroclear or Clearstream, Luxembourg while in definitive form, then the holder of this Note must, within the notice period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of DTC, Euroclear or Clearstream, Luxembourg, as applicable (which may include notice being given on such holder’s instruction by DTC, Euroclear or Clearstream, Luxembourg or any depositary for them to the Fiscal Agent by electronic means) in a form acceptable to DTC, Euroclear or Clearstream, Luxembourg, as applicable, from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of DTC, Euroclear or Clearstream, Luxembourg, as applicable, given by a holder of this 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 this Note (or, if a Global Note, a portion hereof) forthwith due and payable pursuant to Condition 11.

8.5 Early Redemption Amounts

For the purpose of Condition 8.2 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 Notes of this Series, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount that is or may be less or greater than the Issue Price of the first Tranche of Notes of this Series, at the amount specified in the applicable Final Terms or Pricing Supplement or, if no such amount or manner is so specified in the applicable Final Terms or Pricing Supplement, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an Early Redemption 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 or Pricing Supplement, which shall be any of: (i) 30/360 (in which case the numerator shall be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of Notes of this Series 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 shall be equal to the actual number of days from (and including) the Issue Date of the first Tranche of Notes of this Series 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 shall be equal to the actual number of days from (and including) the Issue Date of the first Tranche of Notes of this Series 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 (or have a third party do so for its benefit) Notes (or beneficial interests therein) (*provided* that, in the case of definitive Bearer Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) in any manner and at any price in the open market or otherwise, including (without limitation) in its capacity as a broker for a customer. 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 (with the Issuer’s consent) 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 (as applicable) of all related unmatured Coupons and Talons.

8.7 Cancellation

All Notes that are redeemed will forthwith be cancelled (together, in the case of definitive Bearer Notes, with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption or cancellation). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 8.6 (together, in the case of definitive Bearer Notes, with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent or, as the case may be, the Registrar 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 this Condition 8 or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, then the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.5(c) as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date that is the earlier of:

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

9. TAXATION

9.1 Payment without Withholding

All payments in respect of the Notes and Coupons by or on behalf of the Issuer shall 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 shall pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts that would have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable for Taxes in respect of the Note or Coupon by reason of such holder having some connection with any Relevant Jurisdiction other than the mere holding of the Note or Coupon or the receipt of payment in respect thereof;
- (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 such 30 day period 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, any Paying Agent or any other Person be required to pay any additional amounts in respect of the Notes (including on Coupons) for, or on account of, any withholding or deduction required pursuant to FATCA.

9.2 Interpretation

In these Conditions:

- (a) “**Relevant Date**” means, with respect to any payment, the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of such 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, and
- (b) “**Relevant Jurisdiction**” means Turkey or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes or Coupons.

9.3 Additional Amounts

Any reference in these Conditions to any amounts payable in respect of the Notes (including principal and interest as provided in Condition 7.7) payable in respect of the Notes shall be deemed also to refer to any additional amounts that may be payable under this Condition 9.

10. PRESCRIPTION

The Notes (whether in bearer or registered form) and Coupons will become void unless claims in respect of principal and/or interest with respect thereto are made within a period of 10 years (in the case of principal) and five years (in the case of interest) from 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 that would be void pursuant to Condition 7.2.

11. EVENTS OF DEFAULT

11.1 Events of Default

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

- (a) if default is made by the Issuer in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest;
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 14 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied;
- (c) if: (i) any Indebtedness for Borrowed Money of the Issuer or any of its Material Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Material Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment, subject to any 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);*
- (d) if:
 - (i) any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of its Material Subsidiaries;
 - (ii) the Issuer ceases or threatens to cease to carry on the whole or a substantial part, or any Material Subsidiary ceases or threatens to cease to carry on the whole or substantially the whole, in each case, of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any of its Material Subsidiaries stops or threatens to stop 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 or found by a competent authority to be (or becomes) bankrupt or insolvent;

- (iii) the Issuer or any of its Material Subsidiaries commences negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of all or a substantial part of its indebtedness; or
- (iv) the Issuer or any of its Material Subsidiaries: (A) takes any corporate action or other steps are taken or legal proceedings are started: (1) 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 (2) 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 composition with its creditors,

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

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

11.2 Interpretation

For the purposes of this Condition 11:

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

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

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

- (a) whose total assets (consolidated in the case of a Subsidiary that itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer relate, are equal to) not less than 15 *per cent.* of the consolidated total assets of the Issuer, 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; *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 relate, the reference to the then latest audited consolidated IFRS financial statements of the Issuer 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 consolidated audited 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 relate, are equal to) not less than 15 *per cent.* of the consolidated total assets of the Issuer taken as a whole (calculated as set out in sub-paragraph (a) above); *provided* that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless, immediately following such transfer, its assets represent (or, in the case aforesaid, are equal to) not less than 15 *per cent.* of the consolidated total assets of the Issuer (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 IFRS consolidated 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 upon all parties.

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, Coupons or Talons) 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 and the Fiscal Agent or, as applicable, the Registrar may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

13. AGENTS

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

The Issuer is entitled to vary or terminate the appointment of any Agent, 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 the United States; 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 the United States 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 to Noteholders 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 (but not required) that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes (if any) are for the time being listed or by which they have been admitted to trading, including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the first date by which publication has occurred in all required newspapers.

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

So long as any Global Notes representing the Notes are held in their entirety on behalf of DTC, Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication in such newspaper(s) or such website(s) or such mailing the delivery of the relevant notice to DTC, Euroclear and/or Clearstream, Luxembourg, as applicable, for communication by them to the holders of interests in the applicable Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of interests in such Notes on such day as is specified in the applicable Final Terms or Pricing Supplement after the day on which such notice was given to DTC, Euroclear and/or Clearstream, Luxembourg, as applicable (or, if not so specified, on the second London Business Day after the date on which such notice was given to DTC, Euroclear and/or Clearstream, Luxembourg, 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 relevant Note(s), with the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any Notes are represented by a Global Note, such notice may be given by any holder of an interest in such Global Note to the Fiscal Agent or the Registrar through DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Fiscal Agent, the Registrar and DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

16. MEETINGS OF NOTEHOLDERS AND MODIFICATIONS

16.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes (including any of these Conditions), the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer at any time 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(s) 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 the 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, the Notes or the Coupons (including modifying the Maturity Date 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 upon 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 that is, in the opinion of the Issuer, either: (a) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (b) following the advice of an independent financial institution of international standing, not materially prejudicial to the interests of the Noteholders. Any such modification shall be binding upon 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.

Notwithstanding any other provision of these Conditions or the Agency Agreement, the consent or approval of the Noteholders or the Couponholders shall not be required in the case of amendments to these Conditions pursuant to Condition 6.7 to vary the method or basis of calculating the rate(s) or amount of interest or the basis for calculating any Interest Amount in respect of the Notes or for any other variation of these Conditions and/or the Agency Agreement required to be made in the circumstances described in Condition 6.7, where the Issuer has delivered to the Calculation Agent a certificate pursuant to Condition 6.7(e).

17. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having terms and conditions the same as those of this Series of Notes, or the same in all respects save for the amount and/or date of the first payment of interest thereon, the issue date and/or the date from which interest starts to accrue, and so that the same shall be consolidated and form a single Series with such outstanding Notes; *provided* that the Issuer shall ensure that such further notes will be fungible with such outstanding Notes 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) unless the original Notes were, and such further Notes are, offered and sold by (or on behalf of) the Issuer solely in reliance upon Regulation S in offshore transactions to persons other than U.S. persons.

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 that exists or is available apart from that Act.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing Law

The Agency Agreement, the Deed of Covenant, the Deed Poll, the Notes and the Coupons, and any non-contractual obligations arising out of or in connection with any of them, 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) have exclusive jurisdiction to settle any disputes that 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 it is an inconvenient or inappropriate forum.

To the extent allowed by applicable law, the Noteholders and the Couponholders may take any suit, action or proceedings arising out of or in connection with the Notes and the Coupons (together referred to as “**Proceedings**”) (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.

19.3 Consent to Enforcement

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

19.4 Service of Process

In connection with any Proceedings in England, service of process may be made upon the Issuer at Law Debenture Corporate Services Limited (with a current address of Fifth Floor, 100 Wood Street, London EC2V 7EX, England) and the Issuer undertakes that in the event of such process agent ceasing so to act it will promptly appoint another Person as its agent for that purpose. This Condition does not affect any other method of service allowed by applicable law.

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 agreed to 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 Bank for its general corporate purposes; *however*, for any particular Series, the Bank may agree (and so specify in the Final Terms or Pricing Supplement 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 or Pricing Supplement for each Tranche in a Series with more than one Tranche shall be the same.

SUMMARY FINANCIAL AND OTHER DATA

The following summary financial and other data have been extracted from the Group's BRSA Financial Statements incorporated by reference into this Base Prospectus, without material adjustment. This information should be read in conjunction with, and is qualified in its entirety by reference to, the information contained in such BRSA Financial Statements (including the notes thereto). See "Risk Factors – Risks Relating to the Group's Business – Audit Qualification."

	2016	2017	2018 ⁽¹⁾
		<i>(TL thousands)</i>	
Interest income	22,617,659	28,360,370	41,246,027
Interest expense	(10,361,926)	(12,673,800)	(20,369,094)
Net interest income	12,255,733	15,686,570	20,876,933
Net fees and commissions income/expenses	3,275,690	3,860,413	5,102,687
Dividend income	9,088	7,816	7,691
Net trading income/losses (net)	(743,653)	(1,842,027)	(1,145,747)
Other operating income	2,113,576	1,942,284	3,517,425
Total operating profit	16,910,434	19,655,056	28,358,989
Provisions for losses on loans and other receivables	(3,387,096)	(3,681,863)	—
Expected credit losses	—	—	(10,836,246)
Other operating expenses ⁽²⁾	(7,032,388)	(7,623,756)	(8,768,985)
Profit/(loss) before taxes	6,490,950	8,349,437	8,753,758
Provision for taxes	(1,343,191)	(1,961,463)	(2,047,153)
Net profit/(loss)	5,147,759	6,387,974	6,706,605
Attributable to equityholders of the Bank	5,105,291	6,332,056	6,641,652
Attributable to minority interests	42,468	55,918	64,953

(1) As of 1 January 2018, the Group started to apply TFRS 9 in its BRSA financial statements, *however*, it has not restated the comparative information for the prior periods within the scope of TFRS 9. Therefore, the information for 2016 and 2017 is not comparable to the information presented for 2018.

(2) Prior to 1 January 2018, "personnel expenses" were accounted for under "other operating expenses" line item. Effective as of 1 January 2018, personnel expenses are presented as a separate line item under "total operating profit" due to a change to the presentation of the financial statements as per new rules introduced by the BRSA. Therefore, for comparison purposes, this line item includes personnel expenses amounting to TL 3,645,278 thousand in 2018.

	As of 1 January 2018 ⁽¹⁾	% of Total	As of 31 December 2018	% of Total
<i>(TL thousands, except for percentages)</i>				
<u>Assets</u>				
Cash and cash equivalents	53,077,337	15.0	72,415,931	18.1
Financial assets measured at fair value through profit/(loss) (FVTPL)	1,083,674	0.3	559,876	0.1
Financial assets measured at fair value through other comprehensive income (FVOCI)	29,396,444	8.3	27,162,953	6.8
Financial assets measured at amortised cost	21,497,337	6.1	24,654,009	6.2
Derivative financial assets	2,617,709	0.7	4,093,695	1.0
Non-Performing Financial Assets	—	—	—	—
Expected credit losses (-)	(28,232)	(0.0)	(134,487)	(0.0)
Loans	234,720,508	66.3	256,548,861	64.3
<i>Loans</i>	227,985,597	64.4	247,542,010	62.0
<i>Lease receivables</i>	5,438,422	1.5	6,068,225	1.5
<i>Factoring receivables</i>	3,359,986	0.9	2,279,270	0.6
<i>Non-performing receivables</i>	6,888,456	1.9	13,753,384	3.4
<i>Expected credit losses (-)</i>	(8,951,953)	(2.5)	(13,094,028)	(3.3)
Assets held for sale and assets of discontinued operations	835,552	0.2	857,695	0.2
Ownership investments (net)	152,432	0.0	132,871	0.0
Tangible assets	4,096,651	1.2	4,494,918	1.1
Intangible assets	379,308	0.1	416,072	0.1
Investment property	559,388	0.2	558,309	0.1
Current tax assets	59,440	0.0	175,266	0.0
Deferred tax assets	1,398,305	0.4	1,519,177	0.4
Other assets	4,096,792	1.2	5,698,455	1.4
Total assets	353,942,645	100.0	399,153,601	100.0
<u>Liabilities</u>				
Deposits	200,773,560	56.7	245,016,346	61.4
Funds borrowed	37,772,327	10.7	33,339,727	8.4
Money markets funds	18,637,856	5.3	2,634,590	0.7
Securities issued (net)	20,759,469	5.9	26,911,463	6.7
Financial liabilities measured at FVTPL	9,367,375	2.6	12,312,230	3.1
Derivative financial liabilities	3,097,648	0.9	4,510,162	1.1
Provisions	3,486,400	1.0	5,369,512	1.3
Current tax liability	1,299,363	0.4	646,881	0.2
Deferred tax liability	14,365	0.0	19,121	0.0
Subordinated debts	2,849,471	0.8	3,977,018	1.0
Other liabilities	13,456,696	3.7	17,529,709	4.4
Total liabilities	311,514,530	88.0	352,266,759	88.3
Shareholders' equity	42,428,115	12.0	46,886,842	11.7
Total liabilities and shareholders' equity	353,942,645	100.0	399,153,601	100.0

(1) As of 1 January 2018, the Group started to apply TFRS 9 in the BRSA financial statements, *however*, it has not restated the comparative information for the prior periods for financial instruments in the scope of TFRS 9. Therefore, the opening balance sheet as of 1 January 2018 above is prepared in accordance with TFRS 9 and presented along with 31 December 2018 figures for comparison purposes.

	As of 31 December			
	2016	% of Total	2017	% of Total
<i>(TL thousands, except for percentages)</i>				
<u>Assets</u>				
Cash and balances with central bank	23,951,474	7.7	33,603,641	9.5
Financial assets at fair value through profit or loss (net)	3,805,541	1.2	2,877,813	0.8
Banks	16,881,044	5.4	19,470,343	5.5
Interbank money markets	373,871	0.1	3,353	0.0
Financial assets available-for-sale (net)	23,983,448	7.7	26,277,988	7.4
Loans	201,409,096	64.5	229,353,285	64.4
Factoring receivables	2,851,223	0.9	3,379,768	0.9
Investments held-to-maturity (net)	23,109,696	7.4	24,314,540	6.8
Investments in associates (net)	37,261	0.0	35,751	0.0
Investment in subsidiaries (net)	115,858	0.0	116,681	0.0
Lease receivables (net)	5,794,260	1.9	5,788,436	1.6
Derivative financial assets held for hedging purpose	666,295	0.2	670,720	0.2
Tangible assets (net)	3,680,621	1.2	4,096,651	1.1
Intangible assets (net)	327,653	0.1	379,308	0.1
Investment property (net)	543,825	0.2	559,388	0.2
Tax asset	260,678	0.1	467,698	0.1
Assets held for sale and assets of discontinued operations (net)	605,015	0.2	835,552	0.2
Other assets	3,725,080	1.2	4,100,751	1.2
Total assets	312,121,939	100.0	356,331,667	100.0
<u>Liabilities</u>				
Deposits	178,689,813	57.3	200,773,560	56.4
Derivative financial liabilities held for trading	3,713,985	1.2	2,898,822	0.8
Funds borrowed	46,581,853	14.9	47,104,719	13.2
Interbank money markets	11,230,193	3.6	18,637,856	5.2
Securities issued (net)	17,745,648	5.7	20,794,452	5.8
Miscellaneous payables	9,339,748	3.0	10,376,346	2.9
Other external fundings payable	3,170,339	1.0	3,080,350	0.9
Derivative financial liabilities held for hedging purpose	343,314	0.1	198,826	0.1
Provisions	5,032,873	1.5	6,848,102	1.9
Tax liability	478,266	0.2	1,163,162	0.3
Subordinated debts	—	—	2,849,471	0.8
Total liabilities	276,326,032	88.5	314,725,666	88.3
Shareholders' equity	35,795,907	11.5	41,606,001	11.7
Total liabilities and shareholders' equity	312,121,939	100.0	356,331,667	100.0

Since the end of 2018 to the date of this Base Prospectus, the Bank has not issued any Tranche of Notes under the Programme.

CAPITALISATION OF THE GROUP

The Group's total shareholders' equity as of 31 December 2018 amounted to TL 46,886,842 thousand, which was a 12.7% increase from TL 41,606,001 thousand as of 31 December 2017, itself a 16.2% increase from TL 35,795,907 thousand as of 31 December 2016. Shareholders' equity principally changes as a result of the Group's net profit/(loss) and changes in the amount of unrealised gains and losses on available-for-sale assets and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income (which changes are not included in profit/(loss)). The following tables summarise the components of the Group's shareholders' equity as of the indicated dates and should be read in conjunction with the Group's BRSA Financial Statements (including the notes thereto) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Base Prospectus.

	As of 1 January 2018 ⁽¹⁾	As of 31 December 2018
	<i>(TL thousands)</i>	
Paid-in capital.....	4,200,000	4,200,000
Capital reserves	784,434	784,434
Other comprehensive income/expense items not to be recycled to profit or loss	1,436,464	1,473,394
Other comprehensive income/expense items to be recycled to profit or loss	1,058,005	611,843
Profit reserves.....	27,869,150	32,977,973
Profit/(loss).....	6,765,722	6,641,652
Minority interest.....	314,340	197,546
Total shareholders' equity	42,428,115	46,886,842

(1) As of 1 January 2018, the Group started to apply TFRS 9, *however*, it has not restated the comparative information for the prior periods. As such, the information as of 1 January 2018 is prepared in accordance with TFRS 9 and presented along with 31 December 2018 figures for comparison purposes. The information as of 31 December 2016 and 2017 is not comparable to the information presented for 31 December 2018.

	As of 31 December	
	2016	2017
	<i>(TL thousands)</i>	
Paid-in capital	4,200,000	4,200,000
Capital reserves	1,474,369	1,526,847
<i>Securities value increase fund</i>	<i>(543,625)</i>	<i>(317,814)</i>
<i>Revaluation surplus on tangible assets</i>	<i>1,691,062</i>	<i>1,747,869</i>
<i>Hedging reserves</i>	<i>(353,676)</i>	<i>(544,285)</i>
<i>Other</i>	<i>680,608</i>	<i>641,077</i>
Profit reserves	24,748,439	29,224,949
Profit/(loss)	5,105,291	6,332,056
Minority interest.....	267,808	322,149
Total shareholders' equity	35,795,907	41,606,001

For additional information on the Group's shareholders' equity, see Note 5.3.12 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018.

The following table summarises the components of the Group's total capitalisation using the shareholders' equity figures set forth above:

	As of 31 December		
	2016	2017	2018
	<i>(TL thousands)</i>		
Total shareholders' equity	35,795,907	41,606,001	46,886,842
Subordinated debt	-	2,849,471	3,977,018
Total Capitalisation	35,795,907	44,455,472	50,863,860

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial position and results of operations of the Group covers the financial years ended 31 December 2016, 2017 and 2018. Unless otherwise specified, the financial information presented in this discussion has been extracted from the BRSA Financial Statements without material adjustment. This section should be read in conjunction with such BRSA Financial Statements and the other financial information included in (including the information incorporated by reference in) this Base Prospectus (including the section entitled "Presentation of Financial and Other Information"). The BRSA Financial Statements have been prepared in accordance with the BRSA Accounting and Reporting Legislation. For a narrative description of significant differences between the BRSA Financial Statements and IFRS Financial Statements as they apply to the Group, see Appendix A ("Overview of Significant Differences Between IFRS and the BRSA Accounting and Reporting Legislation following the Implementation of TFRS 9").

As of 1 January 2018, the Group started to apply TFRS 9, which replaced TAS 39 (Financial Instruments: Recognition and Measurement) ("TAS 39"), in its financial statements. The Group has not restated comparative information for financial instruments for 2017 within the scope of TFRS 9 and, as such, certain information in the Bank's and the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 is not comparable to the relevant information in the Bank's and the Group's (as applicable) BRSA Financial Statements as of and for the years ended 31 December 2017 and 2016. The total difference arising from the adoption of TFRS 9 has, as of 1 January 2018, been recognised directly in the prior periods' profit or loss as of 1 January 2018 in the statement of changes in shareholders' equity. See Note 3.29 of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 for details of the impact of the first time adoption of TFRS 9 as of 1 January 2018 on the Group's BRSA Financial Statements. For further details regarding the implementation of TFRS 9 principles, see "Critical Accounting Policies – Implementation of TFRS 9" below and Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018.

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

The Group's financial condition, results of operations and prospects depend significantly upon the macroeconomic conditions prevailing in Turkey as well as other factors. The impact of these factors might vary significantly in the future and many of these factors are outside the control of the Group. Prospective investors should (among other things) consider the factors set forth under "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors." The following describes the most significant of such factors since the beginning of 2016.

Political Developments

On 15 July 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling government remained in control. Although the Group's operations have not been materially affected by the attempted coup, the political and social circumstances following the attempted coup, its aftermath (including rating downgrades of Turkey and the Bank) or any other political developments have had and might continue to have a negative impact on the Turkish economy (including the value of the Turkish Lira, international investors' willingness to invest in Turkey and domestic demand), Turkey's relationships with the EU, the United States and/or other jurisdictions, Turkey's institutions (including as a result of arrests, suspension or dismissal of a number of individuals working in the public sector) and regulatory framework, the Bank's and/or the Group's business, liquidity, results of operations and/or conditions (financial or otherwise).

For additional information on political developments in Turkey, see "Risk Factors - Risks Relating to Turkey - Political Developments" in the Base Prospectus.

Turkish Economy

Most of the Group's operations are conducted, and substantially all of its customers are located, in Turkey. In addition, much of the business of the Group's non-Turkish subsidiaries is related to Turkey. Accordingly, the Group's ability to recover on loans, and its business, financial condition and results of operations, are substantially dependent upon the political and economic conditions prevailing in Turkey, including factors such as economic growth rates, currency fluctuations, the Central Bank's regulatory policy, inflation and fluctuations in interest rates in Turkey.

The following table provides certain macroeconomic indicators for Turkey, including real GDP growth, inflation rates and the Central Bank's overnight Turkish Lira borrowing interest rate for each of the indicated periods:

	As of or for the year ended 31 December		
	2016	2017	2018
Nominal GDP at current prices (TL millions).....	2,608,526	3,106,537	3,700,989
Real GDP growth ⁽¹⁾	3.2%	7.4%	2.6%
(Deficit)/surplus of consolidated budget/GDP.....	(1.1)%	(1.5)%	(1.9)%
CPI ⁽²⁾	8.5%	11.9%	20.3%
Producer Price Inflation ⁽²⁾	9.9%	15.5%	33.6%
Central Bank overnight TL borrowing interest rate, period-end.....	7.25%	7.25%	22.5%
Central Bank weekly TL repo rate, period-end ⁽³⁾	8.00%	8.00%	24.0%
Refinancing rate of the Central Bank, period-end.....	8.50%	9.25%	25.5%
Central Bank late liquidity window lending interest rate, period-end.....	10.00%	12.75%	27.0%
Central Bank weighted average cost of funding, period-end.....	8.31%	12.75%	24.0%
Nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar ⁽⁴⁾	(21.5)%	(7.9)%	(38.1)%
CPI-based real effective exchange rate appreciation (depreciation) (2003=100).....	(5.6)%	(7.7)%	(11.6)%
Total gross gold and international currency reserves, period-end (U.S. dollars, millions).....	106,101	107,651	91,930

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

- (1) On 12 December 2016, Turkstat changed the method of calculation to determine economic growth in Turkey and revised the figures announced for the previous periods that were calculated in line with the former method. The figures in this table reflect GDP growth revised in line with the calculations made with the new method.
- (2) Annual percentage change of the applicable index.
- (3) The Central Bank announces the weekly repo lending rate as the reference rate.
- (4) Central Bank buying rates.

In the first half of 2018, the Bank recorded growth of 9.0% in Turkish Lira-denominated loans; *however*, due to the high volatility and unexpected market developments in the second half of the year, new Turkish Lira-denominated originations in consumer and business loans were lower than the amount of such loans that matured during the period and, as a result, the growth for all of 2018 was only 2.2%. In addition, there was in 2018 a 17.3% increase in foreign currency-denominated loans primarily due to the depreciation of the Turkish Lira. Accordingly, the growth in total loans during 2018 was only 7.0%, with the increase resulting from the depreciation of the Turkish Lira and the corresponding increase (in Turkish Lira terms) of the remaining foreign currency-denominated loans. Conversely, the growth in credit card loans was strong, growing 15.6% during the year. As of 31 December 2018, the Group had a balanced mix of loans, with foreign currency-denominated loans and Turkish Lira-denominated business loans and consumer loans each representing about one-third of the Group's total loans when the foreign exchange rates as of 31 December 2017 are used. As of such date, total loans represented 62.0% of the Group's assets.

The CPI was 20.3% during 2018, while annual domestic producer price inflation during the year was 33.6% (source: Turkstat). On 30 January 2019, the Central Bank published its first inflation report of 2019 and reduced its inflation forecasts, predicting a rate of 14.6% for 2019 (previously expecting a rate of 15.2% in the fourth inflation report of 2018) and 8.2% for 2020 (previously expecting a rate of 9.3% in the fourth inflation report of 2018). Inflation-related measures that may be taken by the Turkish government and the Central Bank might have an adverse effect on the Turkish economy.

In December 2016, the Turkish government announced the KGF programme, which aimed to boost economic growth, support high potential companies that have difficulty accessing funding due to collateralisation constraints and help Turkish banks to grow by allowing 0% risk weight to be applied to the guaranteed portion of these loans. See "Risk Factors - Risks Relating to the Group's Business - Counterparty Credit Risk" for additional information about the KGF programme.

Currency Exchange Rates

A significant portion of the Group's assets and liabilities is denominated in foreign currencies, particularly the U.S. dollar and the euro. The share of Turkish Lira-denominated assets and liabilities in the Group's balance sheet has changed from 57.4% and 42.3%, respectively, as of 31 December 2017 to 51.6% and 38.0%, respectively, as of 31 December 2018. While the Group monitors its net open position in foreign currencies (which is the amount by which its foreign currency-denominated assets differ from its foreign currency-denominated liabilities) and each of the Bank and the Group is required to comply with foreign currency net open position limits promulgated by the BRSA, each of the Bank and the Group has maintained and likely will continue to maintain gaps between the balances of its foreign currency assets and liabilities. A bank's limit imposed by the BRSA is defined as an amount plus/minus 20% of the total capital used in the calculation of such bank's regulatory capital adequacy ratios. The Group's and the Bank's foreign

currency net long open position ratios were 4.2% and 3.8%, respectively, as of 31 December 2018, 5.0% and 5.2%, respectively, as of 31 December 2017 and 3.1% and 3.4%, respectively, as of 31 December 2016.

The Group had a net long open foreign currency position (including both on and off balance sheet positions) of US\$423 million as of 31 December 2018, US\$621 million as of 31 December 2017 and US\$333 million as of 31 December 2016. The change in the Group's net long foreign currency position as of 31 December 2018 compared to 31 December 2017 was primarily due to relatively higher increases in foreign currency deposits, securities issued and short off-balance sheet position due to derivative transactions.

The following table provides the Group's net open position in different currencies as of the indicated dates:

	As of 31 December		
	2016	2017	2018
	<i>(millions)</i>		
U.S. dollars.....	\$(43)	\$(345)	\$(522)
euro ⁽¹⁾	€235	€604	€585
Other currencies ⁽²⁾	\$128	\$241	\$277
Total net foreign currency position⁽¹⁾⁽²⁾⁽³⁾	\$333	\$621	\$423

(1) For the convenience of the reader, the total amounts of euro have first been converted into Turkish Lira by using the rates announced by the Bank as of the last day of the applicable year and then converted into U.S. dollars based upon the TL/\$ exchange rate as of such dates.

(2) For the convenience of the reader, the total amounts of other currencies have first been converted into Turkish Lira by using the rates announced by the Bank as of the last day of the applicable year and then converted into U.S. dollars based upon the TL/\$ exchange rate as of such dates.

(3) The positions indicated are net of the effects of hedging transactions and other off-balance sheet positions.

The Group translates its foreign currency assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains or losses realised upon the sale of such assets, to Turkish Lira in preparing its financial statements at the foreign exchange rate as of the balance sheet date. 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 successful implementation of the Group's hedging strategies as well as upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading currencies, particularly if such depreciation or appreciation is of a larger scale than anticipated. The Group generally seeks to be fully hedged in terms of foreign exchange exposures; *however*, depending upon market conditions, it may prefer to carry certain open positions through spot or derivative foreign exchange transactions. In such cases, exposures are managed with hedges subject to the limits set by the management of the Bank and its subsidiaries and applicable BRSA legal limits. Recent regulatory changes for foreign currency transactions have aimed to preserve financial stability (*e.g.*, limiting the utilisation of foreign currency-denominated loans to exporters who have a natural foreign currency hedge and restricting the types of business contracts that can be executed in foreign currencies); *however*, the impact of these changes on the Group has been limited.

The Group had (after giving effect to the Group's hedging strategy and other off-balance sheet positions) net foreign exchange losses of TL 204,488 thousand in 2016, net foreign exchange gains of TL 1,749,391 thousand in 2017 and net foreign exchange losses of TL 2,839,223 thousand in 2018. The foreign exchange gains in 2017 resulted from overall management of the Group's reasonably balanced foreign currency position. The large foreign exchange losses in 2018 were mainly due to the volatility of the Turkish Lira. See also "Operating Income - Other Operating Income" and "Other Operating Expenses" in "Analysis of Results of Operations for the Years Ended 31 December 2016, 2017 and 2018."

Exchange rate movements also affect the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital, which can affect capital adequacy either positively (for example, if the Turkish Lira appreciates, then assets in foreign currencies convert into fewer Turkish Lira in the calculations of capital adequacy ratios and thus increase the capital adequacy ratios) or negatively (for example, if the Turkish Lira depreciates, then assets in foreign currency convert into more Turkish Lira in the calculations of capital adequacy ratios and thus reduce the capital adequacy ratios). As a result of the 38.1% depreciation of the Turkish Lira in 2018, the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital increased significantly in 2018. See "Capital Adequacy" below.

Interest Rates

One of the primary factors influencing the Group's profitability is the level of interest rates in Turkey, which in turn influences the return on its securities portfolio and its loan and deposit rates. Interest earned and paid on the Group's assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, shifts in short-term interest rates set by the Central Bank and movements in long-term real interest rates. The fluctuations in short-term and long-term interest rates impact the Group's net interest income differently based upon the repricing profile of the Group's interest-earning assets and interest-bearing liabilities. As of 31 December 2018, 20.0% of the Bank's Turkish Lira-denominated cash loan portfolio carried a floating rate of interest (20.1% and 17.3% as of 31 December 2016 and 2017, respectively).

The degree of the Group's exposure to interest rate risk is largely a function of the relative tenors of its interest-earning assets and interest-bearing liabilities, its ability to reprice (and the timing of any such repricing of) its interest-earning assets and interest-bearing liabilities (*e.g.*, whether their interest rates are determined on a fixed or floating basis) and its ability to hedge against interest rate risk.

Because the Group's interest-bearing liabilities (principally deposits) generally reprice faster than its interest-earning assets, changes in the short-term interest rates in the economy generally are reflected in the rates of interest paid by the Group on its liabilities before such interest rates are reflected in the rates of interest earned by the Group on its assets. Therefore, when short-term interest rates fall, the Group is both positively affected (for example, the value of its fixed rate securities portfolio might increase and its interest margins might improve), but might also be negatively impacted (for example, through the decline in net interest margins on assets funded by 0% interest rate demand deposits). On the other hand, when short-term rates increase, interest expenses on deposits (which are typically short-term and reset interest rates frequently) increase more significantly and/or quickly than interest income from loans (which are short-, medium- and long-term), resulting in a potential reduction in net interest income and net interest margin. An increase in long-term rates generally has at least a short-term negative effect on the Group's net interest margin because its interest-earning assets generally have a longer repricing duration than its interest-bearing liabilities and because a portion of its interest-earning assets have fixed rates of interest (for example, 62.5%, 64.5% and 58.7% of the Bank's interest-earning assets were fixed-rate as of 31 December 2016, 2017 and 2018, respectively); *however*, 35.6% of the Group's securities portfolio consisted of CPI-linked securities as of 31 December 2018 (29.6% and 31.8% as of 31 December 2016 and 2017, respectively). The Group's yield on its securities increased significantly due mainly to higher CPI readings in 2018 as a consequence of the sharp increase in the inflation rate. The Group's net interest margin also increased in 2016, 2017 and 2018 due to an increasing interest rate environment and the significant increase in inflation, which increased from 11.9% in 2017 to 20.3% in 2018.

The following table provides the Bank's net interest margin and average spread for the indicated periods:

	2016	2017	2018
Net interest margin	4.9%	5.6%	6.7%
Turkish Lira assets	6.8%	8.0%	10.3%
Foreign currency assets.....	1.9%	1.5%	1.1%
Average spread			
Turkish Lira assets/liabilities	4.6%	3.9%	2.5%
Foreign currency assets/liabilities.....	2.3%	2.4%	2.1%

The following table provides the Group's net interest margin and average spread for the indicated periods:

	2016	2017	2018
Net interest margin	4.8%	5.3%	6.0%
Average spread	3.5%	3.9%	3.9%

The improvement in net interest margin in 2017 was principally due to the Bank's management's primary focus on profitability through sustainable core banking revenue generators. In 2018, the Group continued to focus on sustainable profitability and further improved its net interest margin due mainly to CPI-linked securities, which improvement was particularly notable in a year in which interest rates almost doubled. In 2018, although the high interest rate environment resulted in the compression of core spreads, high inflation led to a significant increase in gains from CPI-linked securities, which hedge the Bank against high inflation. In 2018, suppression in the core net interest margin (*i.e.*, net interest margin excluding CPI-linked securities) was more than offset by the income gained from the CPI-linked securities.

Significant Securities Portfolio

The Group has historically generated a significant portion of its interest income from its securities portfolio, with interest income on the Group's securities portfolio in 2016, 2017 and 2018 accounting for 16.3%, 16.9% and 20.0%, respectively, of its total interest income and 13.9%, 12.7% and 17.3%, respectively, of its total operating profit before deducting interest expense, fees and commissions expense and personnel expense when net trading gains/(losses) on securities are also considered. The Group has also obtained large realised and unrealised gains from the mark-to-market valuation and sale of securities, which gains represented 15.4% and 19.5% of the Group's other operating income in 2016 and in 2018, respectively. The Group also incurred realised and unrealised losses from mark-to-market valuation and sale of securities representing 20.0% of the Group's other operating income in 2017.

While the contribution of income from the Group's securities portfolio (including interest earned, trading income and other income) has been significant over the past three fiscal years, the Group expects that while interest income on the securities portfolio will continue to contribute to net operating profit, trading income will not continue to be as large going forward and the percentage of its assets invested in securities will remain constant or slightly decrease as loan demand is expected to accelerate when the Turkish economy returns to a higher pace of growth in the near future.

The Group's securities portfolio principally contains Turkish government debt securities, with more limited holdings of other securities such as corporate and foreign government debt securities. The Group's investment securities portfolio (which: (a) excludes its trading portfolio and, following the adoption of TFRS 9, financial assets measured at fair value through profit or loss and (b) includes: (i) available-for-sale securities and, following the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income and (ii) held-to-maturity securities and, following the adoption of TFRS 9, financial assets measured at amortised cost) represented 15.1%, 14.2% and 13.0%, respectively, of the Group's total assets as of 31 December 2016, 2017 and 2018. The share of the Group's investment securities portfolio in its total assets decreased slightly in 2017 and 2018 as the Group increased its cash loan lending, in part due to higher loan demand and the Group's strategy to improve its net interest margin. Until the first time adoption of TFRS 9 as of 1 January 2018, as the Group's investment securities portfolio was comprised largely of high quality securities (principally Turkish government debt, most of which was held in the financial assets available-for-sale portfolio), the Group experienced insignificant credit losses on its investment securities portfolio and established immaterial provisions relating thereto during each of 2016 and 2017.

As of 1 January 2018, the Group started to apply TFRS 9 in its BRSA Financial Statements and, accordingly, as of 1 January 2018, both financial instrument classifications and impairment calculation principles have fundamentally changed. The TAS 39 measurement categories of "financial assets valued at fair value through profit or loss/financial assets held for trading," "financial assets available-for-sale" and "investments held-to-maturity" were replaced by "financial assets measured at fair value through profit or loss," "financial assets measured at fair value through other comprehensive income" and "financial assets measured at amortised cost," respectively, as a consequence of the first time adoption of TFRS 9. TFRS 9 also changed the accounting for loan loss impairments by replacing TAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. See Note 3.8 of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018. Therefore, the Group has started to recognise expected losses at initial recognition for all financial assets measured at fair value through other comprehensive income (excluding equity instruments) and financial assets measured at amortised cost in profit or loss effective from 1 January 2018 and, accordingly, the credit losses on the securities portfolio have increased considerably compared to previous periods. Due to accounting policy changes and reclassifications made as a consequence of the implementation of TFRS 9, the figures as of 31 December 2018 are not comparable to the figures for previous periods. See Notes 5.1.4, 5.1.5 and 5.1.8 of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018, "Critical Accounting Policies – Implementation of TFRS 9 – Transition to TFRS 9" below and "Selected Statistical and Other Information – Securities Portfolio" below for further details.

Provisions for Probable Loan Losses

The Group's financial results can be significantly affected by the amount of provisions for probable loan losses. The provision expense for losses on loans and other receivables increased by 8.7% from TL 3,387,096 thousand in 2016 to TL 3,681,863 thousand in 2017. The Group's NPL ratio decreased from 3.0% as of 31 December 2016 to 2.6% as of 31 December 2017, which decline was due to strong collection performance supported by NPL sales. As a result of the first time adoption of TFRS 9 as of 1 January 2018, the Group changed the provision calculation principles for loans and other receivables from the BRSA's rule-based provisioning approach to the forward-looking ECL approach. Based upon the impairment principles of TFRS 9, the provision expense for losses on loans and other receivables in 2018 was TL 10,836,246 thousand, which was a considerable increase from previous periods; *however*, this is not comparable to the figures for the previous periods due to changes in the accounting policy and

implementation of TFRS 9 as of 1 January 2018. In 2018, the NPL ratio increased to 5.1%, which was primarily due to including both lease and factoring receivables under both the loans and the non-performing receivables line items (as applicable) as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA, a reduction in the Group's loan growth and some transfers (generally with sufficient ECL provisions) from Stage 2 (significant increase in credit risk) to Stage 3 (credit-impaired) as a consequence of the recent contraction in the growth of the Turkish economy, particularly in the fourth quarter of 2018.

Prior to 1 January 2018, in addition to the provisions that the Group was recording for NPLs according to BRSA requirements (see "Turkish Regulatory Environment – Loan Loss Reserves"), the Bank's management was taking additional provisions in the form of general reserves, which the Bank's management implemented in accordance with the conservatism principle should the management determine this to be prudent. Following the implementation of TFRS 9, such general reserve application continued as detailed below. See "Risk Factors – Risks Relating to the Group's Business – Audit Qualification."

The Group is unable to deduct general reserves from its taxable income, and thus an increase in general reserves increases the Group's effective tax rate. The Bank's management elected to allocate TL 330,000 thousand in general reserves in 2009 in order to act conservatively in the context of the uncertainty created by the global financial crisis. The Bank's management decided to maintain this general reserve in 2010 and 2011, and elected to take a further TL 90,000 thousand reserve in 2011. This general reserve remained outstanding in the Group's financial statements during 2012; *however*, in 2013 the Bank's management reversed TL 115,000 thousand of these reserves. In 2014, the Bank's management decided to increase the level of general reserves by TL 80,000 thousand to TL 415,000 thousand, but, in 2015, the Bank's management decided that certain related risks had diminished and reversed TL 73,000 thousand of these reserves. In 2016, the Bank's management further reversed TL 42,000 thousand of these reserves. In 2017, the Bank's management decided to increase the level of general reserves by TL 860,000 thousand, with the total thus reaching TL 1,160,000 thousand. In 2018, the Bank's management increased the general reserves by TL 1,090,000 thousand to TL 2,250,000 thousand due to the possible effects of negative circumstances that might arise in the economy or in market conditions. Deloitte and KPMG have qualified their respective audit and review reports included in the BRSA Financial Statements incorporated by reference into this Base Prospectus because general reserves are not permitted under the Turkish Accounting Standards. See the BRSA Financial Statements incorporated by reference into this Base Prospectus.

Critical Accounting Policies

The Group's accounting policies are integral to understanding its results of operations and financial condition presented in the BRSA Financial Statements. The Group's critical and other significant accounting policies are described in Section Three of the Group's BRSA Financial Statements incorporated by reference herein. Before the first time adoption of TFRS 9 as of 1 January 2018, the Bank's BRSA Financial Statements as of and for the years ended 31 December 2016 and 2017 were prepared in line with the then-current Turkish banking regulations (see "Selected Statistical and Other Information – Summary of Loan Loss Experience" and "Turkish Regulatory Environment"). The Group's BRSA Financial Statements as of and for the year ended 31 December 2018 were prepared in line with TFRS 9 and TFRS 15 standards. While information for 2016 and 2017 is not comparable to the information presented for 2018 due to the implementation of TFRS 9 as of 1 January 2018, the accounting policy changes as a result of implementing TFRS 15 or any other TFRS/TAS standards (except for TFRS 9 standards) effective as of 1 January 2018 did not have a significant impact on the accounting policies, financial position and performance of the Bank and its consolidated financial subsidiaries. As of the date of this Base Prospectus, the process regarding the implementation of TFRS 16 (*Leases*), which is effective as of 1 January 2019, is ongoing.

In the application of the Group's critical accounting policies, the management is required to make judgments, estimates and assumptions about future conditions. The use of available information and the application of judgment are inherent in the formation of estimates. The Group's critical accounting policies are those that are most important to the portrayal of its financial condition and results of operations and that require the Group to make its most difficult and subjective judgments, often as a result of a need to make estimates of matters that are inherently unpredictable. The Bank's management believes that, as of the date of this Base Prospectus, the Group's critical accounting policies where judgment is necessarily applied are those related to expected credit losses, business model assessment, a significant increase in credit risk, the establishment of groups of assets with similar credit risk characteristics, models and assumptions used, establishing the number and relative weightings of forward-looking scenarios and determining the forward looking information relevant to each scenario, probability of default, loss given default, fair value measurement and valuation process, valuation of defined benefit plans and income taxes. Management bases its estimates and judgments upon historical experience and various other factors that the Bank's management believes to be reasonable under the circumstances. The Group's actual results might differ from the estimates under different assumptions, judgments or conditions.

The policies related to the critical accounting judgments are outlined below. All other significant accounting policies that are necessary for a fair presentation of the Group's financial condition and results of operations are presented in Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 incorporated by reference into this Base Prospectus.

Implementation of TFRS 9

As of 1 January 2018, the Group started to apply TFRS 9 in its financial statements. The Group has not restated comparative information for financial instruments for 2017 within the scope of TFRS 9 and, as such, certain information in the Bank's and the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 is not (and such information for later periods will not be) comparable to the relevant information in the Bank's and the Group's (as applicable) BRSA Financial Statements as of and for the years ended 31 December 2017 and 2016. The total difference arising from the adoption of TFRS 9 has, as of 1 January 2018, been recognised directly in the prior periods' profit or loss as of 1 January 2018 in the statement of changes in shareholders' equity. See Note 3.29 of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 for details of the impact of the adoption of TFRS 9 as of 1 January 2018 on the consolidated financial statements. For further details regarding the implementation of TFRS 9 principles, see Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018.

Changes regarding classification and measurement of financial instruments

To determine their classification and measurement category, TFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based upon both the Group's business models for managing the assets and the instruments' contractual cash flow characteristics.

As of 1 January 2018, TAS 39 measurement categories of financial assets measured at fair value through profit or loss, available for sale and held-to-maturity were replaced by: (a) financial assets measured at fair value through profit or loss, (b) debt instruments measured at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition, (c) equity instruments measured at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition (the financial assets referred to in clauses (b) and (c) collectively being "financial assets measured at fair value through other comprehensive income"), and (d) financial assets measured at amortised cost. Further information on these categories is set out below:

Financial assets measured at fair value through profit/loss: These are financial assets other than those that are managed within a business model that aims to collect contractual cash flows or a business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the financial assets; and, if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at a certain date, that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming for short-term profits. These financial assets are initially recognised at fair value and measured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the statement of profit or loss. Interest income earned on these financial assets, and the difference between their acquisition costs and amortised costs, are recorded as interest income in the statement of profit or loss. The differences between the amortised costs and the fair values of such financial assets are recorded under trading account income/losses in the statement of profit or loss. In cases where such financial assets are sold before their maturities, the gains/losses on such sales are recorded under trading account income/losses.

Financial assets measured at fair value through other comprehensive income: These are financial assets that are managed within a business model that aims to collect contractual cash flows or a business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the financial assets. These financial assets are recognised by adding their transaction cost to their acquisition cost. After their initial recognition, these financial assets are measured at fair value; *provided* that equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost *minus* a provision for impairment. Interest income on these financial assets (calculated using an effective interest rate method) and dividend income on these financial assets are recorded to the statement of profit or loss. "Unrealised gains and losses" arising from the difference between the amortised cost and the fair value of these financial assets are not reflected in the statement of profit or loss until the sale or other disposal of the financial asset and impairment of the financial asset but are accounted under the "other comprehensive income/expense items to be recycled to profit/loss" under shareholders' equity.

Financial assets measured at amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortised cost. These financial assets are initially recognised at their acquisition cost (including the transaction costs) and are subsequently recognised at amortised cost by using an effective interest rate method. Interest income obtained from these financial assets is accounted for in the statement of profit or loss.

The accounting for financial liabilities remains largely the same as it was under TAS 39 except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss (with the condition of not impacting accounting mismatch significantly).

Under TFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based upon the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and non-financial host contracts has not changed.

Impairment

In addition to the new categorisation of financial assets, TFRS 9 changed the accounting method for loan loss impairments by replacing TAS 39's incurred loss approach with the forward-looking ECL approach, which forms an impairment model that has three stages based upon the change in credit quality since initial recognition. The ECLs are measured as an allowance equal to either 12-month ECL for Stage 1 assets or lifetime ECL for Stage 2 or Stage 3 (credit-impaired) assets. An asset moves from Stage 1 to Stage 2 when its credit risk increases significantly since initial recognition of such asset.

Expected credit losses are calculated based upon a probability-weighted estimate of credit losses (the present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due based upon the contract and the cash flows that are expected to be received. The calculation of expected credit losses per each stage is summarised below:

Stage 1: 12-month expected credit loss represents the expected credit losses that result from default events on a financial asset that are possible within the 12 months after the reporting date and are calculated as the portion of lifetime expected credit losses. This 12-month expected credit loss is calculated based upon a probability of default realised within 12 months after the reporting date. This expected 12-month probability of default is applied on an expected exposure at default, *multiplied by* the loss at a given default rate and discounted with the original effective interest rate.

Stage 2: When a financial asset has shown a significant increase in credit risk since origination, an allowance for the lifetime expected credit losses is calculated for such financial asset. It is similar to the description for Stage 1, but the probability of default and the loss at a given default rate are estimated through the life of the financial asset. Estimated cash shortfalls are discounted by using the original effective interest rate.

Stage 3: For financial assets considered to be impaired, the lifetime expected credit losses are calculated. This methodology is similar to Stage 2 and the probability of default is taken into account as 100%.

Following the adoption of TFRS 9 as of 1 January 2018, there is no difference between BRSA Accounting and Reporting Legislation and IFRS regarding impairment principles.

Hedge Accounting

TFRS 9 also introduced hedge accounting rules aiming for alignment with risk management activities; however, TFRS 9 allow companies to defer application of TFRS 9 hedge accounting rules and instead choose to continue applying hedge accounting provisions of TAS 39 as a policy choice. Accordingly, as of the date of this Base Prospectus, the Bank and its financial subsidiaries continue to apply hedge accounting in accordance with TAS 39.

Transition to TFRS 9

Reclassifications and remeasurements made for the first time application of TFRS 9 as of 1 January 2018 are set forth in the tables below and the relevant notes are explained in detail below:

<i>Assets</i>	<i>Notes</i>	<i>31 December 2017</i>	<i>TFRS9 Reclassification Effect</i>	<i>TFRS9 Measurement Effect</i>	<i>1 January 2018</i>
FINANCIAL ASSETS (Net)		107,218,398	(160,346)	586,217	107,644,269
Cash and Cash Equivalents		53,077,337	—	—	53,077,337
<i>Cash and Balances with Central Bank</i>		33,603,641	—	—	33,603,641
<i>Banks</i>		19,470,343	—	—	19,470,343
<i>Money Market Placements</i>		3,353	—	—	3,353
Financial Assets Measured at Fair Value through Profit/Loss (FVPL)	(1), (2)	2,877,813	(1,788,474)	(5,665)	1,083,674
Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)	(2)	—	28,806,639	589,805	29,396,444
Financial Assets Measured at Amortised Cost	(3)	—	21,627,374	(130,037)	21,497,337
Derivative Financial Assets	(1)	—	2,617,709	-	2,617,709
Non Performing Financial Assets		—	—	-	-
Expected Credit Losses (-)	(7)	—	160,346	(132,114)	28,232
Financial Assets Available for Sale (Net)	(2)	26,277,988	(26,277,988)	—	—
Investments Held to Maturity (Net)	(2), (3)	24,314,540	(24,314,540)	—	—
Derivative Financial Assets Held for Hedging Purpose	(1)	670,720	(670,720)	—	—
LOANS (Net)	(4)	238,521,489	(3,065,811)	(735,170)	234,720,508
Loans	(4)	227,992,612	(7,015)	-	227,985,597
<i>Performing Loans</i>	(4)	210,937,017	(19,247,411)	—	191,689,606
<i>Loans under Follow-up⁽¹⁾</i>	(4)	17,055,595	19,240,396	—	36,295,991
Lease Receivables		5,788,436	(350,014)	—	5,438,422
Factoring Receivables		3,379,768	(19,782)	—	3,359,986
Non Performing Receivables		6,176,985	711,471	—	6,888,456
Expected Credit Losses (-)	(7)	4,816,312	3,400,471	735,170	8,951,953
<i>12-Month ECL (Stage 1)</i>	(7)	—	1,654,925	(746,715)	908,210
<i>Significant Increase in Credit Risk (Stage 2)⁽¹⁾</i> ..	(7)	—	1,404,367	2,127,021	3,531,388
<i>Impaired Credits (Stage 3)⁽¹⁾</i>	(1), (7)	4,816,312	341,179	(645,136)	4,512,355
ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net)		835,552	—	—	835,552
EQUITY INVESTMENTS (Net)		152,432	—	—	152,432
Associates (Net)		35,751	—	—	35,751
Subsidiaries (Net)	(7)	116,681	—	—	116,681
Joint Ventures (Net)		—	—	—	—
TANGIBLE ASSETS (Net)		4,096,651	—	—	4,096,651
INTANGIBLE ASSETS (Net)		379,308	—	—	379,308
INVESTMENT PROPERTIES (Net)		559,388	—	—	559,388
CURRENT TAX ASSET	(8)	25,766	—	33,674	59,440
DEFERRED TAX ASSET	(8)	441,932	—	956,373	1,398,305
OTHER ASSETS	(7)	4,100,751	(12,660)	8,701	4,096,792
TOTAL ASSETS		356,331,667	(3,238,817)	849,795	353,942,645

(1) Loans under follow-up for lease and factoring receivables and the corresponding expected credit losses (ECLs) are presented in the corresponding balance sheet line items.

		31 December 2017	TFRS9 Reclassification Effect	TFRS9 Measurement Effect	1 January 2018
Notes					
			(TL thousands)		
Liabilities					
DEPOSITS.....		200,773,560	—	—	200,773,560
FUNDS BORROWED.....	(5)	47,104,719	(9,332,392)	—	37,772,327
INTERBANK MONEY MARKET FUNDS.....		18,637,856	—	—	18,637,856
SECURITIES ISSUED (NET).....	(5)	20,794,452	(34,983)	—	20,759,469
FUNDS.....		—	—	—	—
FINANCIAL LIABILITIES MEASURED AT FVTPL.....	(5)	—	9,367,375	—	9,367,375
DERIVATIVE FINANCIAL LIABILITIES.....	(6)	—	3,097,648	—	3,097,648
Derivative Financial Liabilities Measured at FVTPL.....		—	3,095,569	—	3,095,569
Derivative Financial Liabilities Measured at FVOCI.....		—	2,079	—	2,079
DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING.....	(6)	(2,898,822)	(2,898,822)	—	—
DERIVATIVE FINANCIAL LIABILITIES HELD FOR HEDGING PURPOSE.....	(6)	198,826	(198,826)	—	—
FACTORING PAYABLES.....		—	—	—	—
LEASE PAYABLES (Net).....		—	—	—	—
PROVISIONS.....		6,848,102	(3,238,817)	(122,885)	3,486,400
General Provisions.....	(7)	3,673,669	(3,673,669)	—	—
Restructuring Reserves.....		—	—	—	—
Reserve for Employee Benefits.....		909,788	—	—	909,788
Insurance Technical Provisions (Net).....		389,886	—	—	389,886
Other Provisions.....	(7)	1,874,759	434,852	(122,885)	2,186,726
CURRENT TAX LIABILITY.....	(8)	1,148,797	—	150,566	1,299,363
DEFERRED TAX LIABILITY.....		14,365	—	—	14,365
LIABILITIES FOR ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net).....		—	—	—	—
SUBORDINATED DEBTS.....		2,849,471	—	—	2,849,471
OTHER LIABILITIES.....	(9)	—	13,456,696	—	13,456,696
MISCELLANEOUS PAYABLES.....	(9)	10,376,346	(10,376,346)	—	—
OTHER EXTERNAL FUNDINGS PAYABLE.....	(9)	3,080,350	(3,080,350)	—	—
SHAREHOLDERS' EQUITY.....	(8)	41,606,001	—	822,114	42,428,115
Paid-in Capital.....		4,200,000	—	—	4,200,000
Capital Reserves.....		1,526,847	(742,413)	—	784,434
Share Premium.....		11,880	—	—	11,880
Share Cancellation Profits.....		—	—	—	—
Other Capital Reserves.....		628,285	144,269	—	772,554
Securities Value Increase Fund.....		(317,814)	317,814	—	—
Revaluation Surplus on Tangible Assets.....		1,747,869	(1,747,869)	—	—
Bonus Shares of Associates, Subsidiaries and Joint- ventures.....		912	(912)	—	—
Hedging Reserves (effective portion).....		(544,285)	544,285	—	—
Revaluation Surplus on Assets Held for Sale and Assets of Discontinued Operations.....		—	—	—	—
Other Comprehensive Income/Expense Items not to be Recycled to Profit and Loss.....		—	1,436,464	—	1,436,464
Other Comprehensive Income/Expense Items to be Recycled to Profit and Loss.....		—	661,748	396,257	1,058,005
Profit Reserves.....		29,224,949	(1,355,799)	—	27,869,150
Legal Reserves.....		1,392,259	—	—	1,392,259
Status Reserves.....		—	—	—	—
Extraordinary Reserves.....		25,901,360	—	—	25,901,360
Other Profit Reserves.....		1,931,330	(1,355,799)	—	575,531
Profit/Loss.....		6,332,056	—	433,666	6,765,722
Prior Periods Profit/Loss.....		—	—	433,666	433,666
Current Period's Net Profit/Loss.....		6,332,056	—	—	6,332,056
Minority Interests.....		322,149	—	(7,809)	314,340
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....		356,331,667	(3,238,817)	849,795	353,942,645

Explanations regarding the Notes:

(1) As of 1 January 2018, “derivative financial assets held for trading” and “derivative financial assets held for hedging purpose” amounting to TL 1,946,989 thousand and TL 670,720 thousand, respectively, in the BRSA Financial Statements as of and for the year ended 31 December 2017 were classified as “derivative financial assets.” Additionally, investment funds of TL 110,860 thousand that were classified as “available for sale financial assets” in the BRSA Financial Statements as of and for the year ended 31 December 2017 and the corresponding allowance allocated for such investment funds amounting to TL 5,665 thousand were classified as “financial assets measured at fair value through profit or loss” as of 1 January 2018.

(2) As of 1 January 2018, debt securities classified as “financial assets available for sale” and “investments held-to-maturity” in the BRSA Financial Statements as of and for the year ended 31 December 2017 amounting to TL 26,119,473 thousand and TL 2,687,166 thousand, respectively, were classified as “financial assets measured at fair value through other comprehensive income” due to the fact that they are assessed within the scope of a business model whose objective is to hold assets in order to collect contractual payments and the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In addition, as of 1 January 2018, financial assets amounting to TL 47,655 thousand in the BRSA Financial Statements as of and for the year ended 31 December 2017 were classified as “financial assets measured at fair value through profit/loss” instead of “financial assets available for sale” due to the fact that the contractual terms of such financial assets do not meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. On the other hand, some equity instruments that were classified as “financial assets available for sale” in the BRSA Financial Statements as of and for the year ended 31 December 2017 were classified under “financial assets measured at fair value through other comprehensive income.”

(3) As of 1 January 2018, debt securities amounting to TL 21,627,374 thousand that were classified under “investments held to maturity” in the BRSA Financial Statements as of and for the year ended 31 December 2017 were classified as “financial assets measured at amortised cost” due to the fact that they are assessed within the scope of a business model whose objective is to hold assets in order to collect contractual payments and the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(4) As of 1 January 2018, there exists no loan balance that does not meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Loans amounting to TL 19,247,411 thousand that were classified as “performing loans” in the BRSA Financial Statements as of and for the year ended 31 December 2017 were reclassified as “loans under follow-up” due to having a significant increase in credit risk. In addition, as of 1 January 2018, loans amounting to TL 7,015 thousand that were classified as “loans under follow-up” in the prior year’s financial statements have been reclassified as “non-performing loans.”

(5) As of 1 January 2018, “future flow” transactions amounting to TL 9,332,392 thousand that were classified under “funds borrowed” and “securities issued” in total amounting to TL 34,983 thousand in the BRSA Financial Statements as of and for the year ended 31 December 2017 were reclassified as “financial liabilities measured at fair value through profit or loss.”

(6) As of 1 January 2018, “derivative financial liabilities held for trading” and “derivative financial liabilities held for hedging purpose” amounting to TL 2,898,822 thousand and TL 198,826 thousand, respectively, in the BRSA Financial Statements as of and for the year ended 31 December 2017 were reclassified as “derivative financial liabilities.”

(7) As of 1 January 2018, expected losses calculated based upon TFRS 9 were classified into the relevant line items by reversing the entire amount of previously recorded “general provisions.” While expected losses calculated for financial assets and loans are classified in the relevant expected losses line items under “assets,” expected losses calculated for non-cash loans are classified as “other provisions” under “liabilities.” As of 1 January 2018, non-performing lease and factoring receivables that were classified under “leasing receivables” and “factoring receivables” on a net basis in the BRSA Financial Statements as of and for the year ended 31 December 2017 were classified as “non-performing receivables” and “expected credit losses” on a gross basis. Expected losses allocated for other assets are also classified on the relevant line item on a net basis.

(8) As of 1 January 2018, due to the first time adoption of TFRS 9, total shareholders’ equity increased (after tax) by TL 822,114 thousand, which amount consisted of a positive classification impact of financial assets of TL 454,103 thousand, a negative expected credit losses calculation impact amounting to TL 471,470 thousand and a positive current and deferred tax impact amounting to TL 839,481 thousand.

(9) As of 1 January 2018, “miscellaneous payables” amounting to TL 10,376,346 thousand and “other external fundings” amounting to TL 3,080,350 thousand in the BRSA Financial Statements as of and for the year ended 31 December 2017 were reclassified as “other liabilities.”

Impairment of Financial Assets and Loan Loss Reserves

The Group's accounting policy for losses/expected credit losses arising from the impairment of customer loans and other financial assets is described in Notes 3.8 and 3.30 of Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018. Under TFRS 9, the measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information, which is based upon assumptions for future movement of different economic drivers and how these drivers will affect each other. These estimates are driven by a number of factors, changes in which might result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. See Note 3.8 of Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 for further discussions about impairment.

The Group reviews its financial assets as of each balance sheet date to determine whether there is objective evidence of impairment. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to the original contractual terms of a loan, then the loan is considered impaired and classified as an "NPL." Following the implementation of TFRS 9, as of 1 January 2018, Stage 3 (credit-impaired) loans are classified as NPLs. The Group considers an asset to be in default in the following two conditions:

(a) *Objective Default:* There is an objective default if the debt is past due more than 90 days, and

(b) *Subjective Default:* There is a subjective default if a debt is unlikely to be paid regardless of the existence of any past-due amount or the number of days past due.

Accordingly, if there is either an objective default or a subjective default, then the Group considers a financial instrument defaulted and therefore classifies as a Stage 3 (credit-impaired) loan.

Starting from 1 January 2018, the allowance for a loan 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, including any probable foreclosure of collateral. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

Any expected credit loss assessment is performed either on a collective basis or an individual basis. Collective assessment is applied for segments defined on the basis of similar risk characteristics. On the other hand, individual assessment is performed for loans that are individually significant and exhibit specific characteristics. Accordingly, certain commercial and corporate loans are individually assessed. Calculations are performed by discounting the expected cash flows for the individual financial instrument to its present value using the effective interest rate.

See also the discussion under "Significant Factors Affecting the Group's Financial Condition and Results of Operations – Provisions for Probable Loan Losses" for further risk assessment of the Group regarding probable loan losses and "Selected Statistical and Other Information – Summary of Loan Loss Experience" below for classification of the Group's loan portfolio and provisions that were required to be reserved before the adoption of TFRS 9 as of 1 January 2018.

Fair Value of Securities

The Group's securities are classified as either financial assets at fair value through profit or loss (after the adoption of TFRS 9, financial assets measured at fair value through profit or loss) or investment securities (which include both financial assets available-for-sale and investments held-to-maturity (financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, respectively, after the adoption of TFRS 9)). While investments held-to-maturity were recorded at their acquisition cost and measured at amortised cost calculated as per the effective interest rate method, the Group's financial assets available-for-sale (net) (which collectively represented 50.7% of the Group's total securities portfolio (excluding derivative financial assets held for trading classified under financial assets at fair value through profit or loss (net) until transition to TFRS 9 as of 1 January 2018) as of 31 December 2016 and 51.0% as of 31 December 2017) were recorded at fair value, with changes in fair value being recorded in income (for the trading portfolio and where there is an impairment or sale of financial assets available-for-sale) or shareholders' equity (for mark-to-market movements in financial assets available-for-sale).

As of 31 December 2018, after the first time adoption of TFRS 9: (a) financial assets measured at amortised cost were recorded at their acquisition cost and measured at amortised cost calculated as per the effective interest rate method and (b) financial assets measured at fair value through other comprehensive income (which collectively represented 51.9% of the Group's total securities portfolio as of 31 December 2018) were recorded at fair value, with changes in fair value being recorded in income (for the trading portfolio and where there is an impairment or sale of financial assets measured at fair value through other comprehensive income) or shareholders' equity (for mark-to-market movements in financial assets measured at fair value through other comprehensive income). Due to accounting policy changes and reclassifications made as a consequence of business model assessments based upon TFRS 9, the figures as of 31 December 2018 are not comparable to the figures for the previous periods.

The following table sets out the distribution of the Group's securities recorded at fair value as of each of the indicated dates (using the terminology in effect after the implementation of TFRS 9 on 1 January 2018):

	31 December		
	2016	2017	2018
	<i>(TL thousands)</i>		
Financial assets at fair value through profit or loss (net) (excluding derivative financial assets held for trading)	191,828	930,824	559,876
Financial assets available-for-sale (net).....	23,983,448	26,277,988	—
Financial assets measured at fair value through other comprehensive income.....	—	—	27,162,953
Total.....	24,175,276	27,208,812	27,722,829

Fair value is defined as the value at which a position could be closed out or sold in a transaction with a willing and knowledgeable unrelated party, without any deduction for transaction costs. The Group estimates fair value using quoted market prices when available. When quoted market prices are not available, the Group uses a variety of models that include dealer quotes, pricing models and quoted prices from instruments with similar characteristics or discounted cash flows. The determination of fair value when quoted market prices are not available involves judgment by the Group's management. There is often limited market data to rely upon when estimating the impact of holding a large or aged position. Similarly, judgment must be applied in estimating prices when no external parameters exist. Other factors that can affect the estimates of fair value include incorrect model assumptions and unexpected correlations. The imprecision in estimating these factors might affect the amount of revenue or loss recorded for a specific asset or liability. As of 31 December 2018, the Group held financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income for which it could not use market prices or observable market inputs to determine fair value representing only 0.03% of its total assets.

In addition to the trading securities and, after the adoption of TFRS 9, financial assets measured at fair value through profit or loss and financial assets available-for-sale and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income, the Group also monitors the fair value of its investments held-to-maturity and, after the adoption of TFRS 9, financial assets measured at amortised cost to determine whether a decline in their fair value reflects that a write-down would be appropriate, which occurs if such a decline represents a loss event as described in Note 3.8 of Section Three of the BRSA Financial Statements as of and for the year ended 31 December 2018. Factors that are used by the Group's management in determining whether a decline is other than temporary and represents a loss event include the credit quality of the issuer, the conditions of the issuer's operations and business segments, the observed period of the loss, the degree of the loss and management's expectations. In addition, as a consequence of the TFRS 9 adoption as of 1 January 2018, the Group has also started to calculate expected credit losses at initial recognition for all financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income that have not yet experienced a loss event.

Derivatives

The Group enters into transactions with derivative instruments, including forward contracts, swaps and options in the foreign exchange and capital markets. For example, the Group enters into interest rate swap transactions in order to hedge certain cash flow exposures primarily on floating rate assets and liabilities through converting its floating rate income/payments into fixed rate income/payments. These derivative transactions are considered to be effective economic hedges under the Group's risk management policies but (other than transactions in which the hedge accounting relationship is evidenced), if they do not qualify for hedge accounting under the specific provisions of TAS 39, are treated as trading derivatives. Derivative financial instruments are recognised in the balance sheet at their fair value.

The fair value of financial instruments is based upon their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, then the fair value of a derivative is estimated using the available market information and the appropriate valuation methodologies; *however*, judgment is necessarily required to interpret market data in order to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realised in an actual transaction.

The fair value of a derivative that is not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract as of the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. All derivatives are carried as assets when fair value is positive and recorded in the balance sheet under “derivative financial assets measured at fair value through profit or loss” and as liabilities when fair value is negative and recorded in the balance sheet under “derivative financial liabilities measured at fair value through profit or loss.” For derivatives that do not qualify for special hedge accounting (which are held for trading purpose instead), any gains or losses arising from changes in fair value are taken directly to income for the period as a component of “trading income/losses (net)” whereas gains and losses on derivative financial assets held for cash flow hedges are reflected directly as a separate component of shareholders’ equity and reclassified to income when the hedged transaction is settled. TFRS 9 permits to defer application of TFRS 9 hedge accounting and continue to apply hedge accounting in accordance with TAS 39 as a policy choice. Accordingly, the Group has continued to apply hedge accounting in accordance with TAS 39 in this context.

Defined Benefit Plan

As described in “Management – Compensation – Pension Plans,” the Bank has a defined benefit plan for its Turkish employees (*i.e.*, the Fund described therein). As described therein, certain of the assets and obligations of the Fund are subject to transfer to the Social Security Institution of Turkey (*Türkiye Cumhuriyeti Sosyal Güvenlik Kurumu*) (the “SSF”) and the SSF is required to collect the unfunded portion (if any) from the employee benefit funds and the banks employing the relevant fund participants, which will be severally liable, in annual instalments to be paid over a period of up to 15 years. If there is a shortfall at the time of the transfer of the fund (as determined by the SSF), then the Bank would be liable to make the supplemental payments described above for 15 years.

The excess benefits, which are not subject to the transfer to the SSF, are accounted for in the Group’s BRSA Financial Statements in accordance with TAS 19 (“Employee Benefits”). The obligation in respect of this retained portion of the benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, which benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognised past service costs and the fair value of any plan assets are deducted.

Taxation

Income tax is calculated on the basis of taxable income as calculated by applicable tax laws, which differ in certain material respects from BRSA Accounting and Reporting Legislation. The Group’s effective tax rate was 20.7% in 2016, 23.5% in 2017 and 23.4% in 2018. In preparing its financial statements, the Group is required to estimate taxes on income, which involves an estimation of current tax expenses together with an assessment of temporary differences resulting from differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group’s carrying value of deferred tax assets assumes that the Group will be able to generate sufficient future taxable income based upon estimates and assumptions. If these estimates and related assumptions change in the future, then the Group might be required to record valuation allowances against its deferred tax assets resulting in additional tax expense in its income. The Group evaluates the recoverability of the deferred tax assets on each business day.

Key Performance Indicators

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

Ratios	As of (or for the year ended) 31 December		
	2016	2017	2018 ⁽⁴⁾
Net interest margin	4.8%	5.3%	6.0%
Net fees and commissions income/expenses to total operating profit ..	19.4%	19.6%	18.0%
Cost-to-income ratio	50.3%	46.2%	48.8%
Operating expenses to average total assets	2.4%	2.2%	2.2%
NPL ratio	3.0%	2.6%	5.1%
Group's capital adequacy ratios			
Tier 1 capital adequacy ratio ⁽¹⁾	13.6%	14.7%	14.2%
Common equity Tier 1 capital adequacy ratio ⁽²⁾	13.6%	14.7%	14.2%
Total capital adequacy ratio ⁽³⁾	14.7%	16.8%	16.5%
Allowance for probable loan losses to NPLs / expected credit losses to NPLs	130.7%	137.4%	95.2%
Return on average total assets	1.7%	1.9%	1.7%
Return on average shareholders' equity	15.2%	16.3%	14.8%
Loan-to-deposit ratio	112.0%	113.6%	104.4%
Loan loss provisions to gross loans / expected credit losses to gross loans	1.2%	0.7%	2.5%

(1) The "Tier 1" capital adequacy ratio is calculated by dividing the "Tier 1" capital (after required deductions) by the aggregate of the value at credit risk, value at market risk and value at operational risk. See "– Capital Adequacy" below.

(2) The common equity Tier 1 capital adequacy ratio is calculated by dividing the "Common Equity Tier 1" capital (after required deductions) by the aggregate of the value at credit risk, value at market risk and value at operational risk. See "– Capital Adequacy" below.

(3) The total capital adequacy ratio is calculated by dividing: (a) the "Tier 1" capital (*i.e.*, its share capital, reserves and retained earnings) *plus* the "Tier 2" capital (*i.e.*, the "supplementary capital," which comprises general provisions, subordinated debt, unrealised gains/(losses) on available-for-sale assets and revaluation surplus (reduced by certain items such as leasehold improvements and intangibles)) and *minus* items to be deducted from capital (the "deductions from capital," which comprises items such as unconsolidated equity interests in financial institutions and assets held for resale but held longer than five years), by (b) the aggregate of the risk-weighted assets and off-balance sheet exposures (*i.e.*, value at credit risk), value at market risk and value at operational risk. See "Capital Adequacy" below.

(4) As of 1 January 2018, the Group started to apply TFRS 9 in its BRSA financial statements, *however*, it has not restated the comparative information for the prior periods within the scope of TFRS 9. Therefore, the information provided as of (or for the year ended) 31 December 2016 and 2017 is not comparable to the information presented as of (or for the year ended) 31 December 2018.

The calculation of the Group's net interest margin for the indicated periods is as follows:

	2016	2017	2018
	<i>(TL thousands, except percentages)</i>		
Net interest income	12,255,733	15,686,570	20,876,933
Average interest-earning assets	257,056,721	296,327,234	346,062,400
Net interest margin	4.8%	5.3%	6.0%

The calculation of the Group's net fees and commissions income/expenses to total operating profit for the indicated periods is as follows:

	2016	2017	2018
	<i>(TL thousands, except percentages)</i>		
Net fees and commissions income/expenses ..	3,275,690	3,860,413	5,102,687
Total operating profit	16,910,434	19,655,056	28,358,989
Net fees and commissions income/expenses to total operating profit	19.4%	19.6%	18.0%

The calculation of the Group's cost-to-income ratio for the indicated periods is as follows:

	2016	2017	2018
	<i>(TL thousands, except percentages)</i>		
Net interest income.....	12,255,733	15,686,570	20,876,933
Net fees and commissions income/expenses	3,275,690	3,860,413	5,102,687
Net trading income/losses	(743,653)	(1,842,027)	(1,145,747)
Dividend income	9,088	7,816	7,691
Other income.....	2,113,576	1,942,284	3,517,425
Provisions for loans, provisions for marketable securities and general reserves	(2,930,441)	(3,148,923)	(10,387,479)
Total income	13,979,993	16,506,133	17,971,510
Other operating expenses	7,032,388	7,623,756	8,768,985
Total cost	7,032,388	7,623,756	8,768,985
Cost-to-income ratio.....	50.3%	46.2%	48.8%

The Group's other operating expenses for 2016 and 2017 are the other operating expenses (which at that time included personnel expenses) for the relevant period in the Group's BRSA Financial Statements as of and for the years ended 31 December 2016 and 2017. For 2018, the Group's other operating expenses in the above table reflect the sum of the other operating expenses and (due to a change to the presentation of the financial statements as per new rules introduced by the BRSA effective from 1 January 2018) the new separate line item for personnel expenses, both as provided in the Group's BRSA Financial Statements as of and for the year ended 31 December 2018.

The calculation of the Group's operating expenses to average total assets for the indicated periods is as follows:

	2016	2017	2018
	<i>(TL thousands, except percentages)</i>		
Other operating expenses	7,032,388	7,623,756	8,768,985
Average total assets.....	296,138,366	340,161,190	400,060,338
Operating expenses to average total assets	2.4%	2.2%	2.2%

The calculation of the Group's NPL ratio for the indicated dates is as follows:

	As of 31 December		
	2016	2017	2018 ⁽¹⁾
	<i>(TL thousands, except percentages)</i>		
Loans	200,075,724	227,992,612	255,889,505
NPLs.....	6,124,461	6,176,985	13,753,384
Total loans.....	206,200,185	234,169,597	269,642,889
NPL ratio	3.0%	2.6%	5.1%

(1) As a result of the adoption of TFRS 9 as of 1 January 2018, the Group changed the provision calculation principles for loans and other receivables from the BRSA's rule based provisioning approach to the forward-looking ECL approach and, as a result, the figures for 2018 are not comparable to the figures for the previous periods.

The calculation of the Group's allowance for probable loan losses to NPLs (or, after the implementation of TFRS 9 as of 1 January 2018, expected credit losses to NPLs) for the indicated dates is as follows:

	As of 31 December		
	2016	2017	2018
	<i>(TL thousands, except percentages)</i>		
Specific provisions	4,791,089	4,816,312	-
Expected credit losses (Stage 3)	-	-	8,124,589
General provisions	3,215,533	3,673,669	-
Expected credit losses (Stages 1 & 2)	-	-	4,969,439
Total provisions	8,006,622	8,489,981	13,094,028
NPLs.....	6,124,461	6,176,985	13,753,384
Allowance for probable loan losses to NPLs / expected credit losses to NPLs	130.7%	137.4%	95.2%

The calculation of the Group's return on average shareholders' equity for the indicated periods is as follows:

	2016	2017	2018
	<i>(TL thousands, except percentages)</i>		
Net profit/(loss)	5,147,759	6,387,974	6,706,605
Average shareholders' equity	33,924,259	39,085,286	45,164,334
Return on average shareholders' equity	15.2%	16.3%	14.8%

The calculation of the Group's return on average total assets for the indicated periods is as follows:

	2016	2017	2018
	<i>(TL thousands, except percentages)</i>		
Net profit/(loss)	5,147,759	6,387,974	6,706,605
Average total assets	296,138,366	340,161,190	400,060,338
Return on average total assets	1.7%	1.9%	1.7%

The calculation of the Group's loan loss provisions to gross loans (or, after the implementation of TFRS 9 as of 1 January 2018, expected credit losses to gross loans) for the indicated dates is as follows:

	As of 31 December		
	2016	2017	2018
	<i>(TL thousands, except percentages)</i>		
Specific provisions for loans and other receivables	2,717,101	1,782,034	-
Expected credit losses (Stage 3)	-	-	5,012,604
General provisions	213,321	497,877	-
Expected credit losses (Stages 1 & 2)	-	-	4,245,176
Total provision expenses	2,930,422	2,279,911	9,257,780
Collections	(656,107)	(727,291)	2,464,810
Net provision expense	2,274,315	1,552,620	6,792,970
Average total cash loans	186,667,435	220,056,324	267,427,429
Loan loss provisions to gross loans / expected credit losses to gross loans	1.2%	0.7%	2.5%

Analysis of Results of Operations for the Years Ended 31 December 2016, 2017 and 2018

As of 31 December 2018, the Bank had the following market shares among commercial banks (each as measured on a bank-only basis): (a) based upon BRSA weekly data, 10.6% of performing loans, 14.0% of consumer loans (including credit cards), 12.3% of consumer mortgage loans, 20.2% of consumer credit cards, 11.1% in customer deposits and 12.6% in customer demand deposits, and (b) based upon BRSA monthly data, 10.6% of total assets, 14.0% in net fees and commissions and 14.0% in net income.

The following summary financial and operating data as of and for the years ended 31 December 2016, 2017 and 2018 have been extracted from the Group's BRSA Financial Statements incorporated by reference into this Base Prospectus, without material adjustment. This information should be read in conjunction with such BRSA Financial Statements (including the notes thereto), which have been audited by Deloitte or KPMG, as applicable. See "Risk Factors – Risks Relating to the Group's Business – Audit Qualification."

The table below summarises the Group's income statement and (after the change to the presentation of the financial statements as per new rules introduced by the BRSA) statement of profit or loss for the indicated years, the components of which are described in greater detail in the following sections:

	2016	2017	2018 ⁽¹⁾
		(TL thousands)	
Interest income	22,617,659	28,360,370	41,246,027
Interest expense	(10,361,926)	(12,673,800)	(20,369,094)
Net interest income	12,255,733	15,686,570	20,876,933
Net fees and commissions income/expenses	3,275,690	3,860,413	5,102,687
Dividend income.....	9,088	7,816	7,691
Net trading income/losses (net)	(743,653)	(1,842,027)	(1,145,747)
Other operating income	2,113,576	1,942,284	3,517,425
Total operating profit.....	16,910,434	19,655,056	28,358,989
Provisions for losses on loans and other receivables	(3,387,096)	(3,681,863)	—
Expected credit losses.....	—	—	(10,836,246)
Other operating expenses ⁽²⁾	(7,032,388)	(7,623,756)	(8,768,985)
Profit/(loss) before taxes.....	6,490,950	8,349,437	8,753,758
Provision for taxes	(1,343,191)	(1,961,463)	(2,047,153)
Net profit/(loss)	5,147,759	6,387,974	6,706,605
Attributable to equityholders of the Bank.....	5,105,291	6,332,056	6,641,652
Attributable to minority interests	42,468	55,918	64,953

- (1) As of 1 January 2018, the Group started to apply TFRS 9 in its BRSA financial statements, *however*, it has not restated the comparative information for the prior periods within the scope of TFRS 9. Therefore, the information for 2016 and 2017 is not comparable to the information presented for 2018.
- (2) Prior to 1 January 2018, "personnel expenses" were accounted for under "other operating expenses" line item. Effective as of 1 January 2018, personnel expenses are presented as a separate line item under "total operating profit" due to a change to the presentation of the financial statements as per new rules introduced by the BRSA. Therefore, for comparison purposes, this line item includes personnel expenses amounting to TL 3,645,278 thousand in 2018. See "Significant Factors Affecting the Group's Financial Condition and Results of Operations - Key Performance Indicators."

Net Profit/(Loss)

The Group's net profit/(loss) for a period is calculated by reducing its total operating profit for such period by expected credit losses (since 1 January 2018) / provisions for losses (prior to 1 January 2018) on loans and other receivables, other operating expenses and provision for taxes for such period. The Group's net profit/(loss) for 2018 was TL 6,706,605 thousand, a 5.0% increase from TL 6,387,974 thousand in 2017, which itself was a 24.1% increase from TL 5,147,759 thousand in 2016. The net profit/(loss) for these three years was affected by certain exceptional items, which are quantified in the table below:

	2016	2017	2018
		(TL thousands)	
<i>Exceptional items</i>			
Sale/liquidation of equity participations and other assets..	(257,483)	(14,278)	—
Sale of NPLs.....	(80,944)	(75,957)	(126,328)
Other operating expenses ⁽¹⁾	629,956	270,771	—
General reserves ⁽²⁾	(42,000)	860,000	1,090,000
Tax effects of the items listed above.....	20,629	15,191	13,000
Total impact on net profit/(loss)	270,158	1,055,727	976,672
Net profit/(loss)	5,147,759	6,387,974	6,706,605
Net profit/(loss) adjusted for exceptional items	5,417,917	7,443,701	7,683,277

- (1) This figure includes repayments of fees and commissions to customers recognised in prior years and the related legal expenses borne by the Bank as per decisions of the Turkish Competition Board or other relevant courts.
- (2) See "Provisions for Probable Loan Losses" above. As such general reserves are not permitted under the BRSA Accounting and Reporting Legislation, the Group's independent auditors noted this departure in the Group's BRSA Financial Statements by qualifying their audit opinion. Should the Bank's management determine that market conditions have improved to such an extent that such additional provisions are not required, then they might elect to reverse such reserves in future periods, which would have the result of increasing income in such period.

Net profit/(loss) adjusted for exceptional items increased by 3.2% in 2018 as compared to the amount in 2017, which amount was an increase of 37.4% as compared to the amount in 2016. In 2018, this increase was a result of the increase in the net interest income together with fee growth and increased efficiencies through disciplined cost

management. In 2017, the increase in net profit/(loss) adjusted for exceptional items was also a result of the significant expansion of the net interest margin together with fee growth and increased efficiencies through disciplined cost management.

The following sections describe the components of the Group's net profit/(loss) (*i.e.*, total operating profit, other operating expenses and provision for taxes) in greater detail.

Total Operating Profit

The Group's total operating profit is comprised of its net interest income, net fees and commissions income/expenses, dividend income, net trading income/losses and other operating income. Each of these is described in greater detail below. The following table identifies the share that these categories have represented in the Group's total operating profit before taxes for each of the indicated years:

	2016	2017	2018
Net interest income	72.5%	79.8%	73.6%
Net fees and commissions income/expenses	19.4%	19.6%	18.0%
Dividend income	0.1%	0.0%	0.0%
Net trading income/losses	(4.4)%	(9.4)%	(4.0)%
Other operating income	12.4%	10.0%	12.4%

Net Interest Income

The Group's net interest income is the difference between its interest income and its interest expense (each described below) and is the principal area of income for the Group. As a result, the differential between the interest rates that the Group receives on interest-earning assets and the interest rates that it pays on interest-bearing liabilities (*i.e.*, its average spread) and the volume of such assets and liabilities have the most significant impact on the Group's results of operations. This net interest income represented 72.5%, 79.8% and 73.6% of the Group's total operating profit in 2016, 2017 and 2018, respectively.

Net interest income amounted to TL 20,876,933 thousand in 2018, which was a 33.1% increase from TL 15,686,570 thousand in 2017, which itself was a 28.0% increase from TL 12,255,733 thousand in 2016. There has been a general decline in margins in the Turkish market from 2010 onwards as a result of increased competition across all sectors of the Group's business; *however*, the Group's net interest margins (as further described below) and volumes, especially in lending activities (as further described in "Assets - Loans" below), increased in 2018 when compared to 2017 mainly as a result of increases in both interest rates and size of interest-earning assets, especially loans.

The Group's net interest margin was 6.0% in 2018, compared to 5.3% in 2017 and 4.8% in 2016. The improvements in the Group's net interest income in 2017 resulted in large part from the significant increase in the size of the loan portfolio, which was aided by an increase in the yield on loans. This result derived from the Group's focus on more profitable products with a selective lending strategy, while benefitting from Turkey's rapid growth in 2017 and lending under the KGF programme. In 2018, in addition to the Group's strategy of being focused on more profitable products, the increase in the Group's net interest income also resulted from an increase in both interest rates and inflation, particularly in the second half of the year.

The average spread for the Bank declined in 2018 principally due to the repricing of interest-bearing liabilities (principally deposits) faster than interest-bearing assets (principally loans having longer repricing duration as a consequence of sharp increase in interest rate environment). The average spread for the Group remained essentially flat in 2018. See also "– Significant Factors Affecting the Group's Financial Condition and Results of Operations – Interest Rate Environment."

Interest income and interest expense are discussed in greater detail below.

Interest Income. Interest income is the interest (including the amortisation of interest-earning assets purchased at a discount and the interest component of lease receivables entered into for margin management purposes) and certain loan-related fees (such as closing fees received on project finance loans) received by the Group on its interest-earning assets, principally loans and debt securities. Interest income is a function of both the volume of interest-earning assets and the yield that the Group earns on these holdings. In 2018, the Group's interest income increased by 45.4% to TL 41,246,027 thousand from TL 28,360,370 thousand in 2017, which itself was an increase of 25.4% from TL 22,617,659 thousand in 2016. The following table sets out the interest earnings on the Group's interest-earning assets during each of the indicated years:

	2016	2017	2018 ⁽¹⁾
		(TL thousands)	
Interest income on loans ⁽²⁾	17,577,562	21,912,595	30,971,635
Interest income on reserve deposits	238,038	222,596	324,582
Interest income on banks	205,126	451,750	640,894
Interest income on money market transactions.....	7,294	14,022	37,728
Interest income on securities portfolio	3,694,801	4,791,622	8,261,754
Financial lease income	433,225	442,460	539,811
Other interest income	461,613	525,325	469,623
Total interest income	22,617,659	28,360,370	41,246,027

(1) As of 1 January 2018, the Group started to apply TFRS 9 in its BRSA financial statements, *however*, it has not restated the comparative information for financial instruments within the scope of TFRS 9 for the prior periods. Therefore, the information for 2016 and 2017 is not comparable to the information presented for 2018.

(2) Interest income on the factoring business was presented under “other interest income” as of 31 December 2016 and 2017 and under “interest income on loans” as of 31 December 2018. Interest income from the factoring business was TL 240,427 thousand, TL 281,143 thousand and TL 471,010 thousand as of 31 December 2016, 2017 and 2018, respectively. See “Critical Accounting Policies – Implementation of TFRS 9 – Transition to TFRS 9.”

As noted above, interest income is a function of both the volume of, and yield earned on, the Group’s interest-earning assets. In 2017 and 2018, the increase in interest income was principally due to a 24.7% and 41.3% increase, respectively, in “interest income on loans” resulting largely from increasing loan volumes (including under the KGF programme (mostly in 2017)) and improved yields through the Group’s selective lending strategy on more profitable products. In 2017, though holding a smaller nominal impact than interest income on loans, the increase was also driven by a 29.7% increase in “interest income on securities portfolio,” which increase benefitted from high real yields provided by CPI-linked securities with higher yields due to the high inflation environment. In 2018, the increasing trend in “interest income on securities portfolio” continued with a 72% increase, which was due both to a sharp increase in interest rates and considerably higher yields provided by CPI-linked securities as a result of the high inflation environment.

The following table sets forth the average yield earned by the Bank (daily average) and the Group (quarterly average) on certain interest-earning assets for the indicated years. For additional information with respect to the Bank’s interest income, including with respect to Turkish Lira- and foreign currency-denominated assets, see “Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders’ Equity; Interest Rates and Interest Differential – Average Balance Sheet and Interest Data” and “– Net Changes in Interest Income and Expense – Volume and Rate Analysis.”

	2016	2017	2018
Total average yield for the Bank	9.41%	10.68%	13.53%
Deposits at banks	2.01%	4.56%	4.78%
Investments in securities	9.26%	11.59%	19.82%
Loans and advances to customers	10.18%	10.86%	13.05%
Total average yield for the Group	8.77%	9.72%	12.39%

The increase in the yield earned by the Bank in 2017 compared to 2016 primarily resulted from the Bank’s strategy to improve net interest margin and focus on income from core banking operations. In 2018, as the Bank followed the same strategy, there were further improvements in yields in 2018 when compared to 2017.

The growth in the Group’s interest income in the past three years was primarily due to strong increases in both the size of its loan portfolio and the yield earned on its interest-earning assets. While the Bank’s management expects that, in the near future, lending growth will continue and that yields also will likely increase in the rising global interest rate environment, the positive impact in 2017 of high levels of earnings on CPI-linked securities and the lending under the KGF programme did not have a meaningful impact in 2018. On the other hand, despite an 11.25% rate hike by the Central Bank, the Bank maintained its net interest margin in Turkish Lira-denominated assets. The Bank’s management believes that the challenging macroeconomic conditions experienced in 2018 are unlikely to return in 2019 and thus does not envisage deterioration in the Group’s net interest margin during 2019.

Interest Expense. Interest expense is the interest and certain loan-related fee expenses (such as fees paid on syndicated loans) of the Group on its interest-bearing liabilities, principally time deposits. As with interest income, interest expense is a function of both the volume of interest-bearing liabilities and the interest rates that the Group pays on these liabilities. In 2018, the Group’s interest expense increased by 60.7% to TL 20,369,094 thousand from TL 12,673,800 thousand in 2017, which itself was an increase of 22.3% from TL 10,361,926 thousand in 2016. The

following table sets out the interest expense on the Group's interest-bearing liabilities by category during each of the indicated years:

	2016	2017	2018
		(TL thousands)	
Interest on deposits.....	7,000,456	8,439,849	14,756,253
Interest on funds borrowed.....	1,143,112	1,323,169	1,965,032
Interest on money market transactions.....	1,098,821	1,309,125	1,193,709
Interest on securities issued.....	1,094,527	1,579,644	2,388,905
Other interest expenses	25,010	22,013	65,195
Total interest expense	10,361,926	12,673,800	20,369,094

The increase in the Group's interest expense in 2018 was principally in line with the increase in the size of its funding base and interest rates. As noted above, changes in the interest rates that the Group pays on its interest-bearing liabilities significantly affect the Group's interest expense. As the Group's interest-bearing deposits represent the largest portion of its liabilities (49.8%, 48.7% and 53.4%, respectively, as of 31 December 2016, 2017 and 2018), the interest rates that the Group pays on its deposits typically have the largest impact on the Group's interest expense. The following table sets forth the average interest rates paid by the Bank (daily average) and the Group (quarterly average) on interest-bearing deposits and other interest-bearing liabilities for the indicated years:

	2016	2017	2018
Total interest rates for the Group.....	5.22%	5.62%	7.75%
Total interest rates for the Bank.....	5.15%	5.66%	7.75%
Deposits.....	5.10%	5.61%	8.11%
Short-term debt (one year or less)	7.77%	8.26%	9.36%
Long-term debt.....	4.32%	5.01%	6.04%
Repurchase agreements	7.57%	8.18%	17.47%

In 2017, the increase in the interest rates was principally due to the increasing interest rate environment, which environment also continued in 2018, especially in the second half of 2018. See “- Financial Condition - Liabilities” below.

For additional information with respect to the Bank's interest expense, including with respect to the size of and yield paid on Turkish Lira- and foreign currency-denominated liabilities, see “Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Liabilities – Average Interest-Bearing Liabilities” and “- Net Changes in Interest Income and Expense – Volume and Rate Analysis.” In addition, certain information on the interest rates paid by the Group on its interest-bearing liabilities can be found in “Selected Statistical and Other Information – Funds Borrowed and Certain Other Liabilities” below.

Net Fees and Commissions Income/Expenses

The second largest component of the Group's operating income is its net fees and commissions income/(expenses). The Group earns fee and commission income on both capital-intensive products (such as origination fees on cash loans and fees for credit cards, letters of credit and guarantees) and capital-free products (such as money transfers, payment system fees, investment advice and brokerage fees in respect of debt and equity trading). The principal drivers for fee and commission income are money transfer and payment system fees. The Bank's management expects the contribution of fee and commission income to the Group's overall operating income to increase, particularly with the expected growth in its money transfer and payment system fees; *however*, the Turkish government periodically imposes limits or prohibitions on fees and commissions that a bank may charge for certain banking services, and the adoption of any such limits or prohibitions might result in lower fees and commissions income for the Group.

The Group's net fees and commissions income/expenses for 2018 was TL 5,102,687 thousand, an increase of 32.2% from TL 3,860,413 thousand in 2017, which itself was an increase of 17.9% from TL 3,275,690 thousand in 2016. In 2017, the further growth in the volume of consumer, SME and commercial loans and credit cards led to higher fees and commissions. While strong growth was experienced throughout the Group's fee and commission sources in 2018, this increase was primarily due to the increase in interest rates during the year - for example, some payment system fees, such as merchant fees and interchange fees, are linked to prevailing market rates and the 1,125 basis points increase in the Central Bank's funding costs resulted in an extraordinary 32% increase in net fees and commissions income in 2018. The Bank's management does not anticipate the increase in 2018 in net fees and commissions income to be sustainable, and in fact net fees and commissions income might decline if market interest rates are reduced.

The following table sets out the breakdown of the Group's fees and commissions income and expenses and their respective amounts during each of the indicated years:

	2016	2017	2018
		(TL thousands)	
Fees and commissions received	4,324,798	5,118,766	6,944,272
Non-cash loans	345,061	433,188	587,647
Others	3,979,737	4,685,578	6,356,625
Fees and commissions paid	1,049,108	1,258,353	1,841,585
Non-cash loans	3,481	3,868	2,238
Others	1,045,627	1,254,485	1,839,347
Net Fees and Commissions Income	3,275,690	3,860,413	5,102,687

Dividend Income

Dividend income, which is principally received from the Group's securities portfolio and certain small equity investments, is a very small portion of the Group's income. Dividend income of TL 9,088 thousand in 2016, TL 7,816 thousand in 2017 and TL 7,691 thousand in 2018 each represented less than 0.1% of the Group's total operating profit for the year.

Net Trading Income/Losses

Net trading income/losses, which represent trading account income/losses, income/losses from derivative financial instruments and foreign exchange gain/losses, have frequently been a negative contributor to total operating profit in recent periods. In 2016, the Group experienced a net trading loss of TL 743,653 thousand, which loss was followed by trading losses of TL 1,842,027 thousand in 2017 and TL 1,145,747 thousand in 2018. In 2016, the Group attained a relative balance in its trading portfolio, but 2017 experienced a greater loss due to losses from derivative financial instruments. In 2018, the net trading losses resulted from foreign exchange losses experienced due to the high swap funding cost of the Group in Turkish Lira.

The following table sets out the categories of the Group's net trading income/losses during each of the indicated years:

	2016	2017	2018
		(TL thousands)	
Trading Income			
Trading account income.....	2,105,247	1,514,746	1,591,473
Derivative financial instruments	11,007,318	9,872,180	21,709,326
Foreign exchange gain	66,750,558	53,627,118	140,441,530
Total trading income	79,863,123	65,014,044	163,742,329
Trading Losses			
Trading account losses	(1,718,623)	(1,839,443)	(737,624)
Derivative financial instruments	(11,933,107)	(13,138,901)	(20,869,699)
Foreign exchange losses	(66,955,046)	(51,877,727)	(143,280,753)
Total trading losses	(80,606,776)	(66,856,071)	(164,888,076)
Net trading income/losses	(743,653)	(1,842,027)	(1,145,747)

Other Operating Income

Other operating income includes various additional sources of income, including the collection or reversal of previous periods' provisions (including from the sale of NPLs), banking services-related costs recharged to customers, premium income from insurance business and income on custody services. Total other operating income in 2018 amounted to TL 3,517,425 thousand, compared to TL 1,942,284 thousand in 2017 and TL 2,113,576 in 2016; however, the relevant financial information is not comparable due to the application of TFRS 9 in the BRSA financial statements of the Group for the year ended 31 December 2018. The following table sets out the Group's other operating income by category for 2018:

	2018
	<i>(TL thousands)</i>
Prior Year Reversals.....	2,464,810
<i>Stage 1</i>	998,259
<i>Stage 2</i>	587,115
<i>Stage 3</i>	641,597
<i>Others</i>	237,839
Income from term sale of assets.....	179,793
Others.....	872,822
Other operating income	3,517,425

The table below sets forth other operating income of the Group for each of the indicated years:

	2016	2017
	<i>(TL thousands)</i>	
Other operating income.....	2,113,576	1,942,284

Other operating income for 2018 of TL 3,517,425 thousand increased by 81.1% from TL 1,942,284 thousand in 2017, which itself was a decrease of 8.1% from TL 2,113,576 thousand in 2016.

In 2018, non-performing receivables of the Bank amounting to TL 316,908 thousand (TL 865,748 thousand in 2017 and TL 1,059,931 thousand in 2016) were sold for a consideration of TL 17,550 thousand (TL 56,015 thousand in 2017 and TL 79,774 thousand in 2016). While TL 316,908 thousand (TL 854,989 thousand in 2017 and TL 1,058,459 thousand in 2016) of provisions were recorded in the previous periods for these sold receivables, a gain of TL 17,550 thousand (TL 45,256 thousand in 2017 and TL 78,276 thousand in 2016) was recognised under “other operating income” as a result of such sale.

In 2018, a portion of the written-off non-performing loans, lease receivables and factoring receivables of certain consolidated financial subsidiaries of the Bank amounting to TL 36,842 thousand (TL 332,791 thousand in 2017 and TL 250,832 thousand in 2016) was sold for a consideration of TL 13,184 thousand (TL 30,288 thousand in 2017 and TL 50,062 thousand in 2016). A gain from these sales amounting to TL 11,101 thousand was recognised under “other operating income” (a net gain of TL 21,918 thousand in 2017 and a net loss of TL 251 thousand from other operating income of TL 1,086 thousand and other operating expenses of TL 1,337 thousand in 2016) considering the related provision of TL 34,759 thousand (TL 324,421 thousand in 2017 and TL 200,519 thousand in 2016) had been provided against in the accompanying consolidated financial statements in prior periods. In 2017, revenue earned from subsequent collections of such receivables sold in prior periods, amounting to TL 507 thousand (TL 89 thousand in 2016) was recognised in the income statement under “other operating income.”

Provision for Losses on Loans or other Receivables

Provision for losses on loans and other receivables as of 31 December 2018. The Group’s results might be materially negatively affected by provisions that the Group takes for its ECLs on financial assets and loans measured at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts not measured at fair value through profit or loss based upon TFRS 9. During the transition to TFRS 9, the Group implemented an impairment model, which has three stages based upon the changes in credit quality since initial recognition. ECLs are required to be measured through a loss allowance:

- (a) at an amount equal to 12-month ECL (*i.e.*, ECL that results from default events on the financial instrument that are possible within 12 months after the reporting date) (referred to as Stage 1), or
- (b) for lifetime ECL (*i.e.*, lifetime ECL that results from all possible default events over the life of the financial instrument) (referred to as Stage 2 and Stage 3).

A loss allowance for lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments within the scope of impairment, ECLs are measured at an amount equal to the 12-month ECL. The Group’s provisions for losses on loans and other credit receivables for 2018 are not comparable to these provisions for 2017 and 2016 due to the first time adoption of new TFRS 9 impairment rules as of 1 January 2018.

The following table sets out the Group's expected credit losses by category during 2018:

	2018
	<i>(TL thousands)</i>
Expected credit losses	9,257,780
12 month ECL (Stage 1).....	1,062,942
Significant increase in credit risk (Stage 2).....	3,182,234
Impaired credits (Stage 3).....	5,012,604
Impairment losses on securities	39,699
Financial assets measured at fair value through profit or loss.....	37,125
Financial assets measured at fair value through other comprehensive income.....	2,574
Impairment losses on associates, subsidiaries and joint-ventures...	20,832
Associates	—
Subsidiaries	20,832
Joint-ventures (business partnership)	—
Others⁽¹⁾	1,517,935
Total	10,836,246

(1) Includes general reserves amounting to TL 1,090,000 thousand.

The following table sets out the Group's expected credit losses for loans as of 31 December 2018:

	Stage 1	Stage 2	Stage 3	Total
	<i>(TL thousands)</i>			
Expected credit losses for loans				
Balances at Beginning of Period (1 January 2018).....	908,210	3,531,388	4,512,355	8,951,953
Additions during the Period (+).....	1,665,196	5,005,345	3,111,983	9,782,524
Disposal (-).....	(2,365,129)	(1,117,884)	(952,422)	(4,435,435)
Debt Sale (-).....	(649)	—	(351,667)	(352,316)
Write-offs (-)	—	—	(2,254,607)	(2,254,607)
Transfer to Stage 1.....	1,234,803	(1,227,561)	(7,242)	—
Transfer to Stage 2.....	(570,081)	612,034	(41,953)	—
Transfer to Stage 3.....	(5,805)	(3,920,918)	3,926,723	—
Foreign Currency Differences	75,605	1,144,885	181,419	1,401,909
Balance as of 31 December 2018	942,150	4,027,289	8,124,589	13,094,028

Provision for losses on loans and other receivables as of 31 December 2016 and 2017. The Group's results might be materially negatively affected by provisions that the Group takes for probable losses on its loans and other assets. The provision for losses on loans and other receivables is principally comprised of amounts for specifically-identified impaired and non-performing cash loans (*i.e.*, "specific provisions for loans and other receivables") *plus* a further portfolio-basis allowance amount that the Bank's management believes to be adequate to cover the inherent risk of loss present in the pool of performing cash loans (*i.e.*, the "provision for possible losses").

In 2017, the Group's provisions for losses on loans or other receivables increased by 8.7% as a result of an increase in the provision for possible losses (*i.e.*, general reserves) to TL 1,160,000 thousand from TL 300,000 thousand in 2016, which more than offset a decline in specific provisions for loans and other receivables. The increase in general reserves reflects the Group's conservative risk approach due to the possible effects of negative circumstances that might arise in the economy or in market conditions. See "Risk Factors – Risks Relating to the Group's Business – Audit Qualification" and "Selected Statistical and Other Information – Summary of Loan Loss Experience."

In addition to these specific provisions and general provisions and small amounts of "impairment losses on financial assets" (*i.e.*, securities), the Group's provision for losses on loans or other receivables includes provisions for tangible assets, other receivables and (where applicable) reversal of related provisions.

The following table sets out the Group's provision for losses on loans and other receivables by category during each of the indicated periods:

	2016	2017
	<i>(TL thousands)</i>	
Provision for losses on loans or other receivables	3,387,096	3,681,863
Specific provisions for loans and other receivables	2,717,101	1,782,034
General provisions	213,321	497,877
Impairment losses on financial assets	19	9,012
Others ⁽¹⁾	456,655	1,392,940

(1) Includes general reserves amounting to TL 100,000 thousand for 2016 and TL 860,000 thousand for 2017.

The following table sets out the movements in the Group's specific provisions, which are reflected on the balance sheet as offsets to the value of the Group's loans, during each of the indicated periods:

	2016	2017
	<i>(TL thousands)</i>	
Movements in specific loan provisions.....		
Balances at End of Prior Period	4,298,467	4,791,089
Additions during the Period (+)	3,188,534	2,316,068
Restructured/Rescheduled Loans (-)	—	—
Collections during the Period (-) ⁽¹⁾	(1,057,389)	(1,209,438)
Write-Offs (-) ⁽²⁾	(1,638,523)	(1,081,407)
Balance at the end of the period.....	4,791,089	4,816,312

(1) Foreign exchange rate changes of the collections of foreign subsidiaries' are included.

(2) Includes also the sale of non-performing loans.

The Group's NPL ratio increased to 5.1% as of 31 December 2018 from 2.6% as of 31 December 2017, which itself had decreased from 3.0% as of 31 December 2016. In 2018, the increase in the Group's NPL ratio was primarily due to the inclusion of both lease and factoring receivables under both the loans and the non-performing receivables line items (as applicable) as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA, a reduction in the Group's loan growth and some transfers (generally with sufficient ECL provisions) from Stage 2 (significant increase in credit risk) to Stage 3 (credit-impaired) as a consequence of the recent contraction in the growth of the Turkish economy. The effect of NPL sales on this NPL ratio was to reduce it by 0.61%, 0.50% and 0.12% in 2016, 2017 and 2018, respectively (*i.e.*, the NPL ratio for such periods would have been higher by such amounts had such sales not occurred).

The Group also reflects on its balance sheet a category of "loans under follow-up," which are loans transferred to Stage 2 due to a significant increase in credit risk since initial recognition based upon TFRS 9. This amount was TL 38,712,181 thousand as of 31 December 2018, portions of which amount might later either be transferred to Stage 1 (*i.e.*, when a loan becomes a loan in good standing) or be transferred to Stage 3 and treated as an NPL (and have related specific provisions) should a loan become non-performing.

In 2016, the Bank's management reversed a net TL 42,000 thousand of general reserves. The Bank's management increased the general reserves by TL 860,000 thousand to TL 1,160,000 thousand in 2017 and by TL 1,090,000 thousand to TL 2,250,000 thousand in 2018 due to the possible effects of negative circumstances that might arise in the economy or in market conditions. The BRSA Financial Statements were qualified with respect to general reserves that were allocated by the Group. The provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that may arise from any changes in the economy or market conditions. See "Risk Factors – Risks Relating to the Group's Business – Audit Qualification."

Other Operating Expenses

The Group's other operating expenses include traditional business expenses such as depreciation and amortisation expenses on tangible and intangible assets and operational lease-related expenses. Prior to 1 January 2018, personnel expenses were accounted for under "other operating expenses" line item. Effective as of 1 January 2018, personnel expenses are presented as a separate line item under "total operating profit" due to a change to the presentation of the financial statements as per new rules introduced by the BRSA. Therefore, for comparison purposes, "other operating expenses" in 2018 includes personnel expenses amounting to TL 3,645,278 thousand. Other operating

expenses in 2018 increased by 15.0% to TL 8,768,985 thousand from TL 7,623,756 thousand in 2017, which was an increase by 8.4% from TL 7,032,388 thousand in 2016. The increase in 2018 principally resulted from an increase in the personnel expenses and other normal course expenses. The increase in 2017 principally resulted from an increase in personnel expenses. See “- Personnel expenses” below.

As noted above, as a banking institution, the Group’s management focuses closely on the Group’s efficiency and (within the context of maintaining the quality of its services) seeks to decrease its cost-to-income ratio. The Group’s cost-to-income ratio increased to 48.8% in 2018 from 46.2% in 2017, which itself had declined from 50.3% in 2016. A similar ratio monitored by the Group is its ratio of operating expenses to average total assets, which ratio was 2.4% in 2016, which improved to 2.2% in 2017, where it remained in 2018. The increase in the cost-to-income ratio in 2018 was due both to the volatility in the value of the Turkish Lira and an increase in the inflation rate during the year.

The following table sets out the Group’s other operating expenses by category during each of the indicated periods:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>(TL thousands)</i>		
Personnel expenses ⁽¹⁾	2,881,465	3,205,846	3,645,278
Reserve for employee termination benefits	43,676	46,291	75,965
Impairment losses on tangible assets	—	677	3,975
Depreciation expenses of tangible assets	242,978	286,244	339,986
Amortisation expenses of intangible assets	89,117	107,554	127,014
Impairment losses on assets to be disposed	3,571	1,707	79,524
Depreciation expenses of assets to be disposed	8,831	—	—
Operational lease-related expenses	426,616	470,021	534,796
Repair and maintenance expenses	70,890	66,231	91,374
Advertisement expenses	191,219	202,213	225,277
Loss on sale of assets	4,953	12,372	7,119
Other expenses ⁽²⁾	2,082,977	2,318,398	2,781,175
Others ⁽³⁾	986,095	906,202	857,502
Other operating expenses	<u>7,032,388</u>	<u>7,623,756</u>	<u>8,768,985</u>

(1) Prior to 1 January 2018, “personnel expenses” were accounted for under “other operating expenses” line item. Effective as of 1 January 2018, personnel expenses are presented as a separate line item under “total operating profit” due to a change to the presentation of the financial statements as per new rules introduced by the BRSA.

(2) Other expenses includes various normal course expenses such as legal expenses, utility charges, none of which is individually material. See Note 5.7.7 in Section Five to the Group’s BRSA Financial Statements as of and for the year ended 31 December 2018.

(3) Others includes SDIF-related expenses, repayments of certain fees and commissions to customers and insurance business-claim losses. See Note 5.7.7 Section Five to the Group’s BRSA Financial Statements as of and for the year ended 31 December 2018.

Personnel expenses, the largest other operating expense, is discussed in greater detail below.

Personnel expenses. The Group’s other operating expenses include the salaries and wages that it pays to its employees. Personnel expenses increased by 13.7% to TL 3,645,278 thousand in 2018 from TL 3,205,846 thousand in 2017, itself an 11.3% increase from TL 2,881,465 thousand in 2016. The increase in 2018 and 2017 was the result of higher wage levels, which more than offset the decline in the size of the Group’s workforce since the end of the previous year. The Group’s management anticipates that the currently elevated level of Turkish inflation will result in higher personnel expenses in 2019. As of 31 December 2016, 2017 and 2018, the Group had 22,841, 21,850 and 21,316 employees, respectively. The decline in staffing in 2017 and 2018 was a result of the natural attrition while the Bank’s human resources department has frozen hirings since 2016.

Provision for Taxes

The Group is subject to different forms of income taxation in each market in which it has operations, although the principal driver is Turkish taxation of the Group’s taxable income. Taxation and duties other than on income are included in operating expenses whereas taxation on income is applied to profit/(loss) before taxes in order to determine the Group’s net operating profit/(loss) after taxes. The provision for taxes for a particular period is a combination of the current tax charge, which is the tax that is calculated to apply to the taxable income for such period, and deferred tax charges/(credits), which reflect the Group’s calculation of taxes that it might be required to pay in the future as a result of certain events (*e.g.*, mark-to-market increases in the valuation of financial assets, which would result in the payment of taxes should such financial asset be sold).

Income taxation charges for 2018 amounted to TL 2,047,153 thousand, which was a 4.4% increase from TL 1,961,463 thousand in 2017, which itself was a 46.0% increase from TL 1,343,191 thousand in 2016. The Group's taxation charges for 2018 included deferred tax charges of TL 240,558 thousand compared to deferred tax credit of TL 322,836 thousand for 2017 (and deferred tax charges of TL 307,584 thousand for 2016), which turned into a charge in 2018 as a result of improvements in mark-to-market valuation of derivative financial instruments. The provision for taxes in 2018 also reflects the 5 December 2017 amendment to tax laws that increased the corporate tax rate for all corporations (including the Issuer) to 22% from 20% for three years starting from 2018. The increases in the Group's taxation charges for 2017 and 2018 reflect both the large increase in the Group's taxable income as well as the tax effect of general reserves.

The Group's effective income tax rate (calculated based upon its reported provision for taxes *divided by* its profit/(loss) before taxes) for 2016, 2017 and 2018 were 20.7%, 23.5% and 23.4%, respectively. The deviations from the applicable tax rate in 2016, 2017 and 2018 (20% for 2016 and 2017 and 22% for 2018) was due to both general reserves and general provision amounts being not deductible based upon the BRSA Accounting and Reporting Legislation. In addition, another reason for the deviation in 2017 is the consideration of the 22% tax rate for temporary tax basis differences that are expected to be settled in 2018, 2019 and 2020.

Taxes on income from the Group's non-Turkish operations were immaterial in each of 2016, 2017 and 2018.

Financial Condition

The following summary balance sheet data for each of the indicated dates have been extracted from the Group's BRSA Financial Statements (including the notes thereto). This information should be read in conjunction with the Group's BRSA Financial Statements.

	As of 1 January 2018 ⁽¹⁾	% of Total	As of 31 December 2018	% of Total
<i>(TL thousands, except for percentages)</i>				
<u>Assets</u>				
Cash and Cash Equivalents	53,077,337	15.0	72,415,931	18.1
Financial Assets Measured at Fair Value through Profit/(Loss) (FVTPL)	1,083,674	0.3	559,876	0.1
Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)	29,396,444	8.3	27,162,953	6.8
Financial Assets Measured at Amortised Cost	21,497,337	6.1	24,654,009	6.2
Derivative Financial Assets	2,617,709	0.7	4,093,695	1.0
Non-Performing Financial Assets	—	—	—	—
Expected Credit Losses (-)	(28,232)	(0.0)	(134,487)	(0.0)
Loans	234,720,508	66.3	256,548,861	64.3
Leases	227,985,597	64.4	247,542,010	62.0
Lease Receivables	5,438,422	1.5	6,068,225	1.5
Factoring Receivables	3,359,986	0.9	2,279,270	0.6
Non-Performing Receivables	6,888,456	1.9	13,753,384	3.4
Expected Credit Losses (-)	(8,951,953)	(2.5)	(13,094,028)	(3.3)
Assets Held for Sale and Assets of Discontinued Operations ..	835,552	0.2	857,695	0.2
Ownership Investments (net)	152,432	0.0	132,871	0.0
Tangible Assets	4,096,651	1.2	4,494,918	1.1
Intangible Assets	379,308	0.1	416,072	0.1
Investment Property	559,388	0.2	558,309	0.1
Current Tax Assets	59,440	0.0	175,266	0.0
Deferred Tax Assets	1,398,305	0.4	1,519,177	0.4
Other Assets	4,096,792	1.2	5,698,455	1.4
Total assets	353,942,645	100.0	399,153,601	100.0
<u>Liabilities</u>				
Deposits	200,773,560	56.7	245,016,346	61.4
Funds borrowed	37,772,327	10.7	33,339,727	8.4
Money Markets Funds	18,637,856	5.3	2,634,590	0.7
Securities issued (net)	20,759,469	5.9	26,911,463	6.7
Financial Liabilities Measured at FVTPL	9,367,375	2.6	12,312,230	3.1
Derivative Financial Liabilities	3,097,648	0.9	4,510,162	1.1
Provisions	3,486,400	1.0	5,369,512	1.3
Current Tax Liability	1,299,363	0.4	646,881	0.2
Deferred Tax Liability	14,365	0.0	19,121	0.0
Subordinated debts	2,849,471	0.8	3,977,018	1.0
Other Liabilities	13,456,696	3.7	17,529,709	4.4
Total liabilities	311,514,530	88.0	352,266,759	88.3
Shareholders' Equity	42,428,115	12.0	46,886,842	11.7
Total Liabilities and Shareholders' Equity	353,942,645	100.0	399,153,601	100.0

- (1) As of 1 January 2018, the Group started to apply TFRS 9 in the BRSA financial statements, *however*, it has not restated the comparative information for the prior periods for financial instruments in the scope of TFRS 9. Therefore, the opening balance sheet as of 1 January 2018 above is prepared in accordance with TFRS 9 and presented along with 31 December 2018 figures for comparison purposes.

	As of 31 December			
	2016	% of Total	2017	% of Total
(TL thousands, except for percentages)				
Assets				
Cash and balances with central bank.....	23,951,474	7.7	33,603,641	9.5
Financial assets at fair value through profit or loss (net).....	3,805,541	1.2	2,877,813	0.8
Banks.....	16,881,044	5.4	19,470,343	5.5
Interbank money markets.....	373,871	0.1	3,353	0.0
Financial assets available-for-sale (net).....	23,983,448	7.7	26,277,988	7.4
Loans.....	201,409,096	64.5	229,353,285	64.4
Factoring receivables.....	2,851,223	0.9	3,379,768	0.9
Investments held-to-maturity (net).....	23,109,696	7.4	24,314,540	6.8
Investments in associates (net).....	37,261	0.0	35,751	0.0
Investment in subsidiaries (net).....	115,858	0.0	116,681	0.0
Lease receivables (net).....	5,794,260	1.9	5,788,436	1.6
Derivative financial assets held for hedging purpose.....	666,295	0.2	670,720	0.2
Tangible assets (net).....	3,680,621	1.2	4,096,651	1.1
Intangible assets (net).....	327,653	0.1	379,308	0.1
Investment property (net).....	543,825	0.2	559,388	0.2
Tax asset.....	260,678	0.1	467,698	0.1
Assets held for sale and assets of discontinued operations (net).....	605,015	0.2	835,552	0.2
Other assets.....	3,725,080	1.2	4,100,751	1.2
Total assets	312,121,939	100.0	356,331,667	100.0
Liabilities				
Deposits.....	178,689,813	57.3	200,773,560	56.4
Derivative financial liabilities held for trading.....	3,713,985	1.2	2,898,822	0.8
Funds borrowed.....	46,581,853	14.9	47,104,719	13.2
Interbank money markets.....	11,230,193	3.6	18,637,856	5.2
Securities issued (net).....	17,745,648	5.7	20,794,452	5.8
Miscellaneous payables.....	9,339,748	3.0	10,376,346	2.9
Other external fundings payable.....	3,170,339	1.0	3,080,350	0.9
Derivative financial liabilities held for hedging purpose.....	343,314	0.1	198,826	0.1
Provisions.....	5,032,873	1.5	6,848,102	1.9
Tax liability.....	478,266	0.2	1,163,162	0.3
Subordinated debts.....	-	-	2,849,471	0.8
Total liabilities	276,326,032	88.5	314,725,666	88.3
Shareholders' equity	35,795,907	11.5	41,606,001	11.7
Total liabilities and shareholders' equity	312,121,939	100.0	356,331,667	100.0

(1) As of 1 January 2018, the Group has started to apply TFRS 9 in its BRSA financial statements, *however*, it has not restated the comparative information for the prior periods for financial instruments within the scope of TFRS 9. Therefore, the information as of 31 December 2016 and 2017 is not comparable to the information as of 31 December 2018.

The following summary balance sheet data for each of the indicated dates have been extracted from the Group's BRSA Financial Statements. This information should be read in conjunction with the BRSA Financial Statements.

Assets

As of 31 December 2018, the Group's total assets amounted to TL 399,153,601 thousand, a 12.0% increase from TL 356,331,667 thousand as of 31 December 2017, which was a 14.2% increase from TL 312,121,939 thousand as of 31 December 2016. Cash and balances with central banks (and, after a change to the presentation of the financial statements as per new rules introduced by the BRSA, cash and cash equivalents) represented 7.7%, 9.5% and 18.1% of the Group's total assets as of 31 December 2016, 2017 and 2018, respectively, as most of the Group's funds are invested interest-earning assets. The following describes the Group's loans and financial assets (including: (a) financial assets at fair value through profit or loss (net) and, after the adoption of TFRS 9, financial assets measured at fair value through profit or loss, (b) financial assets available-for-sale (net) and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income and (c) investments held-to-maturity and, after the adoption of TFRS 9, financial assets measured at amortised cost), which jointly represented 80.8% of the Group's total assets as of 31 December 2016, 79.4% as of 31 December 2017 and 77.4% as of 31 December 2018.

Loans. Loans to customers represented 64.5%, 64.4% and 64.3% of the Group's total assets as of each of 31 December 2016, 2017 and 2018, respectively. The Group's loans amounted to TL 256,548,861 thousand as of 31 December 2018, an 11.9% increase from TL 229,353,285 thousand as of 31 December 2017, which was a 13.9% increase from TL 201,409,096 thousand as of 31 December 2016. Note 5.1.6 in Section Five to the BRSA Financial Statements as of and for the year ended 31 December 2018 provides significant details about the breakdown of the Group's loan portfolio, including information on performing loans, collateral, maturity, consumer loan breakdown and

provisions. The increase in 2018 also reflects the impact of the inclusion of both lease and factoring receivables into the loans line item as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA.

This growth was spread across a wide range of groups and industries, reflecting the Group's ability to meet the strong demand for consumer loans and loans to certain industry sectors (including energy and transportation vehicles) and the impact of the KGF programme. While the energy sector in Turkey was under pressure in recent years due to suppressed energy prices, the Bank's management expects recovery in this sector since the energy prices have stabilised. The Bank has allocated high levels of provisions for loans granted to the energy sector. On the other hand, the Bank has a low direct exposure to the real estate sector and benefits from state guarantees for its loans to various large infrastructure projects. In 2018, the growth in the Group's loan portfolio was principally a result of an expansion in credit card loans, together with the impact of the significant increase in foreign exchange rates. In 2017, the growth reflected the significant impact of the KGF programme, while also benefitting from the strong growth in the Turkish economy.

In 2018, the Group's NPLs increased by 122.7% to TL 13,753,384 thousand from TL 6,176,985 thousand as of 31 December 2017, which was a 0.9% increase from TL 6,124,461 thousand as of 31 December 2016. The categorisation of new loans in 2017 was largely matched by decreases in NPLs during the year (including from write-offs and collections). As described in further detail below, the increase in NPLs in 2018 was mainly due to categorising new loans as Stage 3 and adding both non-performing lease and factoring receivables into NPLs. As of 31 December 2018, the Group's restructured loans amounted to TL 8,770,525. For additional information on the movement of the NPL balances in the Group's balance sheet, see Note 5.1.6.10 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018.

The Group's NPL ratio decreased from 3.0% as of 31 December 2016 to 2.6% as of 31 December 2017 due to strong collection performance supported by debt sales. In 2018, the NPL ratio increased to 5.1%, which was primarily due to the inclusion of both lease and factoring receivables into both the loans and the non-performing receivables line items as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA, a reduction in the Group's loan growth and some transfers (generally with sufficient ECL provisions) from Stage 2 (significant increase in credit risk) to Stage 3 (credit-impaired) as a consequence of the recent contraction in the growth of the Turkish economy.

For additional information on the Group's loan portfolio, see "Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Average Balance Sheet and Interest Data" and "– Summary of Loan Loss Experience."

Financial Assets. Financial assets (including: (a) financial assets at fair value through profit or loss (net) and, after the adoption of TFRS 9, financial assets measured at fair value through profit or loss, (b) financial assets available-for-sale (net) and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income and (c) investments held-to-maturity and, after the adoption of TFRS 9, financial assets measured at amortised cost), principally Turkish government securities, have historically represented a significant portion of the Group's assets. As of 31 December 2016, 2017 and 2018, investment securities represented 15.1%, 14.2% and 13.0%, respectively, of the Group's total assets. In 2016, 2017 and 2018, the decline in investment securities as a portion of the Group's total assets was the result of a lower growth rate in financial assets compared to the growth rate of the Group's total assets, reflecting the Group's focus on lending growth due to the strength of the Turkish economy. The following table provides information as to the breakdown of the Group's financial asset portfolio (excluding derivative financial assets held for trading) as of the indicated dates:

	As of 31 December					
	2016	% of Total	2017	% of Total	2018	% of Total
	(TL thousands, except for percentages)					
Financial assets at fair value through profit or loss (net)						
<i>Financial assets held for trading</i>	191,828	0.4	930,824	1.8	—	—
Government securities.....	102,649	0.2	820,578	1.6	—	—
Equity securities.....	60,379	0.1	68,173	0.1	—	—
Other securities.....	28,800	0.1	42,073	0.1	—	—
<i>Financial assets valued at fair value through profit or loss</i>	—	—	—	—	—	—
Total financial assets at fair value through profit or loss (net)	191,828	0.4	930,824	1.8	—	—
Financial assets measured at fair value through profit/(loss)⁽¹⁾						
Government securities ⁽¹⁾	—	—	—	—	259,574	0.5
Equity securities ⁽¹⁾	—	—	—	—	200,326	0.4
Other financial assets ⁽¹⁾	—	—	—	—	99,976	0.2
Total financial assets measured at fair value through profit/(loss)⁽¹⁾	—	—	—	—	559,876	1.1
Financial assets available-for-sale (net)						
Equity securities.....	218,813	0.5	274,872	0.5	—	—
Government securities.....	18,392,013	38.9	22,579,220	43.8	—	—
Other securities.....	5,372,622	11.4	3,423,896	6.6	—	—
Total financial assets available-for-sale (net)	23,983,448	50.7	26,277,988	51.0	—	—
Financial assets measured at fair value through other comprehensive income⁽¹⁾						
Government securities ⁽¹⁾	—	—	—	—	22,831,811	43.6
Equity securities ⁽¹⁾	—	—	—	—	235,462	0.5
Other financial assets ⁽¹⁾	—	—	—	—	4,095,680	7.8
Total financial assets measured at FVOCI⁽¹⁾	—	—	—	—	27,162,953	51.9
Investments held-to-maturity (net)						
Government securities.....	19,108,804	40.4	20,232,556	39.3	—	—
Other securities.....	4,000,892	8.5	4,081,984	7.9	—	—
Total investments held-to-maturity (net)	23,109,696	48.9	24,314,540	47.2	—	—
Financial assets measured at amortised cost⁽¹⁾						
Government securities ⁽¹⁾	—	—	—	—	24,606,227	47.0
Other financial assets ⁽¹⁾	—	—	—	—	47,782	0.1
Total financial assets measured at amortised cost⁽¹⁾	—	—	—	—	24,654,009	47.1
Expected credit losses (-)⁽¹⁾	—	—	—	—	54,125	(0.1)
Total	47,284,972	100.0	51,523,352	100.0	52,322,713	100.0

(1) As of 1 January 2018, the Group has started to apply TFRS 9 in the BRSA financial statements, *however*, it has not restated the comparative information for the prior periods for financial instruments in the scope of TFRS 9. Therefore, the information for 2017 and 2016 is not comparable to the information presented for 31 December 2018.

Securities issued by Turkey represented 79.5%, 84.7% and 91.1% of the Group's securities portfolio consisting of: (a) financial assets at fair value through profit or loss (net) and, after the adoption of TFRS 9, financial assets measured at fair value through profit or loss (each excluding derivative financial assets), (b) financial assets available-for-sale (net) and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income and (c) investments held-to-maturity and, after the adoption of TFRS 9, financial assets measured at amortised cost as of 31 December 2016, 2017 and 2018, respectively.

The most significant changes in the Group's securities portfolio from 2016 to 2018 was the increase in holdings of Turkish government securities held as financial assets available-for-sale (net) and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income in the table above, which increased from 38.9% of the Group's total investment securities portfolio as of 31 December 2016 to 43.6% as of 31 December 2018. Total financial assets measured at amortised cost increased to TL 24,654,009 thousand as of 31 December 2018 due to the first time adoption of new classification rules based upon TFRS 9.

Pursuant to Turkish market practice, the Group pledges securities to acquire funding under security repurchase agreements. The Group utilises such funding depending upon the difference in rates paid on deposits compared to Central Bank rates, which vary based upon market conditions as well as Central Bank policy. The securities in its securities portfolio that were so pledged amounted to TL 8,113,893 thousand as of 31 December 2016, TL 1,913,380 thousand as of 31 December 2017 and TL 1,208,216 thousand as of 31 December 2018, comprising 17.2%, 3.7% and 2.3%, respectively, of the Group's total securities portfolio.

For additional information on the Group's securities portfolio, see Notes 5.1.2, 5.1.4 and 5.1.8 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 and "Selected Statistical and Other Information – Securities Portfolio."

Liabilities

As of 31 December 2018, the Group's total liabilities amounted to TL 352,266,759 thousand, an 11.9% increase from TL 314,725,666 thousand as of 31 December 2017, which was a 13.9% increase from TL 276,326,032 thousand as of 31 December 2016.

The Group's TL 253,131,644 thousand in average interest-bearing liabilities during 2018 resulted primarily from average time deposits of customers (68.2%), average funds borrowed (16.6%) and average securities issued (10.5%). These same categories represented 62.6%, 19.9% and 8.9%, respectively, of the Group's TL 225,291,196 thousand in average interest-bearing liabilities during 2017 and 64.5%, 20.2% and 8.2%, respectively, of the Group's TL 197,123,844 thousand in average interest-bearing liabilities during 2016.

The following summarises the three principal categories of the Group's liabilities - deposits, funds borrowed and securities issued.

Deposits. Deposits have been and are expected to continue to be the most important source of funding for the Group. The Group's total deposits amounted to TL 245,016,346 thousand as of 31 December 2018, a 22.0% increase from TL 200,773,560 thousand as of 31 December 2017, which was a 12.4% increase from TL 178,689,813 thousand as of 31 December 2016. Foreign currency deposits (principally U.S. dollars and euro) represented 57.5%, 56.1% and 57.5% of the Group's total deposits as of 31 December 2016, 2017 and 2018, respectively. For additional information on the Group's deposits, see Note 5.3.1 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 and "Selected Statistical and Other Information – Deposits."

Funds borrowed. As deposits are generally of a short-term duration, the Group has obtained wholesale funding on a more limited basis principally to better match the maturity and currency of its longer-term assets. This funding has included the Bank's borrowings (including syndicated bank loans) and financings collateralised by certain of the wire transfers and other remittances received by the Bank from its correspondent banks and other senders of such transfers; *however*, as of 1 January 2018 (as a result of the TFRS 9 adoption), certain of these financings collateralised by certain of the wire transfers and other remittances are designated under "Financial Liabilities Measured at Fair Value through Profit/Loss" following the reassessments performed regarding the characteristics of the transactions, while others are classified under "Securities Issued" and are measured at amortised cost. As such, funds borrowed as of 31 December 2018 is not comparable to funds borrowed as of 31 December 2016 and 2017. Funds borrowed amounted to TL 33,339,727 thousand as of 31 December 2018 (9.5% of the Group's total liabilities) and TL 47,104,719 thousand as of 31 December 2017 (15.0% of the Group's total liabilities) as compared to TL 46,581,853 thousand as of 31 December 2016 (16.9% of the Group's total liabilities). It is important to note that a portion of these liabilities (either when incurred or as a result of aging) are themselves short-term (as of 31 December 2018, 15.6% of funds borrowed were "short term" (*i.e.*, having a remaining term-to-maturity of one year or less) as compared to 13.7% as of 31 December 2017 and 11.9% as of 31 December 2016). For additional information on the Group's funds borrowed, see Note 5.3.3 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 and "Selected Statistical and Other Information – Funds Borrowed and Certain Other Liabilities."

Securities issued. Securities issued amounted to TL 26,911,463 thousand as of 31 December 2018, constituting 7.6% of the Group's total liabilities, increasing its share of the Group's total liabilities as compared to TL 20,794,452 thousand as of 31 December 2017 (6.6% of the Group's total liabilities) due primarily to the reclassification of financings collateralised by certain wire transfers and other remittances that the Bank receives from its correspondent banks and other senders of such transfers to "securities issued" from "funds borrowed" as of 1 January 2018), which itself was an increase of its share as compared to TL 17,745,648 thousand as of 31 December 2016 (6.4% of the Group's total liabilities). The share of the outstanding balances of such transactions in the Group's balance sheet changes depending upon the relative costs of funding in the market; *however*, it has increased in recent years due to the Group's successful use of a medium-term-note programme that it launched in 2013. For additional information on the Group's securities issued, see Note 5.3.4.1 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018.

Shareholders' Equity

The Group's total shareholders' equity as of 31 December 2018 amounted to TL 46,886,842 thousand, which was a 12.7% increase from TL 41,606,001 thousand as of 31 December 2017, itself a 16.2% increase from

TL 35,795,907 thousand as of 31 December 2016. Shareholders' equity principally changes as a result of the Group's net profit/(loss) and changes in the amount of unrealised gains and losses on available-for-sale assets and, after the adoption of TFRS 9, financial assets measured at fair value through other comprehensive income (which changes are not included in profit/(loss)). The following tables summarise the components of the Group's shareholders' equity as of the indicated dates:

	As of 1 January 2018 ⁽¹⁾	As of 31 December 2018
	<i>(TL thousands)</i>	
Paid-in capital	4,200,000	4,200,000
Capital reserves	784,434	784,434
Other comprehensive income/expense items not to be recycled to profit or loss	1,436,464	1,473,394
Other comprehensive income/expense items to be recycled to profit or loss	1,058,005	611,843
Profit reserves	27,869,150	32,977,973
Profit/(loss).....	6,765,722	6,641,652
Minority interest.....	314,340	197,546
Total shareholders' equity	42,428,115	46,886,842

(1) As of 1 January 2018, the Group started to apply TFRS 9, *however*, it has not restated the comparative information for the prior periods. As such, the information as of 1 January 2018 is prepared in accordance with TFRS 9 and presented along with 31 December 2018 figures for comparison purposes. The information as of 31 December 2016 and 2017 is not comparable to the information presented for 31 December 2018.

	As of 31 December	
	2016	2017
	<i>(TL thousands)</i>	
Paid-in capital	4,200,000	4,200,000
Capital reserves	1,474,369	1,526,847
<i>Securities value increase fund</i>	<i>(543,625)</i>	<i>(317,814)</i>
<i>Revaluation surplus on tangible assets.....</i>	<i>1,691,062</i>	<i>1,747,869</i>
<i>Hedging reserves</i>	<i>(353,676)</i>	<i>(544,285)</i>
<i>Other.....</i>	<i>680,608</i>	<i>641,077</i>
Profit reserves.....	24,748,439	29,224,949
Profit/(loss).....	5,105,291	6,332,056
Minority interest	267,808	322,149
Total shareholders' equity	35,795,907	41,606,001

For additional information on the Group's shareholders' equity, see Note 5.3.12 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018. In addition, see "Capital Adequacy" below.

The Bank's dividend policy is to distribute up to 30% of the distributable net profit subject to the approval of the BRSA. On 4 March 2019, the Bank's Board decided to submit for the approval of its shareholders at the annual shareholders' meeting the transfer of the distributable net profit of TL 6,638,235 thousand to the extraordinary reserves account.

Off-Balance Sheet Commitments and Contingencies

In the normal course of business in order to meet the needs of its customers and to hedge the Group's own positions (and generally not for speculative purposes), the Group enters into certain off-balance sheet transactions. These transactions expose the Group to credit risk that is not reflected on the Group's balance sheet. The Group applies to these transactions the same credit policies in making commitments and assuming conditional obligations as it does for on-balance sheet transactions, including the requirement to obtain collateral when it is considered necessary.

The most significant category of such transactions includes letters of guarantee, letters of credit, bank acceptances and other support that the Group provides to its import and export customers, as well as off-balance sheet exposure for derivative financial instruments and the Group's commitments to make loans to its borrowers.

The following summarises the three principal categories of the Group's off-balance sheet exposures – letters of credit and similar transactions, commitments to customers under credit facilities and derivative financial instruments. See also Note 5.5 in Section Five of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 for additional information.

Guarantees and sureties. Most of the Group's letters of guarantee and credit were issued (or confirmed) in connection with the export and trade finance-related activities of the Group's customers. The following table summarises the Group's exposure under such transactions as of the indicated dates:

	As of 31 December		
	2016	2017	2018
	(TL thousands)		
Letters of guarantee.....	38,012,713	39,689,501	50,173,770
Letters of credit.....	15,754,367	14,769,516	14,685,922
Bank acceptance.....	2,127,334	1,550,650	2,788,829
Other guarantees	191,066	185,727	66,907
Total guarantees and sureties	56,085,480	56,195,394	67,715,428

The Group generates significant amounts of fees from these transactions while incurring very small amounts of credit losses thereon as almost all of these transactions expire without any need for payment by the Group (for example, a letter of credit that expires when the related buyer of goods makes its payment to the seller) until adoption of TFRS 9 on 1 January 2018. The Group has not, since the beginning of 2016, experienced any material credit events with respect to its guarantees and sureties. Starting from 1 January 2018, the Group accounts for expected credit losses for non-cash exposures, including irrevocable unused credit card limits at initial recognition by using credit conversion factors in line with TFRS 9.

Commitments. The Group's "commitments" are composed principally of unused credit limits for credit cards, overdrafts, checks and loans to customers and commitments for credit-linked-notes, under which the Group has unused commitments of TL 65,539,928 thousand as of 31 December 2018, an increase of 13.8% from TL 57,591,889 thousand as of 31 December 2017, which was a 15.5% increase from TL 49,852,471 thousand as of 31 December 2016. These increases are consistent with the general growth of the Group's lending business, including its credit card business.

Derivative Financial Instruments. The Group's exposure to derivative transactions arises principally in connection with customer-dealing and funding activities. The Group also enters into certain derivatives transactions in order to hedge its currency, interest rate and other risks. The Group enters into derivative financial instruments with domestic and foreign counterparties that it considers to be creditworthy (mostly with an investment grade rating) or, in most cases, that are fully secured. As of 31 December 2018, the Group's face values of outstanding derivative contracts arising from various derivatives amounted to TL 360,581,304 thousand, a 4.4% decrease from TL 377,209,517 thousand as of 31 December 2017, which was an 11.7% increase from TL 337,554,615 thousand as of 31 December 2016. The changes resulted from currency swap transactions and interest rate swaps entered into for the Group and its customers mainly in order to hedge the positions against the volatility in exchange rates and interest rates in the markets. See Note 5.5.2 in Section Five of the BRSA Financial Statements as of and for the year ended 31 December 2018 and, for a breakdown of the Group's commitments arising from derivatives as of 31 December 2016, 2017 and 2018, see "Selected Statistical and Other Information – Derivative Transactions."

Governments in the United States, Europe and elsewhere have made or are expected to make changes in laws relating to derivatives transactions, including how they settle. The Bank's management does not anticipate that such changes will have a material adverse effect on its ability to obtain reasonably-priced hedges for its currency, interest rate and other risks; however, the volatility in the markets in recent years has made certain derivatives more expensive than in previous years and such increased costs might make the Group's hedging operations less cost-effective. On the other hand, recent regulatory changes for foreign currency transactions have aimed to preserve financial stability (e.g., limiting the utilisation of foreign currency-denominated loans to exporters who have a natural foreign currency hedge and restricting the types of business contracts that can be executed in foreign currencies); *however*, the impact of these changes on the Group is very limited.

Capital Adequacy

Each of the Bank and the Group is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet

exposures. In accordance with these guidelines, each of the Bank and the Group 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 (see “Turkish Regulatory Environment - Capital Adequacy” for further details).

In order to implement the rules of the report entitled “A Global Regulatory Framework for More Resilient Banks and Banking Systems” published by the Basel Committee in December 2010 and revised in June 2011 (*i.e.*, Basel III) into Turkish law, the Equity Regulation and amendments to the 2012 Capital Adequacy Regulation each entered into force on 1 January 2014. Subsequently, the BRSA replaced the 2012 Capital Adequacy Regulation with the 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016. The 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 (*i.e.*, Common Equity Tier 1 capital) and additional principal capital (*i.e.*, additional Tier 1 capital) and (b) supplementary capital (*i.e.*, Tier 2 capital) *minus* capital deductions. Pursuant to the 2015 Capital Adequacy Regulation: (i) both the unconsolidated and consolidated minimum common equity Tier 1 capital adequacy ratio are 4.5% and (ii) both unconsolidated and consolidated minimum Tier 1 capital adequacy ratio are 6.0%.

In calculating its capital adequacy ratios, the 2015 Capital Adequacy Regulation allows the Bank to use ratings of eligible external credit assessment institutions (namely Fitch, S&P, Moody’s, Japan Credit Rating Agency, Ltd., DBRS Ratings Ltd. and, as of 12 January 2017, International Islamic Rating Agency) while calculating the risk-weighted assets for capital adequacy purposes. On 27 January 2017, Fitch (whose ratings the Bank has been using to calculate its risk-weighted assets) downgraded Turkey’s sovereign credit rating to “BB+” (with a stable outlook) from “BBB-” (with a negative outlook). According to guidance published by the BRSA on 24 February 2017, foreign exchange-required reserves held with the Central Bank are subject to a 0% risk weight, which amendment offset the negative impact on capital adequacy that otherwise would have resulted from the Fitch downgrade. Each of S&P, Moody’s and Fitch downgraded certain credit ratings of Turkey and the Bank in 2018. See “The Group and its Business - Credit Ratings.”

The Group maintains regulatory capital adequacy ratios on both a Bank-only and consolidated basis in excess of the regulatory minimums required and recommended levels. The Group’s Tier 1 capital adequacy ratio grew from 13.6% as of 31 December 2016 to 14.7% as of 31 December 2017, and then reduced to 14.2% as of 31 December 2018 (15.1%, 16.4% and 15.8%, respectively, with respect to the Bank). Accordingly, the Group’s common equity Tier 1 capital adequacy ratio grew from 13.6% as of 31 December 2016 to 14.7% as of 31 December 2017, and then reduced to 14.2% as of 31 December 2018 (15.2%, 16.5% and 15.8%, respectively, with respect to the Bank). The Group’s total capital adequacy ratio increased from 14.7% as of 31 December 2016 to 16.8% as of 31 December 2017, and then to 16.5% as of 31 December 2018 (16.2%, 18.7% and 18.3%, respectively, with respect to the Bank).

The following table sets forth the calculation of the Group’s capital adequacy ratios as of each of the indicated dates:

	As of 31 December		
	2016	2017	2018
	<i>(TL thousands, except percentages)</i>		
Paid-in capital	4,200,000	4,200,000	4,200,000
Paid-in capital inflation adjustment	772,554	772,554	772,554
Reserves	23,704,951	27,527,097	32,977,973
Profit	5,114,182	6,332,056	6,641,652
Tier 1 Capital (I)	35,120,258	40,806,228	46,033,825
Tier 2 Capital (II)	2,889,903	5,909,875	7,538,990
Deductions (III)	93,350	30,879	14,041
Own Funds (I+II-III)	37,916,811	46,685,224	53,558,774
Risk Weighted Assets (including market and operational risk) ..	258,425,540	278,024,586	324,153,343
Capital Ratios:			
Tier 1 capital adequacy ratio	13.6%	14.7%	14.2%
Common equity Tier 1 capital adequacy ratio	13.6%	14.7%	14.2%
Own Funds/Risk Weighted Assets	14.7%	16.8%	16.5%

The significant increase in the Group’s capital in 2017 represented the growth in the Group’s retained earnings, with the Group’s capital reflecting a similar trend in 2018 despite the significant increase in foreign exchange rates.

Liquidity and Funding

The Group manages its assets and liabilities to seek to ensure that it has sufficient liquidity to meet its present and future financial obligations and that it is able to take advantage of appropriate business opportunities as they arise. Liquidity risk represents the potential for loss as a result of limitations on the Group's ability to adjust future cash flows to meet the needs of depositors and borrowers and to fund operations on a timely and cost-effective basis. Financial obligations arise from withdrawals of deposits, repurchase transactions, extensions of loans or other forms of credit, as well as the Group's own working capital needs.

The ability to replace interest-bearing deposits at their maturity is a key factor in determining liquidity requirements, as well as the exposure to interest and exchange rate risks. The Group's principal sources of funding are short-term and demand deposits and the Group has developed a diversified and stable deposit base in each of its retail, commercial, corporate and SME business lines. The Bank's management believes that funds from the Group's deposit-taking operations generally will continue to meet its liquidity needs for the foreseeable future; *however*, maturities of large borrowings or securities offerings do from time to time require the Group to have sufficient liquidity on hand, which does require the Group to closely monitor market conditions for potential opportunities to obtain replacement financing on a cost-effective basis. As of 31 December 2016, 2017 and 2018, the Group's loan-to-deposit ratio was 112.0%, 113.6% and 104.4%, respectively. For additional information on deposits, see "Selected Statistical and Other Information – Deposits."

To a lesser extent, the Group also funds its operations through short-term and long-term borrowings, "diversified payment rights" (future flow) transactions, eurobond issuances and other domestic and international transactions. The Bank uses the relationships that it develops with its correspondent banks in connection with international payment and trade-related finance activities to raise funds from the syndicated loan markets. The Bank has also capitalised on its ability to generate foreign currency-denominated payments from abroad (such as diversified payment rights) by tapping international capital markets through "future flow" transactions. See "Selected Statistical and Other Information – Funds Borrowed and Certain Other Liabilities."

The Bank may issue, from time to time, additional Series of notes under the Programme, which (as permitted by the Programme) may be in any currency, with any tenor and with any interest rate and which issuances may be listed or unlisted.

The Bank is subject to the BRSA's regulations on the measurement of the liquidity adequacy of a bank. The Regulation on Liquidity Coverage Ratios was published in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. According to this regulation, the liquidity coverage ratios of banks is not permitted to fall below 100% on an aggregate basis and 80% on a foreign currency-only basis; *however*, pursuant to the BRSA decision dated 26 December 2014 (No. 6143) (the "*BRSA Decision on Liquidity Ratios*"), for the period between 5 January 2015 and 31 December 2015, such ratios were applied as 60% and 40%, respectively, and such ratios were increased by ten percentage points for each year from 1 January 2016 until 1 January 2019.

The Group's month-end liquidity ratios as of the last day of each of the last three months of the past three fiscal years and the last three months prior to 31 December 2018 are shown below:

	Turkish Lira + Foreign Currency	Foreign Currency
31 October 2016	109.44%	83.64%
30 November 2016.....	112.29%	95.90%
31 December 2016.....	105.17%	80.63%
31 October 2017	140.63%	151.78%
30 November 2017.....	157.44%	205.74%
31 December 2017.....	140.28%	136.20%
31 October 2018 ⁽¹⁾	166.20%	175.63%
30 November 2018 ⁽¹⁾	149.33%	138.61%
31 December 2018 ⁽¹⁾	163.06%	157.88%

(1) Starting from 1 January 2018, the liquidity ratios as of a month-end date are calculated as simple averages of daily observations during the month.

The following table sets out the calculation of the Group's period-end liquidity ratios during each of the past three fiscal years, including the "liquidity conversion ratios" that are applied to the applicable asset and liability category in determining (with respect to assets) how much liquidity the Group maintains and (with respect to liabilities) how much liquidity the Group is required to maintain:

	2016		2017		2018	
	TL + FC	Foreign Currency	TL + FC	Foreign Currency	TL + FC	Foreign Currency
<i>(TL thousands, except percentages)</i>						
High-Quality Liquid Assets						
Total high-quality liquid assets.....	45,090,574	22,119,347	64,790,253	40,139,185	90,168,173	53,913,275
Cash Outflows						
Retail deposits and deposits from small business customers, of which	10,456,146	5,602,111	12,251,062	6,599,097	15,763,919	9,106,152
Stable deposits	1,219,957	9,876	1,313,169	13,337	1,308,579	21,079
Less stable deposits.....	9,236,189	5,592,235	10,937,893	6,585,760	14,455,340	9,085,073
Unsecured wholesale funding, of which.....	30,831,694	17,157,234	34,871,826	19,709,976	42,406,606	23,913,305
Non-operational deposits.....	18,652,878	12,182,976	21,421,150	13,722,645	28,071,155	18,524,043
Unsecured funding	12,178,816	4,974,258	13,450,676	5,937,331	14,335,451	5,389,262
Secured wholesale funding.....	367,422	367,422	-	-	-	-
Other cash outflows, of which.....	12,104,797	11,314,382	11,511,430	11,493,014	25,838,426	22,983,621
Outflows related to derivative exposures and other collateral requirements	9,048,417	10,460,072	8,160,609	10,645,765	22,357,173	22,411,751
Payment commitments and other off-balance sheet commitments granted for debts to financial markets.....	3,056,380	854,310	3,350,821	847,249	3,481,253	571,870
Other revocable off-balance sheet commitments and contractual obligations.....	107,296	100,208	32,986	22,624	30,899	24,313
Other irrevocable or conditionally revocable off-balance sheet obligations.....	2,763,688	1,921,349	2,981,979	2,042,196	3,625,805	2,479,392
Total Cash Outflows	56,631,043	36,462,706	61,649,283	39,866,907	87,665,655	58,506,783
Cash Inflows						
Secured receivables	-	-	-	-	-	-
Unsecured receivables.....	13,532,742	5,254,539	15,575,537	6,682,654	29,638,064	17,244,172
Other cash inflows.....	1,738,284	5,743,356	1,631,773	8,244,841	1,219,136	6,423,779
Total Cash Inflows	15,271,026	10,997,895	17,207,310	14,927,495	30,857,200	23,667,951
Total High-Quality Liquid Assets (HQLA)	45,090,574	22,119,347	64,790,253	40,139,185	90,168,173	53,913,275
Total Net Cash Outflows	41,360,017	25,464,811	44,441,973	24,939,413	56,808,455	34,838,832
Liquidity Coverage Ratio	108.97%	86.72%	146.12%	164.58%	159.53%	157.37%

In addition to the liquidity ratios described above, the Bank is also required to maintain deposits with the Central Bank against a minimum reserve requirement. These reserve deposits are calculated on the basis of Turkish Lira and foreign currency liabilities taken at the rates determined by the Central Bank. The Turkish Lira reserve deposits started to provide interest monthly as of November 2014 and have been providing interest quarterly since January 2015, which interest is paid by the Central Bank on the first business day following the end of March, June, September and December. U.S. dollar reserve deposits have been providing interest since May 2015. The interest rates are calculated by the Central Bank according to market conditions.

The Group's banks in the Netherlands and Romania are also subject to similar reserve deposit requirements. For detailed information on the Group's reserve deposits requirements see Note 5.1.1 to the Group's BRSA Financial Statements as of and for the year ended 31 December 2018.

Capital Expenditures

As a financial group, capital expenditures are not a material part of the Group's expenses and principally relate to expenses for branch expansion. The following table summarises the Group's capital expenditures for each of the indicated periods:

	2016	2017	2018
	<i>(TL thousands)</i>		
Real estates.....	256,390	318,974	1,016,562
Leased tangible assets	17,904	1,573	23,217
Vehicles	1,683	4,808	4,626
Other tangible assets	502,143	330,777	597,535
Intangible assets	158,713	158,307	152,061
Total capital expenditures	936,833	814,439	1,794,001

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain selected statistical and other information for the Group (or, when information about the Group is not readily available or relevant, the Bank) as of the indicated dates and for the periods indicated. Except as specifically noted herein, the selected statistical and other information should be read in conjunction with the BRSA Financial Statements and the information included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

I. Distribution of Assets, Liabilities and Shareholders’ Equity; Interest Rates and Interest Differential

A. Average Balance Sheet and Interest Data

The following tables set out the average balances of assets and liabilities, and the interest earned or expensed on such amounts, of the Bank for the indicated years. For purposes of the following tables, except as otherwise indicated, the average is calculated on a daily basis for each respective period and is based upon management estimates. For purpose of the following tables: (a) non-accruing credits have been treated as non-interest earning assets and (b) loan fees have been included in interest income.

	For the year ended 31 December								
	2016			2017			2018		
	Average Balance	Avg. Yield	Interest Income	Average Balance	Avg. Yield	Interest Income	Average Balance	Avg. Yield	Interest Income
<i>(TL thousands, except percentages)</i>									
ASSETS									
Average Interest-Earning Assets									
Deposits with banks ⁽¹⁾	16,576,725	2.01%	333,506	11,821,022	4.56%	538,704	17,563,589	4.78%	839,397
Turkish Lira	3,934,785	5.30%	208,543	3,562,389	7.90%	281,313	3,247,383	11.01%	357,671
Foreign Currency	12,641,940	0.99%	124,963	8,258,633	3.12%	257,391	14,316,206	3.36%	481,726
Investments in securities	38,615,183	9.26%	3,577,267	40,828,533	11.59%	4,732,483	41,437,400	19.82%	8,214,272
Turkish Lira	27,622,909	10.59%	2,925,080	28,316,982	14.15%	4,007,973	28,548,821	26.18%	7,475,332
Foreign currency	10,992,274	5.93%	652,187	12,511,551	5.79%	724,510	12,888,579	5.73%	738,940
Loans and advances to customers, and other interest-earning assets	167,018,328	10.18%	17,004,444	196,486,173	10.86%	21,336,595	227,215,123	13.05%	29,659,904
Turkish Lira	100,916,977	13.36%	13,483,636	124,338,536	13.76%	17,104,653	141,688,791	16.75%	23,730,878
Foreign currency	66,101,351	5.33%	3,520,808	72,147,637	5.87%	4,231,941	85,526,332	6.93%	5,929,026
Total for Average Interest-Earning Assets	222,210,237	9.41%	20,915,217	249,135,728	10.68%	26,607,782	286,216,112	13.53%	38,713,573
Turkish Lira	132,474,672	12.54%	16,617,260	156,217,906	13.69%	21,393,939	173,484,995	18.19%	31,563,881
Foreign currency	89,735,565	4.79%	4,297,957	92,917,822	5.61%	5,213,843	112,731,117	6.34%	7,149,692
Average Non-Interest-Earning Assets									
Cash and cash equivalents	3,592,099			4,498,452			10,984,893		
Tangibles	4,260,459			5,123,120			5,656,587		
Equity participations	5,131,338			6,054,984			6,985,990		
Other assets and accrued income	31,131,994			40,574,042			50,270,753		
Average Total Non-Interest-Earning Assets	44,115,890			56,250,598			73,898,223		
Average Total Assets	266,326,127			305,386,326			360,114,335		

(1) Comprises balances with banks and interbank funds sold.

For the year ended 31 December									
	2016			2017			2018		
	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense
(TL thousands, except percentages)									
LIABILITIES									
Average Interest-Bearing Liabilities									
Deposits from customers .	134,844,391	5.10%	6,883,319	149,326,903	5.61%	8,375,847	181,131,702	8.11%	14,697,257
Turkish Lira	62,096,020	9.11%	5,654,906	71,557,666	9.58%	6,858,199	86,400,128	14.27%	12,327,508
Foreign currency	72,748,371	1.75%	1,228,413	77,769,237	1.95%	1,517,648	94,731,574	2.50%	2,369,749
Short-term debt and other interest bearing liabilities ⁽¹⁾	5,583,218	7.77%	433,861	11,263,059	8.26%	930,294	5,432,903	9.36%	508,317
Turkish Lira	5,177,800	8.25%	427,045	7,495,706	12.02%	900,909	3,640,056	12.98%	472,657
Foreign currency	405,418	1.68%	6,816	3,767,353	0.78%	29,385	1,792,847	1.99%	35,660
Long-term debt and other interest bearing liabilities	39,541,801	4.32%	1,706,333	49,397,655	5.01%	2,475,339	62,912,981	6.04%	3,802,058
Turkish Lira	5,413,350	8.38%	453,423	5,946,685	11.28%	670,734	5,773,128	15.23%	879,149
Foreign currency	34,128,451	3.67%	1,252,910	43,450,970	4.15%	1,804,605	57,139,853	5.12%	2,922,909
Repurchase agreements ...	10,505,102	7.57%	794,762	4,376,613	8.18%	357,952	3,410,289	17.47%	595,736
Turkish Lira	9,081,617	8.44%	766,105	3,332,086	10.74%	357,801	3,371,929	17.67%	595,654
Foreign currency	1,423,485	2.01%	28,657	1,044,527	0.01%	151	38,360	0.21%	82
Total for Average Interest-Bearing Liabilities	190,474,512	5.15%	9,818,275	214,364,230	5.66%	12,139,432	252,887,875	7.75%	19,603,368
Turkish Lira	81,768,787	8.93%	7,301,478	88,332,142	9.95%	8,787,643	99,185,241	14.39%	14,274,968
Foreign currency	108,705,725	2.32%	2,516,797	126,032,088	2.66%	3,351,789	153,702,634	3.47%	5,328,400
Average Non-Interest-Bearing Liabilities and Equity									
Deposits-demand.....	32,110,712			40,906,840			49,880,630		
Accrued expenses and other liabilities	10,424,592			11,137,159			12,658,371		
Current and deferred tax liabilities	94,095			739,544			95,966		
Shareholders' equity and net profit.....	33,222,216			38,238,553			44,591,493		
Total Average Non-Interest-Bearing Liabilities and Equity....	75,851,615			91,022,096			107,226,460		
Total Average Liabilities and Equity....	266,326,127			305,386,326			360,114,335		

(1) Interbank Money Market (*Bankalararası Para Piyasası*) placements are included under "Short-term debt and other interest bearing liabilities."

The following tables set out the average balances of assets and liabilities, and the interest earned or expensed on such amounts, of the Group for the indicated years. For purposes of the following tables, the average is calculated as the average of the opening, quarter-end and closing balances for the applicable year. For the purpose of the following tables: (a) non-accruing credits have been treated as non-interest earning assets and (b) loan fees have been included in interest income.

	For the year ended 31 December								
	2016			2017			2018		
	Average Balance	Average Yield	Interest Income	Average Balance	Average Yield	Interest Income	Average Balance	Average Yield	Interest Income
	(TL thousands, except percentages)								
<u>ASSETS</u>									
Average Interest-Earning Assets									
Banks	10,542,783	1.95%	205,126	8,807,861	5.13%	451,750	11,026,262	5.81%	640,894
Financial Assets at Fair Value through Profit/(Loss) ⁽¹⁾	2,489,150	—	—	2,863,926	—	—	502,517	14.48%	72,763
Interbank Money Market Placements .	242,955	3.00%	7,294	51,004	27.49%	14,022	112,575	33.51%	37,728
Financial Assets Available-for-Sale ⁽²⁾	23,573,795	8.65%	2,039,448	24,591,318	10.37%	2,550,023	26,926,437	15.39%	4,145,126
Loans	186,374,373	9.43%	17,577,562	219,490,283	9.98%	21,912,595	260,913,267	11.87%	30,971,635
Investments Held- to-Maturity ⁽³⁾	21,554,549	7.58%	1,633,073	23,319,022	9.44%	2,200,379	22,615,305	17.88%	4,043,865
Total for Average Interest-Earning Assets.....	244,777,605	8.77%	21,462,503	279,123,414	9.72%	27,128,769	322,096,363	12.39%	39,912,011
Average Non- Interest-Earning Assets	51,360,605			61,037,776			77,963,975		
Total Average Assets.....	296,138,366			340,161,190			400,060,338		

(1) In 2018, Financial Assets Measured at Fair Value through Profit/(Loss).

(2) In 2018, Financial Assets Measured at Fair Value through Other Comprehensive Income.

(3) In 2018, Financial Assets Measured at Amortised Cost.

	For the year ended 31 December								
	2016			2017			2018		
	Average Balance	Average Rate	Interest Expense	Average Balance	Average Rate	Interest Expense	Average Balance	Average Rate	Interest Expense
	(TL thousands, except percentages)								
<u>LIABILITIES</u>									
Average Interest-Bearing Liabilities									
Deposits	127,933,139	5.47%	7,000,456	141,112,643	5.98%	8,439,849	175,060,215	8.43%	14,756,253
Funds borrowed	39,908,990	2.86%	1,143,112	44,876,997	2.95%	1,323,169	38,814,303	5.06%	1,965,032
Interbank Money Market									
Takings	13,803,789	7.96%	1,098,821	17,137,068	7.64%	1,309,125	5,426,142	22.00%	1,193,709
Securities Issued	16,237,956	6.74%	1,094,527	22,164,414	7.13%	1,579,644	42,796,396	5.58%	2,388,905
Total for Average Interest-Bearing Liabilities.....	197,883,874	5.22%	10,336,916	225,291,122	5.62%	12,651,787	262,097,056	7.75%	20,303,899
Average Non-Interest-Bearing Liabilities and Equity.....	98,254,492			114,870,068			137,963,282		
Total Average Liabilities and Equity.....	296,138,366			340,161,190			400,060,338		

The following table shows the net interest income and net yield for the Bank for each of the indicated years.

As of 31 December			
	2016	2017	2018
<i>(TL thousands, except percentages)</i>			
Net Interest Income			
Turkish Lira	9,315,780	12,606,297	17,288,914
Foreign currency	1,781,162	1,862,053	1,821,291
Total	11,096,942	14,468,350	19,110,205
Net Yield			
Turkish Lira	7.03%	8.07%	9.97%
Foreign currency	1.98%	2.00%	1.62%
Total	4.99%	5.81%	6.68%

The following table shows the net interest income and net yield for the Group for each of the indicated years.

As of 31 December			
	2016	2017	2018
<i>(TL thousands, except percentages)</i>			
Net Interest Income	12,255,733	15,686,570	20,876,933
Net Yield	5.01%	5.62%	6.48%

B. Net Changes in Interest Income and Expense – Volume and Rate Analysis

The following table provides a comparative analysis of net changes in interest earned and interest expensed by reference to changes in average volume and rates for the years indicated for the Bank. Net changes in net interest income are attributed either to changes in average balances (volume changes) or changes in average rates (rate changes) for interest-earning assets and sources of funds on which interest is earned or expensed. Volume change is calculated as the change in volume multiplied by the current rate, while rate change is the change in rate multiplied by the previous volume. Average balances represent the average of the opening and closing balances for the respective year. For purpose of the following tables, NPLs have been treated as non-interest earning assets.

	For the year ended 31 December		
	2018/2017		
	Increase (decrease) due to changes in		
	Volume	Rate	Net Change
	<i>(TL thousands)</i>		
Interest Income			
Deposits with banks	169,136	131,556	300,692
<i>Turkish Lira</i>	(34,695)	111,053	76,358
<i>Foreign currency</i>	203,831	20,503	224,334
Investments in securities.....	82,322	3,399,467	3,481,789
<i>Turkish Lira</i>	60,706	3,406,653	3,467,359
<i>Foreign currency</i>	21,616	(7,186)	14,430
Loans and advances to customers, and other interest-earning assets..	3,833,388	4,489,922	8,323,310
<i>Turkish Lira</i>	2,905,924	3,720,301	6,626,225
<i>Foreign currency</i>	927,464	769,621	1,697,085
Total interest income	4,084,846	8,020,945	12,105,791
Interest Expense			
Deposits from customers	2,542,032	3,779,379	6,321,410
<i>Turkish Lira</i>	2,117,712	3,351,598	5,469,309
<i>Foreign currency</i>	424,320	427,781	852,101
Short-term debt and other interest-bearing liabilities	(539,925)	117,948	(421,976)
<i>Turkish Lira</i>	(500,652)	72,399	(428,252)
<i>Foreign currency</i>	(39,273)	45,549	6,276
Long-term debt and other interest-bearing liabilities.....	673,806	652,913	1,326,719
<i>Turkish Lira</i>	(26,430)	234,845	208,415
<i>Foreign currency</i>	700,236	418,068	1,118,304
Repurchase Agreements	4,893	232,890	237,783
<i>Turkish Lira</i>	7,038	230,814	237,853
<i>Foreign currency</i>	(2,145)	2,076	(70)
Total interest expense	2,680,806	4,783,130	7,463,936
Net change in net interest income	1,404,040	3,237,815	4,641,855

	For the year ended 31 December		
	2017/2016		
	Increase (decrease) due to changes in		
	Volume	Rate	Net Change
	(TL thousands)		
Interest Income			
Deposits with banks.....	(166,019)	371,217	205,198
<i>Turkish Lira</i>	(29,407)	102,177	72,770
<i>Foreign currency</i>	(136,612)	269,040	132,428
Investments in securities.....	186,216	968,999	1,155,216
<i>Turkish Lira</i>	98,239	984,653	1,082,892
<i>Foreign currency</i>	87,977	(15,654)	72,323
Loans and advances to customers, and other interest-earning assets.....	3,652,112	680,040	4,331,151
<i>Turkish Lira</i>	3,357,939	984,790	4,342,729
<i>Foreign currency</i>	294,173	(304,750)	(10,577)
Total interest income	3,672,309	2,020,256	5,692,565
Interest Expense			
Deposits from customers	1,004,800	487,728	1,492,528
<i>Turkish Lira</i>	906,819	296,474	1,203,293
<i>Foreign currency</i>	97,981	191,254	289,236
Short-term debt and other interest-bearing liabilities	304,811	191,621	496,432
<i>Turkish Lira</i>	278,589	195,275	473,864
<i>Foreign currency</i>	26,222	(3,654)	22,568
Long-term debt and other interest-bearing liabilities.....	447,338	321,668	769,006
<i>Turkish Lira</i>	60,155	157,156	217,311
<i>Foreign currency</i>	387,183	164,512	551,695
Repurchase Agreements	(617,442)	180,633	(436,809)
<i>Turkish Lira</i>	(617,387)	209,083	(408,304)
<i>Foreign currency</i>	(55)	(28,450)	(28,505)
Total interest expense	1,139,507	1,181,650	2,321,157
Net change in net interest income.....	2,532,802	838,606	3,371,408

II. Securities Portfolio

The Group's securities portfolio comprises trading securities (*i.e.*, debt and equity securities that the Group principally holds for the purpose of short-term profit taking, which are reflected in the balance sheet as "financial assets at fair value through profit or loss") (following the adoption of TFRS 9 as of 1 January 2018, "financial assets measured at fair value through profit or loss") and investment securities (*i.e.*, both held-to-maturity securities and available-for-sale securities (following the adoption of TFRS 9 as of 1 January 2018, "financial assets measured at amortised cost" and "financial assets measured at fair value through other comprehensive income," respectively)). The Group also enters into purchases (or sales) of securities under agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price (*i.e.*, "repos"). Securities sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the related security portfolio as appropriate. The Group's portfolio of marketable securities consists primarily of Turkish government securities (including bonds, treasury bills and eurobonds) denominated in Turkish Lira, U.S. dollars and euro.

As of 31 December 2018, the size of the Group's aggregate securities portfolio increased by 1.7% to TL 52,376,838 thousand from TL 51,523,352 thousand as of 31 December 2017, which in turn increased by 9.0% from TL 47,284,972 thousand as of 31 December 2016. These changes resulted primarily from the Group's strategy of seeking selective/controlled growth in lending (that is, excess deposits were invested in securities).

A. Book Value of Securities

The following table sets out a breakdown of securities (on a book-value basis) held by the Group as of the indicated dates:

	As of 31 December		
	2016	2017	2018
	(TL thousands)		
Financial assets at fair value through profit or loss	191,828	930,824	—
TL-denominated.....	139,471	911,131	—
Foreign currency-denominated and indexed.....	52,357	19,693	—
Financial assets measured at fair value through profit or loss	—	—	559,876
TL-denominated.....	—	—	305,745
Foreign currency-denominated and indexed.....	—	—	254,131
Available-for-sale	23,983,448	26,277,988	—
TL-denominated.....	18,497,281	22,222,532	—
Foreign currency-denominated and indexed.....	5,486,167	4,055,456	—
Financial assets measured at fair value through other comprehensive income	—	—	27,162,953
TL-denominated.....	—	—	18,254,325
Foreign currency-denominated and indexed.....	—	—	8,908,628
Held-to-maturity	23,109,696	24,314,540	—
TL-denominated.....	12,139,123	12,900,962	—
Foreign currency-denominated and indexed.....	10,970,573	11,413,578	—
Financial assets measured at amortised cost	—	—	24,654,009
TL-denominated.....	—	—	18,586,328
Foreign currency-denominated and indexed.....	—	—	6,067,681
Total	47,284,972	51,523,352	52,376,838

Trading Securities (Financial Assets Measured at Fair Value through Profit or Loss following the adoption of TFRS 9)

In 2016 and 2017, the Group's trading securities portfolio was composed of debt and equity securities that the Group principally holds for the purpose of short-term profit taking. These include investments designated as trading instruments. Following the adoption of TFRS 9, these securities are referred to as "financial assets measured at fair value through profit or loss" and any financial asset that does not qualify for amortised cost measurement at fair value through other comprehensive income must be measured after initial recognition at fair value through profit or loss.

After initial recognition, securities that are classified as held-for-trading (and "financial assets measured at fair value through profit or loss" following the adoption of TFRS 9) are measured at estimated fair value. When market prices are not available or if liquidating the Group's position would reasonably be expected to affect market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realised.

The following table sets out a breakdown of the Group's financial assets measured at fair value through profit or loss as of the indicated dates:

	As of 31 December		
	2016	2017	2018
	(TL thousands)		
Government securities	102,649	820,578	259,574
Equity securities	60,379	68,173	200,326
Other securities.....	28,800	42,073	99,976
Total	191,828	930,824	559,876

As of 31 December 2018, the size of the Group's financial assets measured at fair value through profit or loss decreased by 39.9% to TL 559,876 thousand from TL 930,824 thousand as of 31 December 2017 (TL 191,828 thousand as of 31 December 2016) after the adoption of the new classification rules based upon TFRS 9. The Group's portfolio of financial assets measured at fair value through profit or loss comprises Turkish Lira-denominated bonds, eurobonds, bonds issued by corporations (including financial institutions) and foreign governments. See "Management's

Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Fair Value of Securities.”

Investment Securities Portfolio

In 2016 and 2017, investment securities comprised held-to-maturity securities and available-for-sale securities. Held-to-maturity securities are financial assets with fixed or determinable payments and fixed maturities that the Group intends and has the ability to hold to maturity. The Group cannot classify any financial asset as held-to-maturity if the Group has, during the current fiscal year or during the two preceding fiscal years, sold or transferred any held-to-maturity securities before their maturities as per TAS 39 (except certain permissible transfers). Available-for-sale securities are financial assets that are not held for trading purposes or held-to-maturity. Available-for-sale instruments include certain debt and equity investments. The Group classified investment securities depending upon the intention of management at the time of the purchase thereof.

In 2018, following the adoption of TFRS 9, investment securities comprised financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost. Financial assets measured at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets measured at amortised cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The contractual terms of both financial asset categories should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Held-to-Maturity Portfolio (Financial Assets Measured at Amortised Cost following the adoption of TFRS 9)

The Group’s portfolio of held-to-maturity securities (and “financial assets measured at amortised cost” following the adoption of TFRS 9) primarily consists of Turkish Lira-denominated government bonds and treasury bills, Turkish government eurobonds and bonds issued by foreign governments.

The following table sets out certain information relating to the Group’s portfolio of held-to-maturity securities (and “financial assets measured at amortised cost” following the adoption of TFRS 9) as of the indicated dates (including income accruals):

	As of 31 December		
	2016	2017	2018
		(TL thousands)	
Government securities	19,108,804	20,232,556	24,606,227
Other securities	4,000,892	4,081,984	47,782
Total	23,109,696	24,314,540	24,654,009

As of 31 December 2018, the size of the financial assets measured at amortised cost (including income accruals) (the held-to-maturity portfolio before the adoption of TFRS 9) increased by 1.4% to TL 24,654,009 thousand from TL 24,314,540 thousand as of 31 December 2017, itself an increase of 5.2% from TL 23,109,696 thousand as of 31 December 2016. The increase in 2018 was primarily due to the first time adoption of the new classification rules based upon TFRS 9 and, accordingly, the 2018 portfolio is not directly comparable to the 2016 and 2017 portfolios.

Available-for-Sale Portfolio (Financial Assets Measured at Fair Value through Other Comprehensive Income following the adoption of TFRS 9)

The Group’s portfolio of available-for-sale securities (“financial assets measured at fair value through other comprehensive income” following the adoption of TFRS 9) consists of Turkish government bonds and treasury bills, Turkish government eurobonds and bonds issued by corporations (including financial institutions) and foreign governments.

The following table sets out certain information relating to the portfolio of available-for-sale securities (“financial assets measured at fair value through other comprehensive income” following the adoption of TFRS 9) as of the indicated dates:

	As of 31 December		
	2016	2017	2018
	(TL thousands)		
Government securities	18,392,013	22,579,220	22,831,811
Equity securities	218,813	274,872	235,462
Other securities	5,372,622	3,423,896	4,095,680
Total	23,983,448	26,277,988	27,162,953

As of 31 December 2018, the size of the Group’s financial assets measured at fair value through other comprehensive income (the available-for-sale securities portfolio before the adoption of TFRS 9) increased by 3.4% to TL 27,162,953 thousand from TL 26,277,988 thousand as of 31 December 2017, itself an increase of 9.6% from TL 23,983,448 thousand as of 31 December 2016. The increase in 2018 was primarily due to the adoption of the new classification rules based upon TFRS 9 and, accordingly, the 2018 portfolio is not directly comparable to the 2016 and 2017 portfolios.

As of 31 December 2016, 2017 and 2018, the Group’s BRSA Financial Statements included unrealised loss (net of tax) on its available for sale portfolio (financial assets measured at fair value through other comprehensive income following the adoption of TFRS 9) amounting to TL 543,625 thousand as of 31 December 2016, unrealised loss amounting to TL 317,814 thousand as of 31 December 2017 and unrealised loss amounting to TL 1,037,859 thousand as of 31 December 2018, in other comprehensive income under shareholders’ equity.

In 2018 and 2017, net gains transferred to income on disposal from other comprehensive income amounted to TL 11,799 thousand and TL 30,723 thousand, respectively, whereas in 2016, net losses transferred to income on disposal from other comprehensive income amounted to TL 214,415 thousand.

B. Maturities of Securities

The following table sets out the maturities of the securities in the Group’s total securities portfolio as of 31 December 2018:

	As of 31 December 2018				
	1 year or less	After 1 year through 5 years	After 5 years	Undistributed	Total
	(TL thousands)				
Financial assets measured at fair value through profit or loss.....	305,529	186,880	67,467	—	559,876
Financial assets measured at fair value through other comprehensive income	3,072,341	15,977,178	8,113,434	—	27,162,953
Financial assets measured at amortised cost.....	80,177	12,673,025	11,900,807	—	24,654,009
Total	3,458,047	28,837,083	20,081,708	—	52,376,838

	As of 31 December 2018				
	1 year or less	After 1 year through 5 years	After 5 years	Undistributed	Total
Financial assets measured at fair value through profit or loss	8.8%	0.7%	0.3%	—	1.1%
Financial assets measured at fair value through other comprehensive income.....	88.8%	55.4%	40.4%	—	51.8%
Financial assets measured at amortised cost.....	2.4%	43.9%	59.3%	—	47.1%
Total	100.0%	100.0%	100.0%	—	100.0%

As of 31 December 2018				
	1 year or less	After 1 year through 5 years	After 5 years	Total
<i>(TL thousands)</i>				
Turkish government bonds and treasury bills..	2,350,447	27,141,493	18,205,675	47,697,615
Bonds issued by corporations	10,495	81,530	60,906	152,931
Others	1,097,105	1,614,060	1,815,127	4,526,292
Total	3,458,047	28,837,083	20,081,708	52,376,838

As of 31 December 2018				
	1 year or less	After 1 year through 5 years	After 5 years	Total
Turkish government bonds and treasury bills ..	68.0%	94.1%	90.7%	91.1%
Bonds issued by corporations	0.3%	0.3%	0.3%	0.3%
Others	31.7%	5.6%	9.0%	8.6%
Total	100.0%	100.0%	100.0%	100.0%

The following table sets out the remaining maturities of the Group's consolidated securities portfolio as of the indicated dates:

	As of 31 December		
	2016	2017	2018 ⁽¹⁾
	(TL thousands)		
Financial assets at fair value through profit or loss.....	3,805,541	2,877,813	—
Three months or less	1,778,728	1,176,905	—
Over three months through 12 months	1,315,803	632,539	—
Over one year through five years	387,478	748,677	—
Over five years	323,532	319,692	—
Financial assets measured at fair value through profit or loss	—	—	559,876
Three months or less	—	—	231,371
Over three months through 12 months	—	—	74,158
Over one year through five years	—	—	186,880
Over five years	—	—	67,467
Financial assets available-for-sale.....	23,983,448	26,277,988	—
Three months or less	276,018	836,329	—
Over three months through 12 months	498,172	1,302,458	—
Over one year through five years	11,326,666	12,784,887	—
Over five years	11,882,592	11,354,314	—
Financial assets measured at fair value through other comprehensive income	—	—	27,162,953
Three months or less	—	—	589,831
Over three months through 12 months	—	—	2,482,510
Over one year through five years	—	—	15,977,178
Over five years	—	—	8,113,434
Investments held-to-maturity	23,109,696	24,314,540	—
Three months or less	591,942	157,110	—
Over three months through 12 months	181,994	1,106,532	—
Over one year through five years	9,023,268	3,310,421	—
Over five years	13,312,492	9,077,305	—
Undistributed.....	—	10,663,172	—
Financial assets measured at amortised cost.....	—	—	24,654,009
Three months or less	—	—	—
Over three months through 12 months	—	—	80,177
Over one year through five years	—	—	12,673,025
Over five years	—	—	11,900,807
Undistributed.....	—	—	—
Total	50,898,685	53,470,341	52,376,838

(1) 2018 figures do not include "Derivative financial assets."

The following table sets out the Group's total securities portfolio, including derivative financial assets held for trading, in Turkish Lira and in foreign currencies as of the indicated dates:

	As of 31 December		
	2016	2017	2018 ⁽¹⁾
	(TL thousands)		
Turkish Lira-denominated securities.....	33,437,462	37,414,394	37,146,398
Foreign currency and foreign currency-indexed securities	17,461,223	16,055,947	15,230,440
Total securities.....	50,898,685	53,470,341	52,376,838

(1) 2018 figures do not include "Derivative financial assets."

C. Securities Concentrations

As of 31 December 2018, the Group did not hold debt securities of any one issuer that (in the aggregate) had a book value in excess of 10% of the Group's shareholders' equity, other than securities issued by the Turkish government. As of 31 December 2018, the Group's TL 47,697,612 thousand of Turkish government securities represented 101.7% of the Group's shareholders' equity.

The following table provides information regarding financial assets at fair value through profit/(loss) (following the adoption of TFRS 9, financial assets measured at fair value through profit/(loss)): (a) provided as collateral/blocked assets with respect to various banking, insurance and asset management transactions and (b) subject to repurchase agreements as of the indicated dates:

	As of 31 December		
	2016	2017	2018
		(TL thousands)	
Collateralised/Blocked Assets	13,777	15,522	20,931
Assets Subject to Repurchase Agreements	3,983	2,834	1,605
Total.....	17,760	18,356	22,536

The following table provides information regarding financial assets available-for-sale (for 2018, following adoption of TFRS 9, financial assets measured at fair value through other comprehensive income): (a) provided as collateral/blocked assets with respect to various banking, insurance and asset management transactions and (b) subject to repurchase agreements as of the indicated dates:

	As of 31 December		
	2016	2017	2018
		(TL thousands)	
Collateralised/Blocked Assets.....	2,998,651	11,241,085	5,387,187
Assets Subject to Repurchase Agreements.....	4,962,018	914,260	1,160,491
Total.....	7,960,669	12,155,345	6,547,678

The following table provides information regarding investments held-to-maturity (“financial assets measured at amortised cost” following adoption of TFRS 9): (a) provided as collateral/blocked assets with respect to various banking, insurance and asset management transactions and (b) subject to repurchase agreements as of the indicated dates:

	As of 31 December		
	2016	2017	2018
		(TL thousands)	
Collateralised/Blocked Assets.....	10,134,888	12,953,676	7,362,479
Assets Subject to Repurchase Agreements	3,147,892	996,286	46,120
Total	13,282,780	13,949,962	7,408,599

Pursuant to market practice, the Group pledges securities to acquire funding under security repurchase agreements. The securities so pledged amounted to TL 8,113,893 thousand as of 31 December 2016, TL 1,913,380 thousand as of 31 December 2017 and TL 1,208,216 thousand as of 31 December 2018, comprising 17.2%, 3.7% and 2.3% (respectively) of the Group’s securities portfolio on such dates. Such securities are included in the above table.

III. Loans

The Group’s loans (*i.e.*, cash loans) amounted to TL 256,548,861 thousand as of 31 December 2018, increasing by 11.9% compared to year-end 2017, itself a 13.9% increase from year-end 2016. The increase in 2018 reflects the impact of including both lease and factoring receivables under the loans line item as a result of a change to the presentation of the financial statements as per new rules introduced by the BRSA. As discussed below, there are several important characteristics of the Group’s loans portfolio, including diversification based upon sector and currency.

Loans represent the largest component of the Group’s assets. As of 31 December 2018, the Group’s total loans and advances to customers, less expected credit losses including lease and factoring receivables, was TL 256,548,861 thousand and comprised 64.3% of the Group’s total assets. By comparison, as of 31 December 2017, this amount was TL 229,353,285 thousand (64.4% of the Group’s total assets excluding lease and factoring receivables). The increase in the Group’s loans and advances to customers resulted from an increase in foreign currency exchange rates together with customer-driven growth but slowed down in line with the volatility in financial conditions (see “Turkish Regulatory Environment - Consumer Loan, Provisioning and Credit Card Regulations”).

As of 31 December 2018, on the basis of the total amount of cash loans advanced, 67.3% of the Bank's loans were fixed rate and 32.7% were variable rate. The average interest rate that the Bank charged to borrowers in 2018 was 19.3% for Turkish Lira-denominated loans and advances and 6.9% for foreign currency-denominated loans and advances, calculated on the basis of daily averages of balances and interest rates and according to the Bank's management's estimates, which increased from 15.9% and 5.9%, respectively, in 2017.

The Group provides financing for various purposes and although the majority of commercial and corporate loans have an average maturity of up to 36 months, for certain commercial and corporate loans (such as working capital and project finance loans) and for certain retail loans (such as mortgage loans) the maturities are up to 10 years (or occasionally over 10 years). As of 31 December 2018, the Group's loans with remaining maturities over one year and over five years composed 45.3% and 10.4%, respectively, of the Group's total loans.

A. Types of Loans

The following table sets out the composition of the Group's total performing loan portfolio (but excluding financial lease receivables and factoring receivables) by industry sectors as of the indicated dates:

	As of 31 December					
	2016		2017		2018	
	<i>(TL thousands, except percentages)</i>					
Consumer loans	60,932,999	30.9%	69,040,236	30.8%	72,304,769	29.8%
Energy.....	23,686,229	12.0%	27,450,279	12.2%	32,382,711	13.3%
Service sector.....	16,221,852	8.2%	16,276,996	7.2%	17,673,573	7.3%
Transportation vehicles and sub-industries..	6,227,605	3.2%	7,375,056	3.3%	13,215,283	5.4%
Food.....	8,409,563	4.3%	10,916,782	4.9%	11,052,350	4.5%
Construction.....	10,319,625	5.2%	12,333,468	5.5%	10,991,942	4.5%
Textile	8,122,466	4.1%	9,186,309	4.1%	9,712,055	4.0%
Financial institutions	8,947,780	4.5%	9,551,987	4.3%	8,239,820	3.4%
Transportation and logistics.....	9,217,292	4.7%	9,684,755	4.3%	8,177,170	3.4%
Metal and metal products.....	6,283,548	3.2%	6,941,650	3.1%	8,017,309	3.3%
Chemistry and chemical products.....	4,182,785	2.1%	5,226,844	2.3%	5,859,083	2.4%
Tourism.....	5,451,790	2.8%	5,364,524	2.4%	5,609,165	2.3%
Durable consumption.....	2,524,186	1.3%	3,123,230	1.4%	5,065,700	2.1%
Agriculture and stockbreeding.....	2,557,898	1.3%	3,750,865	1.7%	4,491,352	1.8%
Machinery and equipment	2,345,946	1.2%	2,877,161	1.3%	3,363,328	1.4%
Stone/rock and related products.....	2,101,354	1.1%	2,474,379	1.1%	3,215,142	1.3%
Data processing.....	4,948,330	2.5%	2,794,048	1.2%	2,543,519	1.0%
Mining	2,326,281	1.2%	2,404,023	1.1%	2,436,370	1.0%
Paper and paper products.....	1,422,039	0.7%	1,572,641	0.7%	1,809,345	0.7%
Electronic/optical/medical equipment	1,257,451	0.6%	1,465,279	0.7%	1,327,109	0.5%
Plastic products.....	869,299	0.4%	992,123	0.4%	872,430	0.4%
Others	8,688,440	4.5%	13,714,144	6.0%	14,596,175	6.2%
Total	197,044,758	100.0%	224,516,779	100.0%	242,955,700	100.0%

B. Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table sets out certain information relating to the maturity profile of the Bank's performing cash loan portfolio (based upon scheduled repayments but excluding interest accruals) as of the indicated date:

	As of 31 December 2018			
	1 year or less ⁽¹⁾	After 1 year through 5 years	After 5 years	Total
	<i>(TL thousands)</i>			
Total performing cash loans.....	60,581,286	76,801,971	77,489,212	214,872,469

(1) Includes demand loans, loans having no stated schedule of repayment and no stated maturity and overdrafts.

Composition of Loan Portfolio by Currency

As of 31 December 2018, foreign currency-denominated loans comprised 43.4% of the Group's loan portfolio (of which U.S. dollar-denominated obligations were the most significant), compared to 39.8% as of 31 December 2017 and 43.6% as of 31 December 2016. The share of foreign currency-denominated loans increased in the Group's loan portfolio as of 31 December 2018 compared to previous years primarily due to the depreciation of the Turkish Lira.

The following table sets out an analysis by currency of the exposure of the Group's cash loans portfolio as of the indicated dates:

	As of 31 December ⁽¹⁾					
	2016		2017		2018 ⁽²⁾⁽³⁾	
	(TL thousands, except percentages)					
Turkish Lira.....	113,589,116	56.4%	138,177,890	60.2%	147,996,753	56.6%
U.S. dollar.....	49,123,510	24.4%	45,724,612	19.9%	55,644,651	21.3%
Euro and others.....	38,696,470	19.2%	45,450,783	19.9%	57,876,896	22.1%
Total	201,409,096	100.0%	229,353,285	100.0%	261,518,300	100.0%

(1) The foreign currency-indexed loans included under TL-denominated loans in the Group's BRSA Financial Statements are presented above under the relevant foreign currency column.

(2) Stage 1 and Stage 2 expected credit losses are excluded.

(3) Lease and factoring receivables are included.

In 2016 and 2017, lower inflation and a gradual decline in interest rates led to greater confidence in the banking system and an increase in Turkish Lira-denominated loans. Retail loans, which are a growing portion of the Group's total loans, are generally denominated in Turkish Lira. In 2018, the growth in the Group's loan portfolio was principally the result of an expansion in credit card loans.

C. Risk Elements

1. Non-performing Loans and Restructured or Rescheduled Non-Performing Loans

The following table sets out the composition of the Group's total NPLs (gross) and restructured or rescheduled loans as of the indicated dates:

	As of 31 December		
	2016	2017	2018 ⁽¹⁾
	<i>(TL thousands)</i>		
NPLs	6,124,641	6,176,985	13,753,384
Restructured or rescheduled loans	1,991,962	2,043,592	8,770,525

(1) Lease and factoring receivables (amounting to TL 1,204,679 thousand for NPLs and TL 247,430 thousand for restructured or rescheduled loans as of 31 December 2018) are included.

A loan is categorised as non-performing (following the adoption of TFRS 9, as Stage 3) when the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement due to a lack of assets, a high indebtedness ratio, insufficient working capital and/or insufficient equity on the part of the customer. See "Summary of Loan Loss Experience" for certain criteria in relation to concepts of the "restructuring" of loans pursuant to the Classification of Loans and Provisions Regulation that replaced the former regulation and became effective as of 1 January 2018.

2. Potential Problem Loans

As of 31 December 2018, there were no material amount of loans that are not included in the preceding table but for which information known to the Group about possible credit problems of borrowers caused the Bank's management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and that may result in disclosure of such loans in the above table for future years. See "Summary of Loan Loss Experience" below.

3. Loan Concentrations

As of 31 December 2018, the Group's loan portfolio did not contain any concentration of credits that exceeded 10% of its total loans that are not otherwise already disclosed as a category of loans pursuant to "Types of Loans" above. For the purposes of this paragraph, loan concentrations are considered to exist when there are credits to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions.

From an individual borrower perspective, as of 31 December 2018, the gross cash loans to the Bank's 10 largest customers (on a Bank-only basis) represented approximately 9.4% of its gross loan portfolio, as compared to approximately 7.6% as of 31 December 2017 and 9.0% as of 31 December 2016. In recent years, as a result of improvements in the Turkish economy, the percentage of smaller loans in the loan portfolio has been on an increasing trend. Although limited to some extent by the Group's selective growth strategy, the percentage of small loans like retail and SME loans increased in 2016, 2017 and 2018, as the economy improved and customer demand increased and (despite the recent contraction in economic activities as a result of the volatility in financial markets) the Bank's management expects it to keep increasing in the near future.

D. Other Interest-Earning Assets

As of 31 December 2018, the Group's other interest-earning assets did not include any non-loan assets that would be included in III.C.1. ("Nonaccrual and Restructured Loans") or III.C.2. ("Potential Problem Loans") above if such assets were loans.

IV. Summary of Loan Loss Experience

The Bank's head office risk committee: (a) is responsible for monitoring the Bank's loan portfolio and establishing allowances and provisions in relation thereto based upon reports provided by the branch or other applicable risk committees and (b) provides monthly reports directly to the Bank's Board of Directors detailing all aspects of the Bank's loan activity, including the number of new problem loans, the status of existing NPLs and the level of collections. The head office risk committee also conducts evaluations of other assets and off-balance sheet contingent liabilities.

According to the default definition, a financial asset is considered to be in objective default when more than 90 days past due or subjective default when unlikely to be paid. The Bank considers a financial asset to be defaulted, and Stage 3 (credit-impaired), as follows:

Objective Default: Financial assets that are past due more than 90 days. The current definition of default used by the Bank and its consolidated financial subsidiaries is based upon a more than 90 days past due definition (*i.e.*, default status starts on the 91st day).

Subjective Default: Financial assets that are considered to be unlikely to be paid. Whenever it is considered that an obligor is unlikely to pay its credit obligations, the related financial asset is considered to be in default regardless of the existence of any past-due amount or the number of days past due.

Before the adoption of TFRS 9 as of 1 January 2018, the Bank classified its loan portfolio in its BRSA Financial Statements in accordance with then-current Turkish banking regulations. See "Turkish Regulatory Environment." In accordance with the applicable regulations, the Bank makes specific allowances for probable loan losses. These specific allowances must be increased gradually so that the reserves reach a ceiling level of 100% of the NPL, subject to the amount and type of collateral securing such loan. As noted above, a loan is categorised as non-performing when interest, fees or principal remain unpaid 90 days after the due date. The Group maintains a stricter provisioning policy than required by applicable regulations and seeks to maintain credit loss reserves of equal or greater amounts than NPLs after consideration of the fair value of collateral received.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks were 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 had been delayed. This previous regulation also required Turkish banks to provide a general provision of at least 1% of the total cash loan portfolio *plus* at least 0.2% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) (except for: (a) commercial cash loans defined in Group I, for which the general provisions were to be equal to at least 0.5% of the total commercial cash loan portfolio, (b) commercial non-cash loans defined in Group I above, for which the general provision were to be equal to at least 0.1% of the total commercial non-cash commercial loan portfolio, (c) cash and non-cash loans defined in Group I for

SMEs and relating to transit trade, export, export sales and deliveries and services, activities resulting in gains of foreign currency and syndicate loans used for the financing of large-scale public tenders, for which the general loan loss provision were to be calculated at 0%) for standard loans defined in Group I above and a general provision calculated at 2.0% of the total cash loan portfolio *plus* 0.4% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) for closely-monitored loans defined in Group II (except for: (i) commercial cash loans, cash loans for SMEs and relating to transit trade, export, export sales and deliveries and services, and activities resulting in gains of foreign currency, for which the general loan loss provision was to be equal to at least 1.0%, and (ii) non-cash loans related to the items stated in clause (i) above, for which the general loan loss provision was to be equal to 0.2%). The Group could also decide to increase the level of general provision for some specific group of loans depending upon their risk profile.

Starting from 1 January 2018, TFRS 9 changed the accounting method for loan loss impairments by replacing TAS 39's incurred loss approach with the forward-looking ECL approach, which forms an impairment model that has three stages based upon the change in credit quality since initial recognition. The ECLs are measured as an allowance equal to either 12-month ECL for Stage 1 assets or lifetime ECL for Stage 2 or Stage 3 (credit-impaired) assets. An asset moves from Stage 1 to Stage 2 when its credit risk increases significantly since initial recognition.

At each reporting date, it is assessed whether the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment, the change in the risk of a default occurring on the financial asset is determined.

As of each reporting date, if the credit risk on a financial asset has not increased significantly since initial recognition, then the loss allowance for that financial asset is set at an amount equal to its 12-month expected credit losses; *however*, if there is a significant increase in the credit risk of a financial asset since initial recognition, a loss allowance regarding such financial asset is set at an amount equal to lifetime expected credit losses.

ECLs are calculated based upon a probability-weighted estimate of credit losses (the present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due based upon the contract and the cash flows that are expected to be received. The calculation of ECLs per each stage is summarised in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Implementation of TFRS 9 - Impairment."

The Group's NPLs amounted to TL 6,124,461 thousand, TL 6,176,985 thousand and TL 13,753,384 thousand as of 31 December 2016, 2017 and 2018, respectively. The Group's NPL ratio and NPLs to total cash loans and non-cash loans were 3.0%, 2.6% and 5.1% and 2.3%, 2.1% and 4.1%, respectively, as of 31 December 2016, 2017 and 2018. As of 31 December 2018, 10.4% and 21.6% of the Group's performing cash loans excluding financial leases and factoring receivables were credit card and consumer loans, respectively. The Group's allowance for probable loan losses to NPLs (and, after the implementation of TFRS 9, expected credit losses to NPLs) was 130.7%, 137.4% and 95.2% as of 31 December 2016, 2017 and 2018, respectively. For the impact of the implementation of TFRS 9 on the Bank's NPLs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Implementation of TFRS 9 - Transition to TFRS 9."

Starting from 1 January 2018, in order for the restructured non-performing corporate and commercial loans to be classified to the watchlist category (Stage 2), all of the following conditions must be met:

- recovery in debt service,
- at least one year should have transpired since the date of restructuring,
- payment of all accrued and overdue amounts by the debtor (interest and principal) since the date of restructuring/refinancing or the date when the debtor is classified as non-performing (the earlier date to be considered) and fulfillment of the payment condition of all overdue amounts as of the date of restructuring/refinancing, and
- collection of all overdue amounts, termination of the reasons for classification of the financial asset as a non-performing receivable (based upon the conditions mentioned above) and having no overdue more than 30 days as of the date of reclassification.

During the follow-up period of at least two years following the date of restructuring/refinancing, if there is a new restructuring/refinancing or a delay of more than 30 days, then the transactions that were non-performing at the beginning of the follow-up period are classified as non-performing again. Performing or non-performing retail loans that are subject to restructuring are removed from the watchlist only if the debt is paid in full.

Corporate and commercial companies for which financial assets have been restructured and refinanced can be removed from the watchlist when all of the following conditions are met:

- after a thorough review of the company's financial data and its owners' equity position, it is not anticipated that the owner(s) of the company will face financial difficulties and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured, all due principal and interest payments will be made on time), and

- at least two years shall have transpired since the date of restructuring (or, if it is later, the date of removal from non-performing loan category), at least 10% (or the ratio then specified in the applicable law) of the total principal amount at the time of the restructuring/refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of the restructuring/refinancing.

In addition, when the conditions that trigger a transfer to Stage 2 are no longer met, the exposure is transferred to Stage 1. If the credit risk on financial assets for which lifetime expected credit losses have been recognised subsequently improves so that the requirement for recognising lifetime expected credit losses is no longer met, then the loss allowance is measured at an amount equal to the 12-month expected credit losses (with a resulting gain recognised in profit or loss).

Analysis of the Allowance for Loan Losses

The following table sets forth an analysis of the movements in the allowance for probable losses on loans and advances to customers for the Group for each year indicated below:

	2018⁽¹⁾			
	Stage 1	Stage 2	Stage 3	Total
	<i>(TL thousands)</i>			
Balances at beginning of period	908,210	3,531,388	4,512,355	8,951,953
Additions during the period (+)	1,665,196	5,005,345	3,111,983	9,782,524
Disposal (-)	(2,365,129)	(1,117,884)	(952,422)	(4,435,435)
Debt sale (-)	(649)	-	(351,667)	(352,316)
Write-offs (-)	-	-	(2,254,607)	(2,254,607)
Transfer to Stage 1	1,234,803	(1,227,561)	(7,242)	-
Transfer to Stage 2	(570,081)	612,034	(41,953)	-
Transfer to Stage 3	(5,805)	(3,920,918)	3,926,723	-
Foreign currency differences	75,605	1,144,885	181,419	1,401,909
Balances at end of period	942,150	4,027,289	8,124,589	13,094,028

(1) Includes expected credit losses for lease and factoring receivables.

	2017			
	Corporate/ Commercial Loans	Consumer Loans	Credit Cards	Total
	<i>(TL thousands)</i>			
Balances at beginning of period	2,320,019	1,483,459	987,611	4,791,089
Additions, recoveries and reversals, (net) (+)	564,320	312,812	229,498	1,106,630
Write-offs (-)	(564,969)	(251,182)	(265,256)	(1,081,407)
Balances at end of period	2,319,370	1,545,089	951,853	4,816,312

2016				
	Corporate/ Commercial Loans	Consumer Loans	Credit Cards	Total
	<i>(TL thousands)</i>			
Balances at beginning of period	1,826,030	1,486,364	986,073	4,298,467
Additions and recoveries, (net) (+).....	1,364,270	471,108	295,767	2,131,145
Write-offs (-)	(870,281)	(474,013)	(294,229)	(1,638,523)
Balances at end of period	2,320,019	1,483,459	987,611	4,791,089

The amount of the net additions to the allowance charged to the income statement and (following a change to the presentation of the financial statements as per new rules introduced by the BRSA) statement of profit or loss were TL 2,131,145 thousand in 2016, TL 1,106,630 thousand in 2017 and TL 6,748,998 thousand in 2018.

V. Deposits

As of 31 December 2018, the Group's major source of funds for its lending and investment activities were deposits, which accounted for 69.6% of the Group's total liabilities (compared to 63.8% as of 31 December 2017 and 64.7% as of 31 December 2016). Funds borrowed accounted for 9.5% of total liabilities as of 31 December 2018, down from 15.0% of total liabilities as of 31 December 2017, which was down from 16.9% as of 31 December 2016. Other sources of funding include interbank money markets, securities issued and subordinated debts.

The following table sets out the Group's deposits and other sources of funding as of the indicated dates:

	As of 31 December					
	2016		2017		2018	
	(TL thousands, except percentages)					
Deposits.....	178,689,813	70.3%	200,773,560	69.2%	245,016,346	75.6%
Funds borrowed.....	46,581,853	18.3%	47,104,719	16.2%	33,339,727	10.3%
Interbank money markets	11,230,193	4.4%	18,637,856	6.4%	2,634,590	0.8%
Securities issued	17,745,648	7.0%	20,794,452	7.2%	39,223,693	12.1%
Subordinated debts	—	—	2,849,471	1.0%	3,977,018	1.2%
Total.....	254,247,507	100.0%	290,160,058	100.0%	324,191,374	100.0%

Deposits

The Group's deposits consist of demand and time deposits. Current accounts generally bear no interest and can be withdrawn upon demand. For time deposits, different interest rates are paid on the various types of accounts offered by the Group. The Group's deposits mainly comprise foreign currency-denominated deposits and Turkish Lira-denominated saving and commercial deposits.

The following table sets out a breakdown of the Group's deposits by composition as of the indicated dates:

As of 31 December			
	2016	2017	2018
	<i>(TL thousands)</i>		
Foreign currency	96,912,741	109,187,043	132,709,926
Saving	53,791,226	59,721,066	69,535,761
Commercial	18,441,392	22,997,202	26,638,996
Bank deposits	4,487,946	1,625,822	6,161,687
Public and other	5,056,508	7,242,427	9,969,976
Total	178,689,813	200,773,560	245,016,346

The following table sets out a breakdown of the Bank's deposits by composition as a daily average during the indicated periods (excluding expense accruals) and the average interest rate paid thereon:

	2016		2017		2018	
	Average Deposits	Average Interest Rate	Average Deposits	Average Interest Rate	Average Deposits	Average Interest Rate
	<i>(TL thousands, except percentages)</i>					
Demand deposits⁽¹⁾	32,110,711	0.00%	40,906,841	0.00%	49,880,629	0.00%
Foreign currency.....	16,231,302	0.00%	21,620,316	0.00%	28,426,512	0.00%
From banks	—	—	—	—	—	—
From governments and official institutions.....	—	—	—	—	—	—
From other customers	16,231,302	0.00%	21,620,316	0.00%	28,426,512	0.00%
Turkish Lira	15,879,409	0.01%	19,286,525	0.01%	21,454,117	0.01%
From banks	192,692	0.00%	223,565	0.00%	260,822	0.00%
From governments and official institutions.....	1,128,146	0.00%	1,065,671	0.00%	1,579,658	0.00%
From other customers	14,558,571	0.00%	17,997,289	0.00%	19,613,637	0.00%
Savings deposits	41,116,611	8.94%	45,108,480	9.70%	52,934,247	14.44%
Foreign currency.....	—	—	—	—	—	—
Turkish Lira	41,116,611	8.94%	45,108,480	9.70%	52,934,247	14.44%
From banks	—	—	—	—	—	—
From governments and official institutions.....	—	—	—	—	—	—
From other customers	41,116,611	0.00%	45,108,480	0.00%	52,934,247	0.00%
Time Deposits	93,727,780	3.46%	89,735,910	2.80%	128,197,455	1.42%
Foreign currency.....	72,748,371	1.75%	72,748,370	1.69%	94,731,574	1.69%
From banks	1,269,422	0.00%	650,082	0.00%	727,081	0.00%
From governments and official institutions.....	—	—	—	—	—	—
From other customers	71,478,949	0.00%	72,098,288	0.00%	94,004,493	0.00%
Turkish Lira	20,979,409	9.43%	16,987,540	7.54%	33,465,881	0.67%
From banks	1,439,374	0.00%	592,525	0.00%	634,329	0.00%
From governments and official institutions.....	51,302	0.00%	46,228	0.00%	34,572	0.00%
From other customers	19,488,733	0.00%	16,348,787	0.00%	32,796,980	0.00%
Total	166,955,102	4.15%	175,751,231	3.92%	231,012,331	4.10%

(1) Demand deposits generally do not bear interest; however, there are occasional exceptions negotiated with customers such as corporations with large deposits.

The following table sets out by maturity the amount outstanding of the Bank's time deposits of US\$100,000 or more (or its equivalent) as of 31 December 2018:

	As of 31 December 2018			
	3 months or less	Over 3 months through 6 months	Over 6 months through 12 months	Over 12 months
	<i>(TL thousands)</i>			
Deposits over U.S. \$100,000				
Foreign currency	49,252,751	1,688,538	4,312,812	7,160,947
Turkish Lira	35,165,740	4,796,400	2,310,204	5,987,993

The Group's deposits are comprised of demand and time deposits. The Group's deposits increased by 22.0% to TL 245,016,346 thousand as of 31 December 2018 from TL 200,773,560 thousand as of 31 December 2017, which was a 12.4% increase from TL 178,689,813 thousand as of 31 December 2016.

The following table sets out certain information relating to deposits as of the indicated dates:

	As of 31 December		
	2016	2017	2018
	<i>(TL thousands)</i>		
Demand deposits	46,748,279	54,284,609	64,177,215
Time deposits	131,941,534	146,488,951	180,839,131
Total.....	178,689,813	200,773,560	245,016,346

The following table sets out certain information relating to the deposits in Turkish currency and foreign currency as of the indicated dates:

	As of 31 December ⁽¹⁾					
	2016		2017		2018	
	<i>(TL thousands, except percentages)</i>					
Turkish Lira deposits	81,777,072	45.8%	91,586,517	45.6%	112,306,420	45.8%
Foreign currency deposits	96,912,741	54.2%	109,187,043	54.4%	132,709,926	54.2%
Total	178,689,813	100.0%	200,773,560	100.0%	245,016,346	100.0%

(1) The gold deposits included under deposits in the Group's BRSA Financial Statements are presented under other liabilities.

In recent years, the foreign currency distribution of deposits changed in favour of Turkish Lira as a result of lower inflation and significant decline in interest rates.

The following table sets out the maturity of deposits made with the Group by amount as of the indicated dates:

	As of 31 December		
	2016	2017	2018
	<i>(TL thousands)</i>		
Three months or less	151,605,907	170,302,261	199,563,393
Over three months through 12 months.....	12,456,907	14,122,796	25,362,435
Over one year.....	14,566,012	16,291,011	20,042,813
Accumulating Deposits.....	60,987	57,492	47,705
Total.....	178,689,813	200,773,560	245,016,346

VI. Return on Equity and Assets

The following table sets out certain of the Group's selected financial ratios and other data for the indicated periods:

	2016	2017	2018
	<i>(TL thousands, except percentages)</i>		
Average total assets	296,138,366	340,161,190	400,060,338
Average shareholders' equity.....	33,924,259	39,085,286	45,164,334
Average shareholders' equity as a percentage of average total assets...	11.5%	11.5%	11.3%
Return on average total assets	1.7%	1.9%	1.7%
Return on average shareholders' equity.....	15.2%	16.3%	14.8%

VII. Funds Borrowed and Certain Other Liabilities

Funds Borrowed

The following table sets out a breakdown of funds borrowed to the Group from banks outstanding as of the indicated dates by maturity profile:

	As of 31 December		
	2016	2017	2018
	<i>(TL thousands)</i>		
Short-term	5,521,748	6,457,015	5,185,663
Medium- and long-term	41,060,105	40,647,704	28,154,064
Total	46,581,853	47,104,719	33,339,727

The Bank's management believes that the increase in the short- and long-term debts described in the table above is consistent with the Group's growth strategy.

The following table sets out certain information as to the currency of the Group's funds borrowed from banks outstanding as of the indicated dates:

	As of 31 December					
	2016		2017		2018	
	(TL thousands, except percentages)					
Turkish currency	3,127,679	6.7%	1,134,258	2.4%	1,185,677	3.56%
Foreign currency	43,454,174	93.3%	45,970,461	97.6%	32,154,050	96.44%
Total	46,581,853	100.0%	47,104,719	100.0%	33,339,727	100.0%

The following table sets out a breakdown of the Bank's borrowings, including securities issued and subordinated debts (for short-term borrowings, including the short-term portion of long-term borrowings), outstanding as of the indicated dates (excluding expense accruals) and the maximum amount in each category outstanding at any month-end during the indicated year (short-term being of one year or less):

	As of 31 December					
	2016		2017		2018	
	Amount	Maximum Month-end Amount	Amount	Maximum Month-end Amount	Amount	Maximum Month-end Amount
	<i>(TL thousands)</i>					
Short-term borrowings from banks and other institutions...	840,482	842,779	1,823,593	3,476,122	1,635,630	1,925,468
<i>Foreign currency</i>	501,524	341,255	1,590,030	3,110,910	1,231,097	1,520,935
<i>Turkish Lira</i>	338,958	501,524	233,563	365,212	404,533	404,533
Long-term borrowings	53,880,039	53,880,039	60,572,251	60,572,251	66,307,131	97,344,423
<i>Foreign currency</i>	47,436,276	47,436,276	53,185,430	53,185,430	62,657,773	88,919,500
<i>Turkish Lira</i>	6,443,763	6,443,763	7,386,821	7,386,821	3,649,358	8,424,923
Total	54,720,521	54,722,818	62,395,844	64,048,373	67,942,761	99,269,891

The following table sets out a breakdown of the Bank's approximate average daily borrowings for the indicated years and the approximate weighted average interest rate thereon:

	2016		2017		2018	
	Average Amount	Interest Rate	Average Amount	Interest Rate	Average Amount	Interest Rate
	<i>(TL thousands, except percentages)</i>					
Short-term borrowings from banks and other institutions	5,583,218	7.77%	11,263,060	8.26%	5,432,903	9.36%
<i>Foreign currency</i>	405,418	1.68%	3,767,354	0.78%	1,792,847	1.99%
<i>Turkish Lira</i>	5,177,800	8.25%	7,495,706	12.02%	3,640,056	12.98%
Long-term borrowings	39,541,801	4.32%	49,397,655	5.01%	62,912,981	6.04%
<i>Foreign currency</i>	34,128,451	3.67%	43,450,970	4.15%	57,139,853	5.12%
<i>Turkish Lira</i>	5,413,350	8.38%	5,946,685	11.28%	5,773,128	15.23%
Total	45,125,019	4.74%	60,660,715	5.61%	68,345,884	6.31%

The following tables set out a description of the Group's material long-term funds borrowed (or fund-raising through "future flow" transactions) as of the indicated dates (with many of the indicated interest rates being based upon a floating rate, principally LIBOR, and thus re-set periodically):

As of 31 December 2018				
	Interest rate	Latest maturity	Amount in original currency	Outstanding Amount
			<i>(millions)</i>	<i>(TL thousands)</i>
ICBC.....	5%	2020	US\$250	1,317,466
Syndicated Loan II	5%	2019	US\$180	948,582
ING DIBA	3-4%	2020	US\$149	785,892
EIB I+V	3-4%	2023	US\$149	785,306
Proparco.....	2%	2028	€100	602,188
Bilateral Loan I.....	5%	2019	US\$100	526,990
EIB II, III and IV	9%	2020	TL494	493,945
Bilateral Loan II	5%	2019	US\$50	263,495
EFSE.....	3%	2022	€28	168,412
OPIC.....	6%	2019	US\$14	75,887
EBRD-II	1%	2025	US\$9	48,359
Others				22,137,542
Total.....				28,154,064

As of 31 December 2017				
	Interest rate	Latest maturity	Amount in original currency (millions)	Outstanding Amount (TL thousands)
DPR Future Flow Transaction XVI	4%	2034	US\$1,000	3,775,800
DPR Future Flow Transaction XVII.....	4%	2034	US\$550	2,076,690
Deutsche Bank AG II.....	3%	2019	US\$500	1,887,900
DPR Future Flow Transaction XVIII.....	3-4%	2019	US\$420	1,583,386
DPR Future Flow Transaction XIV	4%	2026	US\$349	1,317,189
DPR Future Flow Transaction XVIII.....	3%	2023	US\$286	1,078,799
DPR Future Flow Transaction XXII.....	4%	2022	US\$250	943,950
ICBC.....	4%	2020	US\$250	930,077
Syndicated Loan II	3%	2019	US\$180	679,644
ING DIBA	2%	2019	US\$161	654,264
Syndicated Loan I.....	3%	2018	US\$150	565,158
DPR Future Flow Transaction XX.....	3%	2021	US\$150	563,390
Bilateral Loan I.....	4%	2019	US\$145	547,491
Proparco.....	2%	2028	€100	450,670
DPR Future Flow Transaction XXI	1%	2021	€90	407,610
DPR Future Flow Transaction XIX	3%	2027	US\$95	356,515
EIB I	2-4%	2022	US\$92	348,531
EIB V	3%	2023	US\$79	298,279
DPR Future Flow Transaction XXI	1%	2021	€63	283,063
DPR Future Flow Transaction XIX	3%	2020	US\$75	281,933
DPR Future Flow Transaction XX.....	3%	2021	US\$60	224,892
EIB III.....	10%	2020	TL219	218,513
EIB II	9%	2019	TL206	206,250
Bilateral Loan II	4%	2019	US\$50	188,790
DPR Future Flow Transaction XX.....	3%	2021	US\$49	187,410
DPR Future Flow Transaction XX.....	3%	2021	US\$49	187,410
DPR Future Flow Transaction XII.....	1%	2022	€39	178,669
DPR Future Flow Transaction XII.....	1%	2022	€39	178,669
DPR Future Flow Transaction XX.....	1%	2021	€50	178,597
DPR Future Flow Transaction XV.....	3%	2018	US\$44	165,191
EFSE.....	3%	2022	€36	164,493
DPR Future Flow Transaction XV.....	2%	2018	€34	152,854
DPR Future Flow Transaction IX	1%	2018	€26	116,941
OPIC.....	4%	2019	US\$29	108,744
EIB-IV	9%	2019	TL69	68,958
EBRD-II	1%	2025	US\$11	39,980
Others				19,051,004
Total.....				40,647,704

As of 31 December 2016				
	Interest rate	Latest maturity	Amount in original currency	Outstanding Amount
			(millions)	(TL thousands)
DPR Future Flow Transaction XVI	3%	2034	US\$1,000	3,513,000
DPR Future Flow Transaction XVII.....	3%	2034	US\$550	1,932,150
Deutsche Bank AG II.....	3%	2019	US\$500	1,756,500
DPR Future Flow Transaction XVIII.....	2-3%	2019	US\$500	1,755,919
DPR Future Flow Transaction XIV	3%	2026	US\$399	1,400,355
Bilateral Loan I.....	2%	2017	US\$145	667,470
Deutsche Bank AG I.....	11-13%	2017	TL568	568,150
ING DIBA	1%	2017	US\$161	566,265
DPR Future Flow Transaction XX.....	3%	2021	US\$150	526,950
Syndicated Loan	2%	2018	US\$149	524,198
EIB I.....	1-4%	2022	US\$118	413,667
Proparco.....	2%	2028	€100	370,200
DPR Future Flow Transaction XV.....	3%	2018	US\$102	358,619
DPR Future Flow Transaction XIX	2%	2027	US\$99	348,343
DPR Future Flow Transaction XIX	2%	2020	US\$89	314,371
DPR Future Flow Transaction XV.....	2%	2018	€78	291,533
DPR Future Flow Transaction IX	1%	2018	€60	222,688
EIB III.....	10%	2020	TL219	218,513
DPR Future Flow Transaction XX.....	3%	2021	US\$60	210,780
EIB II.....	9%	2019	TL206	206,250
DPR Future Flow Transaction XX.....	2%	2021	€50	185,100
Bilateral Loan II	3%	2019	US\$50	175,650
DPR Future Flow Transaction XX.....	3%	2021	US\$50	175,650
DPR Future Flow Transaction XX.....	3%	2021	US\$50	175,650
DPR Future Flow Transaction XII.....	2%	2022	€47	173,751
DPR Future Flow Transaction XII.....	1%	2022	€47	173,751
OPIC.....	3%	2019	US\$43	151,761
DPR Future Flow Transaction VIII	1%	2017	US\$42	147,546
EIB-IV	9%	2019	TL69	69,100
EBRD-V	3%	2017	US\$17	60,223
EBRD-II	1%	2025	US\$12	42,156
DPR Future Flow Transaction VIII	1%	2017	US\$12	42,133
DPR Future Flow Transaction VIII	1%	2017	US\$12	40,588
EBRD-IV	2%	2017	€6	21,154
EFSE.....	4%	2017	€5	18,550
KfW	1%	2017	€3	12,342
Others				23,229,079
Total.....				41,060,105

The Group's short-term borrowings included the following syndicated loan facilities as of 31 December 2016, 2017 and 2018 are as follows:

(a) as of 31 December 2016: two one year syndicated loan facilities utilised for general trade finance purposes including export and import contracts in two tranches of: (i) US\$479,325,000 and €814,625,000, with the rates of LIBOR + 0.85% *per annum* and EURIBOR + 0.75% *per annum*, respectively, and (ii) US\$626,000,000 and €615,500,000 with the rates of LIBOR + 1.10% *per annum* and EURIBOR + 1.00% *per annum*, respectively. The first of these was paid upon its maturity on 5 May 2017 and was replaced with a syndicated loan facility with tranches of US\$468,000,000 and €805,500,000, with rates of LIBOR + 1.45% *per annum* and EURIBOR + 1.35% *per annum*, respectively.

(b) as of 31 December 2017: two one year-syndicated-loan facilities to be utilised for general trade finance purposes including export and import contracts in two tranches of: (i) US\$468,000,000 and €805,500,000 with rates of Libor + 1.15% and Euribor + 1.05% *per annum* and (ii) US\$405,000,000 and €648,500,000 with rates of Libor + 1.05% and Euribor + 0.95% *per annum*.

(c) as of 31 December 2018: two one year-syndicated-loan facilities to be utilised for general trade finance purposes, including export and import contracts in two tranches of: (i) US\$457,000,000 and €670,500,000 with rates of Libor + 1.00% and Euribor + 0.90% *per annum* and (ii) US\$249,000,000 and €463,500,000 with rates of Libor + 2.00% and Euribor + 1.90% *per annum*.

Interbank Money Markets

Interbank money markets includes Borsa İstanbul money market takings, obligations under repurchase agreements and interbank money market takings as set forth in the table below:

	As of 31 December		
	2016	2017	2018
	<i>(TL thousand)</i>		
Interbank money market takings	2,501,267	15,604,794	—
İstanbul Stock Exchange ⁽¹⁾ money market takings	915,105	1,286,649	1,345,840
Obligations under repurchase agreements	7,813,821	1,746,413	1,288,750
Total	11,230,193	18,637,856	2,634,590

(1) Borsa İstanbul.

The Group's obligations arising from agreements for the repurchase/resale of securities amounted to TL 1,288,750 thousand as of 31 December 2018, as compared to TL 1,746,413 thousand as of 31 December 2017 (TL 7,813,821 thousand as of 31 December 2016). These obligations represented 0.3% of the total assets of the Group as of 31 December 2018, 0.5% of the total assets of the Group as of 31 December 2017 and 2.5% as of 31 December 2016. The securities sold by the Group under such repurchase agreements are recognised in the BRSA Financial Statements as being owned by the Group, but subject to a pledge (see II.C. (Securities Portfolio-Securities Portfolio Concentrations) above).

Securities Issued

In 2018, the Group issued securities in Turkish Lira and foreign currencies. The outstanding amount of such securities amounted to TL 39,223,693 thousand as of 31 December 2018. The following table sets out a breakdown of securities issued by the Group as of the indicated dates by maturity profile:

	As of 31 December					
	2016		2017		2018	
	Short Term	Medium and Long-Term	Short Term	Medium and Long-Term	Short Term	Medium and Long-Term
	<i>(TL thousands)</i>					
Nominal	2,297,303	16,159,622	4,065,669	17,392,202	1,995,155	25,538,526
Cost	2,203,896	15,795,250	3,926,455	17,153,577	1,901,820	25,449,062
Carrying Value	2,240,063	15,505,585	4,003,253	16,791,199	1,953,147	24,958,316

Recent Indebtedness

The Bank issues, and may issue in the future, from time to time, additional Series of Notes under the Programme, which (as permitted by the Programme) are, and in the future may be, in any currency, with any tenor and with any interest rate, which issuances may be listed or unlisted.

Subordinated Debts

The following tables set out a description of the Group's subordinated debts (including expense accruals) as of the indicated dates.

	As of 31 December 2018		
	Latest Maturity	Interest Rates	Carrying Value
	<i>(TL thousands, except percentages)</i>		
Subordinated debt of US\$750 million	2027	6.125%	2,849,471

On 23 May 2017, the Bank raised US\$750 million in subordinated debt, which has a term of 10 years due May 2027, with its first Basel III-compliant Tier 2 issuance in the international capital market (which debt has a coupon rate of 6.125%).

Non-Cash Loans and Other Contingent Liabilities

The Group enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of its customers. These instruments, which include non-cash loans (letters of guarantee, acceptance credits, letters of credit and other guarantees and sureties) and other commitments and contingencies, involve varying degrees of credit risk and are not reflected in the Group's balance sheet. The Group's maximum exposure to credit losses for letters of guarantee and acceptance credits and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

The following table sets out certain details of the Group's non-cash loans as of the indicated dates:

	As of 31 December		
	2016	2017	2018
		<i>(TL thousands)</i>	
Letters of guarantee.....	38,012,713	39,689,501	50,173,770
Letters of credit	15,754,367	14,769,516	14,685,922
Bills of exchange and acceptances	2,127,334	1,550,650	2,788,829
Other guarantees and endorsements.....	191,066	185,727	66,907
Total	56,085,480	56,195,394	67,715,428

As of 31 December 2018, non-cash loans of the Group increased by 20.5% to TL 67,715,428 thousand from TL 56,195,394 thousand (itself, an increase of 0.2% from TL 56,085,480 thousand as of 31 December 2016). The Group issues letters of guarantee, letters of credit, acceptance credits and other payment commitments arising in a wide variety of transactions.

As of 31 December 2018, the Group's commitments for unused credit limits and promotions of credit cards, checks and loans to customers, and commitments for loan granting and other revocable and irrevocable commitments amounted to TL 65,539,928 thousand, an increase of 13.8% compared to TL 57,591,889 thousand as of 31 December 2017 (TL 49,852,471 thousand as of 31 December 2016).

Derivative Transactions

Forward foreign exchange contracts are agreements to purchase or sell a specific quantity of a foreign currency or precious metals at an agreed-upon price with delivery and settlement on a specified future date. Such contracts include only deliverable contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency exchange rates.

The Group's outstanding derivative transactions (e.g. spots, forwards, swaps, future rate agreements, options and forward agreements for gold trading) amounted to TL 337,554,615 thousand as of 31 December 2016, TL 377,209,517 thousand as of 31 December 2017 and TL 360,581,304 thousand as of 31 December 2018.

The following table sets out the breakdown of notional amounts of outstanding derivative contracts by type of transaction as of the indicated dates:

	As of 31 December		
	2016	2017	2018
	(TL thousands)		
Derivative Financial Instruments held for Risk Management			
A.Total Derivative Financial Instruments held for Risk			
Management	44,354,149	45,432,524	63,513,233
Fair value hedges	22,009,019	18,369,318	23,405,554
Cash flow hedges	22,345,130	27,063,206	40,107,679
Trading derivatives	—	—	—
Foreign Currency related Derivative Transactions (I)	240,154,916	270,298,951	206,307,889
Currency forwards – Purchases	13,945,446	17,198,110	12,310,399
Currency forwards – Sales	13,923,492	17,370,106	12,503,861
Currency swaps – Purchases	79,343,816	105,371,319	73,705,134
Currency swaps – Sales	79,110,586	101,078,109	69,931,117
Currency options – Purchases	26,258,776	14,387,810	17,278,564
Currency options – Sales	27,390,876	14,738,436	18,771,295
Currency futures – Purchases	95,394	65,117	873,470
Currency futures – Sales	86,530	89,944	934,049
Interest Rate related Derivative Transactions (II)	44,029,644	46,550,471	72,250,033
Interest rate swaps – Purchases	18,506,016	18,131,550	29,339,477
Interest rate swaps – Sales	18,506,016	18,131,550	29,339,477
Interest rate options – Purchases	5,927,914	9,247,686	11,921,185
Interest rate options – Sales	843,120	988,997	1,554,239
Securities options – Purchases	55,281	9,414	24,665
Securities options – Sales	91,176	22,395	52,924
Interest rate futures – Purchases	—	—	—
Interest rate futures – Sales	100,121	18,879	18,066
Other Trading Derivatives (III)	9,015,906	14,927,571	18,510,149
B. Total Trading Derivatives (I+II+III)	293,200,466	331,776,993	297,068,071
Total Derivative Transactions (A+B)	337,554,615	377,209,517	360,581,304

THE GROUP AND ITS BUSINESS

Overview of the Group

The following text should be read in conjunction with, and is qualified in its entirety by, the detailed information and the BRSA Financial Statements (including the notes thereto) incorporated by reference into this Base Prospectus.

The Group is a leading Turkish banking group with a significant market share in Turkey, being (as per published BRSA financial statements as of 31 December 2018) the second largest private banking group in Turkey in terms of total assets. The Group's customers are comprised mainly of commercial enterprises, SMEs, foreign multinational corporations with operations in Turkey and customers from across the Turkish consumer market.

The Group served more than 16 million customers as of 31 December 2018 (per the Bank's internal definition: 15.9 million retail customers, 435,000 SME customers, more than 40,000 commercial customers and 2,500 corporate customers) by offering a broad range of products and services, many of which are tailored to identified customer segments. These products and services include (*inter alia*) deposits, corporate loans, project finance loans, leasing, factoring, foreign exchange transactions, investment and cash management products, consumer loans, mortgages, pension and life insurance, portfolio management, securities brokerage and trading, investment banking, payment systems (including credit and debit cards) and technology and data processing operations. The Group also acts as an agent for the sale of a number of financial products such as securities, insurance and pension contracts and leasing services. As of 31 December 2018, the Bank's services in Turkey were provided through a nationwide network of 926 domestic branches as well as sophisticated DCs, such as ATMs, call centres, internet banking and mobile banking. As of the same date, the Bank had eight foreign branches (one in Malta and seven in Northern Cyprus (together with a Country Directorate in Northern Cyprus that was established in order to comply with the legal requirements in Northern Cyprus)) and two representative offices (one each in Düsseldorf and Shanghai), together with bank subsidiaries in the Netherlands (GBI) and Romania (Garanti Romania).

The Group had total assets of TL 399,153,601 thousand, performing loans (which excludes lease, factoring, non-performing receivables and expected credit losses) (*i.e.*, cash loans) of TL 247,542,010 thousand and shareholders' equity of TL 46,886,842 thousand as of 31 December 2018. The Group's return on average shareholders' equity was 14.8% during 2018. As of 31 December 2018, the Group's total capital adequacy ratio was 16.52% (14.20% when calculated using Tier 1 capital only or common equity Tier 1 capital only) calculated in accordance with applicable Basel III rules.

The Group's net profit/(loss) was TL 6,706,605 thousand in 2018, TL 6,387,974 thousand in 2017 and TL 5,147,759 thousand in 2016.

The Bank's shares have been listed on the Borsa İstanbul (or its predecessor the İstanbul Stock Exchange) since 1990 and, in 1993, it became the first Turkish company to list its shares internationally, listing global depositary receipts on the London Stock Exchange. In 2012, the Bank joined the top tier of the U.S. over-the-counter (OTC) market, OTCQX International Premier, for which companies must meet high financial standards and have an effective disclosure process. Trading on this market with 62 leading companies from around the world, the Bank ranked 30th by market capitalisation as of 31 December 2018, 61st by dollar volume of trading during 2018 and 42nd by volume of shares traded in 2018. The Bank has been included in the Borsa İstanbul's Sustainability Index and Corporate Governance Index since 2014 and, in 2018, was the only bank from Turkey listed in the Dow Jones Sustainability™ Emerging Markets Index (DJSI), for which it qualified in 2015.

History

The Bank was incorporated under the laws of Turkey on 11 April 1946 in Ankara as a partnership of 103 businessmen and for much of its history it operated primarily as a private sector bank engaged in commercial activities. In 1975, Koç Holding A.Ş. ("*Koç Holding*") and Hacı Ömer Sabancı Holding A.Ş. ("*Sabancı Holding*"), both large, private conglomerates in Turkey, acquired 56% and 33% (respectively) of the Bank's share capital. The Bank moved its headquarters to İstanbul in 1978. In 1983, Koç Holding and Sabancı Holding sold their respective interests in the Bank to the Doğu Group, owned by the Şahenk family. In 1990, shares of the Bank were offered to the public and listed on the İstanbul Stock Exchange (the predecessor to the Borsa İstanbul). On 22 December 2005, Doğu Holding sold 25.5% of the Bank's issued share capital and 49.2% of the Bank's founders' shares to a subsidiary of the General Electric Company (such subsidiary, "*GEAM*"), which thereby acquired joint control over the Bank. On 27 December 2007, GEAM sold 4.65% of the Bank's share capital back to Doğu Holding.

Doğuş Holding and BBVA entered into a share purchase agreement on 1 November 2010 under which BBVA acquired shares representing 6.2902% of the Bank's issued share capital from Doğuş Holding. BBVA concurrently entered into a share purchase agreement with (*inter alia*) GEAM for the acquisition of shares representing 18.60% of the Bank's issued share capital. On 1 March 2011, the BRSA approved these share transfers, following the closing of which BBVA held a 24.89% stake in the Bank (which, through secondary market purchases, BBVA increased to 25.01% stake in the Bank without changing the joint control and management principles agreed to between Doğuş Holding and BBVA).

On 19 November 2014, Doğuş Holding and members of the Şahenk family entered into a share purchase agreement with BBVA under which BBVA agreed to purchase shares representing 14.89% of the Bank's issued share capital then in issue. On 27 July 2015, the transfer of shares was finalised and BBVA's and the Doğuş Group's shares in the Bank were 39.90% and 10.00%, respectively. See "Ownership."

As noted in "Ownership," the Sellers and BBVA agreed to the Transaction on 21 February 2017, completion of which occurred on 22 March 2017, resulting in BBVA owning 49.85% of the total issued share capital of the Bank.

Key Strengths

The Bank's management believes that the Group's success in the competitive Turkish banking sector is due to the following strengths:

- The Group has a robust and dynamic balance sheet management and sound capital adequacy ratios, as further detailed elsewhere in this Base Prospectus.
- The Group has strong liquidity ratios and proven access to funding, including deposits, syndicated loans and "future flow" transactions.
- The Group's high-quality and dynamic employee base is supported by the Group's experienced management team. Approximately 88% of the Group's employees are university graduates and the Group seeks to maintain and improve the quality of the services provided by its employees through its extensive training programme. The Bank's management also seeks to foster a culture of innovation, whereby employees are encouraged to submit innovative ideas.
- The Group benefits from a strong operating platform, including a sophisticated proprietary IT platform that drives efficiency and is well-integrated with the Group's businesses and the Group's strategy. This integration of the IT platform with the Group's business strategy allows the Bank's management to monitor and respond to issues effectively. Since the 1990s, the Group has sought to invest in up-to-date IT infrastructure in order to seek to ensure uninterrupted transaction capability and infrastructure security. The Bank's management believes that the Group has a reputation in Turkey as an innovator in relation to its IT operations.
- The Group has a strong brand and reputation as a product and service innovator. This is demonstrated by the Group's offering of first-in-kind products in the Turkish market, such as chip-based credit card loyalty programs, air miles on credit cards, direct debit systems, web-based supplier financing systems, inventory financing systems, ATM cardless bill payments, cardless quick response (QR) code withdrawal, person-to-person mobile money transfers and mobile applications such as GarantiOne and BonusFlash.
- The Group blends the needs and tendencies of customers with evolving trends in order to offer innovative customer-oriented products and services, including via digital technologies.
- The Group's customer relationship management solutions allow for greater cross-selling and customer satisfaction through the use of sophisticated segmentation models and advanced technological capabilities, together with its multi-channel distribution. This approach is facilitated by the Bank's dynamic sales force, innovative product offerings and its efforts to improve its processes.
- The Bank was the first bank in Turkey to establish a centralised operation centre (named ABACUS) to execute the operational transactions of its branches and customers. Approximately 99% of the operational transactions of the Bank's branches are processed through ABACUS, which benefits from a dynamic team of experts. The centralised operations centre also coordinates the provision of cash to the Bank's branches, aiming to ensure the greatest efficiency of the Bank's cash operations.

- The Group has a history of sustainable growth in its operations, which has been achieved while maintaining sound asset quality as a result of the Group's focus on proactive and consistent risk management and a disciplined credit approval process.
- The Group has established conservative provisions that are complemented by a sophisticated and efficient collection procedure in order to seek to maintain strong asset quality.
- The Group has established a broad geographic coverage through its extensive branch network and omni-channel convenience with an integrated experience across the Bank's channels. The Group has tripled its branch network since 2002, reaching all of Turkey's cities through its 926 domestic branches (as of 31 December 2018). Backed by its investments in technology since the 1990s, the share that digital channels held in the non-cash financial transactions at the Bank was 95.5% in 2018. As of 31 December 2018, the Bank operated 5,258 ATMs, had a leading financial call centre (73.4 million customer contacts in 2018) and had significant market shares in internet and mobile banking.

Strategy

The Group's mission is to continuously and noticeably increase the value created for its customers, shareholders and employees, society and the environment by leveraging its effectiveness, agility and organisational efficiency. The Group's strategy has three pillars: customers, employees and business models. The strategic priorities of the Group are as follows:

- improving customers' experience,
- increasing digitalisation of the customer base and the share of the use of digital platforms in total sales,
- increasing employee satisfaction,
- improving efficiencies,
- optimising capital allocation to ensure sustainable growth, and
- ensuring a responsible and sustainable development.

Business

The Bank is organised into six major business lines: retail (excluding payment systems such as credit cards), payment systems (which includes the Bank's credit card business and is operated together with GPS), SME banking, commercial banking, corporate banking and other operations (the most significant of which is global markets). Each of the Bank's business lines is managed by a separate department within the Bank, except for payment systems (which is managed by the Bank together with GPS). The Bank also conducts certain international banking operations through its foreign branches and subsidiaries. All of the Group's business lines are supported by head office and other support functions. The Bank's subsidiaries (described in "Subsidiaries" below) provide various specialty products to clients of the Group.

Retail Banking

The Bank entered the retail banking sector in 1988 and has increasingly focused on growing its retail business. The Bank aims to become the bank of choice for its retail customers and to sustain its innovative leadership in retail banking, and focuses on relationship management and product innovation aligned to customer needs in order to achieve these goals. The Bank offers a broad range of products to its approximately 15.9 million retail banking customers as of 31 December 2018.

The Bank's management believes that the strengths of the Bank's Retail Banking Department include: (a) a customer-centric approach with an emphasis on customer satisfaction (with dedicated call centres and periodic measurement), (b) the strength of its branch network and DCs, (c) innovative marketing approach, (d) a strong sales culture, including sales-oriented branch staff and centralised transaction processing and operations, and (e) sophisticated IT systems and customer relationship management ("CRM") infrastructure to allow pro-active sales processes and targeted direct marketing campaigns.

The Bank's Retail Banking Department aims to manage market share growth while controlling internal costs. The main pillars of the Bank's retail strategy are targeting and activating employer payroll customers, expanding the branch network to reach more customers and close follow-up of cross-selling opportunities.

Products and Services

Deposits. The Bank offers its retail customers a range of interest- and non-interest-bearing current and savings accounts, gold deposit accounts, structured deposits (*i.e.*, deposits linked to an index), flexible term deposits and accumulated savings accounts. Deposit collection is a principal focus of the Bank as deposits provide low cost funds to be invested in loans and other assets. The Bank has been increasing its domestic branch network for many years (from 478 at the end of 2006 to 926 as of 31 December 2018) with the goal of increasing the number of the Bank's retail customers and obtaining a stronger and more diversified deposit base. Deposits from the retail banking business are the largest funding source of the Bank, reaching TL 69.4 billion of Turkish Lira deposits and US\$12.1 billion of foreign currency deposits as of 31 December 2018 (TL 59.6 billion of Turkish Lira deposits and US\$12.9 billion of foreign currency deposits as of 31 December 2017 and TL 53.6 billion of Turkish Lira deposits and US\$11.8 billion of foreign currency deposits as of 31 December 2016).

Consumer Loans (including Overdraft Accounts). The Bank's retail loan portfolio, originated only in Turkish Lira since 2009, comprised of mortgage loans, auto loans, general purpose loans and overdrafts but excluding credit cards, grew by 12.7% in 2017 to TL 48.2 billion and then decreased by 1.2% in 2018 to TL 47.6 billion. The Bank's primary consumer loan products are described below:

- *Mortgages:* In 2017 and 2018, the retail mortgage loan book grew by 8.1% and 7.3%, respectively, as a result of the generally very low penetration of mortgages in Turkey. The Bank's retail mortgage offering is focused on both high and medium net worth individuals with strong credit history. Although the Bank's maximum loan-to-value ratio is 80%, which is in line with the maximum limit stated by law, the average loan-to-value ratio of the Bank's retail mortgage book at origination was slightly above 66% as of 31 December 2018. The average original term of its mortgages on such date was 8.3 years, with most loans having an original maturity of either 5 or 10 years, and mortgages are issued with fixed interest rates. The Bank had a market share of 12.4% (with respect to outstanding mortgage loan balance for consumer loans) as of 31 December 2018 according to BRSA data. The Bank maintains strategic partnerships with leading residential construction companies and real estate agencies nationally, and also focuses on mortgage expertise in branches as well as a wide product range and distribution channels, focusing on service quality instead of price competition in order to maintain its profitability. While foreign currency-denominated mortgages were common in previous years, legislation now requires that consumer mortgages to Turkish citizens can only be denominated in Turkish Lira.
- *Vehicle Loans:* The Bank offers secured loans to finance the purchase of both new and used vehicles. The duration of these loans is around four years and most have fixed rates. In 2017, the Bank's vehicle loan book grew by 7.2% and then decreased by 1.5% in 2018. The Bank's market share (by outstanding balance) was 11.6% as of 31 December 2018 according to BRSA data.
- *General Purpose Loans (including other and overdraft loans):* The Bank offers general purpose loans to finance various needs of its retail customers, such as home improvement, education, marriage and vacations. The average maturity of such loans is approximately three years. The Bank's general purpose loan book grew by 18.6% in 2017 and then a further 5.2% in 2018. The Bank's market share (including overdraft, by outstanding balance) was 11.5% as of 31 December 2018 according to BRSA data. The Bank seeks to capture market share through various central marketing approaches, including loyalty-based approaches such as pre-approved loan limits. As general purpose loans are generally unsecured, the Bank's credit analysis for these loans focuses principally on the potential borrower's income and other assets.
- *Overdraft Accounts:* The Bank has registered a stable and strong overdraft account base built upon mainly employer payroll customers and investment accounts. Targeted marketing campaigns are conducted to increase utilisation of overdraft accounts. As of 31 December 2018, the number of overdraft accounts operated by the Group was approximately 2.8 million, with an aggregate overdraft risk of TL 1,841 million.

Investment Products. The Bank's retail banking investment products include mutual funds, government bonds and equity securities. As of 31 December 2018, the Bank had TL 51.1 billion of assets under management in investment products. The Bank's principal strategies to increase its retail investment product sales, customers using digital channels and profitability include conducting cross-selling campaigns to deposit customers and utilising actively managed mutual funds (*e.g.*, a fund with a diversified multi-asset strategy that invests not only in Turkish equity and fixed income markets but also in the equity and fixed income markets in Europe, the United States and emerging markets and in precious metals and ETFs).

Cash Management Products. Being one of the principal banking needs of retail customers, cash management has been an important focus area for the Bank. The Bank offers a leading cash management tool, its Excess Liquidity

Management Asset account (“ELMA”), and was the first bank to offer such a product in Turkey. The ELMA account automatically converts any excess money in the customer’s current account into money market funds (which are generally invested in Turkish government securities). The product has been successful to date, reaching approximately 625,037 customers as of 31 December 2018.

Another cash management facility offered by the Bank is the automatic payment orders of utility bills. The total number of utility payments facilitated by the Bank reached approximately 8.2 million in December 2018. Moreover, the Bank extensively utilises DCs in providing cash management services – for example, more than 33.7 million cardless transactions (*i.e.*, transactions in which the individual, whether an existing customer of the Bank or not, makes a payment transaction without having a bank card) were executed through the Bank’s ATMs (for example, an individual can deposit cash in an ATM and instruct the Bank to make a payment of a utility bill) in 2018. In addition to providing convenient services to customers, DCs are both an increasing source of revenue (both fees generated directly as well as through improved cross-selling activities) and cost savings (through use of technology in lieu of adding additional employees).

Retail Banking Customer Segmentation

Retail banking customers are assigned to one of three segments (affluent, upscale or mass market) based upon their average total loan, investment and deposit balances and then are further assigned to micro-segments based upon their activity and product penetration levels. Micro-segments are used to understand different customer needs and to develop strategies for offering customers better-targeted services and thereby increasing product penetration and wallet share.

Each segment and micro-segment has a tailored set of strategic objectives, customer propositions, service approach and branch service model. For high volume and well-penetrated customers, key products are deposit and investment products and, consequently, an investment advisory service model is used. For lower volume and less well-penetrated customers with greater borrowing needs, a sales-based service model is used with a particular focus on loan and transactional products.

The Bank’s retail banking customer segments are described below:

- *Affluent*: As of 31 December 2018, the Bank had 8,085 customers in its “affluent” category. The criterion for the “affluent” category is US\$500,000 in investment and deposit balances. The Bank’s primary focus in this segment is to shift customers to high-margin investment products and further advance customer relationships to enhance customer loyalty. As of such date, there were 12 dedicated branches available only to “affluent” customers. Top performing investment sales staffs are assigned to “affluent” customers at the dedicated branches.
- *Upscale*: Segmentation criterion for the “upscale” retail segment is a banking volume of between TL 100,000 and US\$500,000. As of 31 December 2018, the Bank had 508,422 customers in its upscale segment, including customers with the potential of having personal financial assets of over TL 100,000. These customers comprised approximately 3% of the Bank’s retail customers as of such date. The Bank’s focus is to increase these customers’ product penetration in order to “lock-in” the relationship. Investment and mortgage advisory services are the other areas of focus for this segment.
- *Mass Market*: In the Bank’s “mass market” segment (*i.e.*, customers with average loan, investment and deposit balances with the Bank below TL 50,000), the Bank’s focus is on increasing penetration of banking products and trying to migrate these customers to the “upscale” segment. As of 31 December 2018, the Bank had 14 million “mass market” customers, comprising the vast majority of the Bank’s retail customers. The Bank’s lobby-level sales approach for this segment requires sales representatives/managers and tellers to cross-sell to existing customers as well as to non-customers visiting the branch to use non-banking services (for example, bill payments).

New Customer Acquisition Strategies

The Bank uses a number of strategies to attract new retail banking customers, including brand and product marketing, expansion of its branch network, effective utilisation of digital channels and leveraging its leading market position in cash management (particularly employer payroll and utility payments). As the total number of branches has grown, accessibility of the Bank to bankable customers in the market has continued to expand. For example, the Bank has opened “small-branches” in locations where the local market might not require a full-service branch.

New customer acquisition strategies are in place for each customer micro-segment, demographic group and product. In general, however, the three most important entry products for new retail banking customers are loan products, credit cards and employer payroll services. An important source for new “upscale” customer acquisition is the Bank’s SME and commercial company clientele, the owners and managers of which are directly targeted by retail relationship managers.

Payment Systems

The Bank issues debit and credit cards, acquires merchant vouchers and participates in related product development. In 2018, the Bank was the second largest issuer bank (with an issuing volume market share of 19.0%) in terms of issuing volume and the second largest processor of acquiring sales volume in Turkey (with an acquiring volume market share of 19.0%) according to the Interbank Card Centre (*Bankalararası Kart Merkezi*) (“BKM”). Acquiring, in this context, refers to the purchase from merchants of the card charges made by their customers, reimbursement for which charges is then sought from the relevant card issuer. During 2018, total issuing volume amounted to US\$31.5 billion with, as of 31 December 2018, approximately 10.1 million credit cards and approximately 10.9 million bank debit cards. In 2018, total merchant partner acquiring volume was US\$32.0 billion with 669,435 point of sale (“POS”) devices (including shared POSs and virtual POSs) as of 31 December 2018.

The Bank earns an interchange fee for processing credit card payments and certain other revenues and, where the Bank is the card issuer, the Bank takes the credit risk and earns all interest and certain fees.

Set out below is a description of the Bank’s principal credit card programs:

- The “Bonus Card,” which is the flagship credit card brand of the Bank, had more than 7.2 million cards in issue and 451,161 merchant partners as of 31 December 2018. The Bank issues VISA, Mastercard and AMEX branded cards pursuant to customary licensing arrangements.
- The “Miles&Smiles Garanti” card is designed to serve frequent flyers in cooperation with Turkish Airlines. Miles&Smiles Garanti offers the cardholders the opportunity to earn flight miles from credit card purchases. As of 31 December 2018, there were over 1.0 million Miles&Smiles Garanti cards in issue. Turkish Airlines tenders this programme periodically and, while an expensive programme to participate in, the Bank’s participation is profitable overall for the Bank due to the acquisition of the high-quality customers that it provides.
- In February 2006, the Bank introduced the first flexible card in Turkey, which is named “Flexi.” This programme allows cardholders to customise a credit card with respect to the interest rate, reward system and card fee and even enables them to make a card design of their choice. As of 31 December 2018, there were approximately 77,000 Flexi cards in issue.
- “Money Bonus Card” was introduced in 2009 and provides the opportunity to earn and redeem “money,” the points in Migros’ rewards program, in over 1,500 sales points of Migros (a large Turkish grocery store) and affiliated stores (outlets) and their millions of customers. As of 31 December 2018, there were approximately 278,000 Money Bonus Cards.
- The Bank launched American Express Credit Cards in January 2007 and provides a broad range of American Express products. Moreover, the Bank has an active and strong presence in the market for cards for corporate employees and virtual cards.
- The Bank launched its first airline-agnostic traveling credit card (“Shop&Fly”) in November 2018. Having a powerful value proposition, Shop&Fly offers a simple and easy travel program, flexible mile spending and flying experience. Shop&Fly cardholders can also take advantage of a variety of travel services from shopandfly.com.tr and can make various travel payments (flight, hotel, car rental, etc.) with their accumulated Shop&Fly miles.
- The Bank has also licensed the Bonus Card brand to other banks, which (as of 31 December 2018) had over 6.5 million “Bonus Card”-branded cards in issue. While the Bank does not carry the loans made under these cards, the Bank receives fees in connection with this business and the greater volume of Bonus Cards in circulation adds to the Bank’ ability to offer an attractive package to merchants hosting POS systems.

Small and Medium Enterprise (SME) Banking

The Bank's SME Banking Department serves clients below the commercial banking threshold (below TL 40,000,000 in annual sales). SMEs differ from commercial and corporate customers in terms of their scale, employment and management structure. With knowledge of SMEs' particular needs, the Bank has developed a tailored service model for SMEs, including different offerings for specific industries. As of 31 December 2018, the Bank served approximately 435,000 SME customers.

The Bank's management believes that the strengths of the Bank's SME banking segment include: (a) a customer-centric approach that provides highly-tailored packages of products to SMEs, (b) the strong distribution of its branch network and DCs and (c) sophisticated IT systems and CRM infrastructure to allow pro-active sales processes.

Products: As small commercial operations, SMEs require a broad range of services but not the degree of sophistication required by larger commercial and corporate clients. These services include deposits, payment services (particularly for credit cards), cash management, loans (principally working capital loans), trade-related products and advisory services. As the propensity of Turkish SMEs to use bank products and services has traditionally been low, the Bank has undertaken detailed research in order to identify a comprehensive solution package and service model that would appeal to this segment and has tailored its products in order to provide SMEs with the necessary services at an attractive cost.

The Bank's SME Banking Department intends not only to sell its products to customers but also to help its customers to improve their business and financial management quality. The Bank's goals for assisting its SME clients are not limited to financial solutions. The Bank's SME banking website has been designed to permit SMEs to access extensive content (including recent data, financial recommendations and solutions for their businesses). In addition, mobile banking and digital banking, which respectively had approximately 162,000 and 225,000 active SME customers as of 31 December 2018, help SMEs to reach their accounts remotely.

Customer Segmentation: In order to differentiate the service model according to the specific needs of clients, the Bank segments its SME clients into sub-segments based upon annual turnover: "Small Enterprise" (being those with annual sales from TL 2,500,000 to TL 8,000,000) and "Medium Enterprise" (being those with annual sales of more than TL 8,000,000 to TL 40,000,000 or annual sales using POS (per the BKM) of more than TL 3,500,000). As of 31 December 2018, 78% of the SME Banking Department's customers were in the "Small" sub-segment, with the remainder in the "Medium" sub-segment.

Commercial Banking

The Bank's Commercial Banking Department provides products and services to larger companies, with the department having separate "Istanbul" and "Anatolia" units for a more efficient use of the sales team and to facilitate a particular focus on regions in which the Bank has a relatively small market share. Companies with annual sales or asset size over TL 40,000,000 and (as a last-12-month average) more than TL 20,000,000 in Turkish Lira-denominated cash loans (calculated based upon data provided by banks in the sector) are referred to as "Commercial." The Bank's offerings for these customers include trade finance instruments, project finance, Turkish Lira- and foreign currency-denominated medium- and short-term loans, cash management, investment products, internet banking and telephone banking.

In order to best serve its commercial banking clients, which consisted of 39,157 customers as of 31 December 2018, the Bank's Commercial Banking Department delivers products and services through 29 specialised commercial branches in addition to the Bank's general mixed branches and benefits from numerous commercial client-dedicated customer service representatives and customer relationship managers. Their main responsibilities are to convert existing commercial banking customers into "house bank" customers, to acquire new customers and to increase the profitability of these customers while continuously monitoring the customers' credit quality.

The Bank's management believes that the competitive strengths of the Bank's commercial banking business are as follows: (a) focus on relationship-based banking, including providing tailor-made products and services, (b) pricing the "customer" on the basis of the entirety of its relationships with the Group instead of having a standard price for a product or service, (c) experience in the field of project financing, (d) effective adaptation of new technologies in the sales process, (e) agile loan processes and (f) dedicated commercial banking branches.

Products: The Bank offers a number of products and services to commercial clients. The most important commercial banking offerings are cash loan products (including structured loan products such as project financing), non-cash loan products (such as letters of credit and letters of guarantee), foreign trade financing and cash management

services. In addition, a broad range of investment products (such as deposits, government securities and mutual funds) are offered to commercial clients. The most significant commercial banking products by volume and value are (with respect to foreign currency) working capital loans and export loans and (with respect to Turkish Lira) commercial overdraft and general purpose loans. Different types of loan products include spot loans, foreign currency-indexed loans, gold loans, Turkish Eximbank loans and export factoring (such as irrevocable/revocable factoring, collection-guaranteed factoring and collection factoring).

Corporate Banking

The Bank's Corporate Banking Department was formally separated from the Commercial Banking Department in 1995, although the Bank started servicing large corporations in the early 1990s. The Bank was the first Turkish bank to open exclusive corporate branches that provide tailor-made services and sophisticated products to its corporate customers. Corporate banking clients are commercial entities that are local blue-chips and multinational corporations operating in Turkey. There is no material threshold between commercial and corporate customers – corporate customers are selected subjectively by the Bank according to their total assets, sales turnover, shareholder and professional management structures and other criteria.

The Bank's management believes that the Bank has become the principal banking partner in Turkey of many major multinational and domestic corporations through a strategic approach that has emphasised long-term reliable commitment to its customers during both stable and volatile market conditions. The Bank's corporate banking mission is to become the "house bank" of its domestic clients and the first choice for multinationals operating in Turkey.

The Bank had approximately 2,650 corporate clients as of 31 December 2018. These clients belonged to over 300 corporate groups, of which approximately half were multinationals. These corporate customers operate in several industries, including the automotive, food and beverage, chemical, telecommunications, energy, household appliances, oil, iron and steel industries as well as international construction and retail businesses.

The pillars of the Bank's corporate banking strengths are: (a) longstanding relationships, enhanced by commitment through difficult market conditions, (b) ability to cross-sell, leveraging on cash management and strength of relationship, (c) advanced technology, including dedicated IT support and developing tailor-made solutions for clients, and (d) high-quality staff.

Products: The Group offers corporate customers a wide range of lending and banking services, including commercial banking products, treasury and derivative products, cash management services, corporate finance advice, trade finance, project finance and other financial services such as insurance and leasing.

The main lending products offered by the Bank's Corporate Banking Department are working capital loans, project finance loans, foreign currency-based loans, revolving loans, short term loans and overdraft loans. Cash management is another field in which the Corporate Banking Department has significant expertise. Various products are offered in terms of cash management services: direct debiting services, discounting, utility payment systems, supplier finance services, inventory finance services and check collection. In addition, the Bank offers to its corporate customers treasury and derivative products (e.g., options, forwards, swaps, mutual funds, bonds and stocks) as well as a variety of other financial services including (through its subsidiaries) insurance, leasing and factoring.

Asset and Liability Management Department

The Group's operations and results rely to a large extent upon the Bank's Asset and Liability Management Department (the "ALM"), in which the Group centralises its asset and liability management operations. The ALM manages the Bank's interest rate, sovereign credit and liquidity risks in accordance with the objectives set by the Asset & Liability Committee (the "ALCO"). The ALM aims to maximise the Bank's risk-adjusted return-on-capital and the net interest margin of its balance sheet and to minimise the fluctuations in net interest margin. Monitoring prevailing market conditions, interest rates, volume trends on the balance sheet and risk parameters, the ALM creates and acts upon the Bank's investment, funding and hedging strategies in spot and/or derivative markets.

Along with conventional market risk management products, the ALM also utilises a "transfer pricing system" as a tool of balance sheet management. The transfer pricing system isolates the Bank's business lines and branches from the market-related risks arising out of their commercial activities and enables the market risk to be transferred to the ALM, which thus centralises the Bank's market risk management. In addition, by differentiating the transfer prices for different products with different risk factors, the ALM is able to develop and implement its strategic guidance on products and risk factors.

Global Markets

The Global Markets Department principally consists of the Trading Department (which coordinates the Group's trading functions and manages the risks inherent therein), the Global Market Sales and Financial Solutions Department (which allows the Bank's customers easier access to the financial markets) and the Global Markets Business Solutions Department (which develops and utilises structured products with the aim of more efficiently managing the Group's balance sheet). Each of these departments is described in greater detail below.

Trading Department

The Trading Department coordinates the Group's trading activities, which include both proprietary transactions and a much larger number of transactions on behalf of customers, with customer-driven transactions representing the most significant portion of the Group's trading activities. The department's role includes the management of risk within the Bank's securities portfolio and ensuring sufficient liquidity to cater to anticipated customer demand.

The Bank's management believes that the Bank's quantitative and qualitative approaches to trading with respect to risk management distinguish the Bank from its competitors and have been critical to the Bank's success in volatile markets. The correct allocation of the investment portfolio in light of market trends is of critical importance to the Bank's profitability and financial position. Thus the Global Markets Department assesses the ability of the Trading Department to analyse trends, understand implications and shape the Bank's fixed income portfolio or foreign exchange positions accordingly.

The value-at-risk ("VaR") limit for the Bank's trading portfolio is calculated by the Risk Management Department according to the distribution of capital approved by the Board. The Bank updates its VaR limit quarterly based upon changing regulatory capital.

Trading includes management of both customer flows as well as the Bank's own positions. In anticipation of future customer demand, the Bank maintains access to market liquidity by quoting bid and offer prices and carries an inventory of money and capital market instruments including a broad range of cash and securities. The Bank also takes positions in the interest rate, foreign exchange and debt markets based upon expectations of customer demand or a change in market conditions.

The Global Markets Department uses real-time position-keeping systems that, with the Bank's information system and a data feed provided by Thomson Reuters, track the financial transactions in which the Bank takes part. Real-time positions are simultaneously reflected to the Bank's online Counterparty Limit Monitoring System, which allows real-time counterparty limit monitoring by the Bank's Internal Control Unit and other divisions and aims to avoid breaches in counterparty limits that are approved by the Bank's Credit Committee.

Derivative products have emerged extensively in recent years providing a wide variety of choices to corporate clients as well as individual investors. The Global Markets Department manages the Bank's derivatives exposure within given delta and vega limits. The delta and vega exposures created by the customer flow can be directly hedged against in the markets or can be carried as positions as long as they are within the limits provided by the Bank's Board. The Bank also provides competitive pricing in various derivative products (*e.g.*, local currency, foreign currency, domestic treasury bills, eurobonds, equities and commodities) for the Bank's clients. Although the Bank's major derivative activities relate to the foreign exchange market, the Bank provides liquidity to its customers in the above-mentioned products as well. In addition, the department develops and prices tailor-made products for clients in order to fulfil their hedging and yield-enhancement needs. The department prices all derivative transactions whether for proprietary or hedging purposes (including forwards, swaps, futures and options).

Global Market Sales and Financial Solutions Department

The Global Market Sales and Financial Solutions Department aims to improve the access of the Bank's customers to the financial markets and to assist in their operations therein. The department consists of five sections: marketing, corporate banking, commercial banking, private banking and financial solutions. The aim is to allow customers in these segments to access the market efficiently. The department performs the pricing of all treasury products (foreign currencies exchange, forwards, options, swaps, bonds in Turkish Lira and foreign currencies, eurobonds, deposits, loans, etc.) and creates tailor-made solutions in line with the clients' needs by serving directly to a selected client base or servicing through branches.

In addition, the Global Market Sales and Financial Solutions Department advises corporate and commercial customers on risk management, offers solutions related to balance sheet and financial risk management and structures the necessary products.

Global Markets Business Solutions Department

The Structured Products Unit, one of the units of the Global Markets' Business Solutions Department, develops derivative products required for the effective management of the Bank's balance sheet and liquidity, such as those aimed at increasing profitability and hedging current risks, and also prepares the contracts related to these products. The Structured Products Unit analyses document-based risks in accordance with applicable legislation and accounting standards (local standards and IFRS). The unit also runs the "master agreement" negotiations process together with the Legal Department.

Day-to-day responsibility for managing exposure to market risks lies with the Risk Control Unit that operates within the Global Markets' Business Solutions Department. The Risk Control Unit also monitors the profitability and volume of global markets transactions and reports the size of the portfolios and stop-loss limits of individual trading desks.

Day-to-day responsibility for managing exposure to operational risks lies within the Middle Office Unit of the Global Markets' Business Solutions Department, which unit also examines the confirmations of global markets transactions in order to audit on- and off-market pricing, trader transaction limits, transaction data inputs and the accuracy of operations.

Subsidiaries

In addition to its core banking operations, the Group is active in the areas of leasing, factoring, investment banking, portfolio management, private pensions and life insurance brokerage in Turkey, each of which is largely operated through a subsidiary of the Bank. In addition, the Bank has wholly-owned banking subsidiaries in the Netherlands (GBI, which has offices in Amsterdam and Germany) and Romania (Garanti Romania).

The following tables reflect the contribution of the Bank and certain of its consolidated subsidiaries to the Group's profit/(loss) and assets as of the indicated dates; *however*, this information is provided on a "non-consolidating" basis (*i.e.*, without making adjustments for intra-Group transactions):

Assets	Ownership⁽¹⁾	As of 31 December		
		2016	2017	2018
Türkiye Garanti Bankası.....	N/A	84.0%	83.6%	81.9%
GBI	100%	5.3%	5.0%	5.9%
GHBV and Romania businesses ⁽³⁾	100%	2.4%	2.8%	3.4%
Garanti Leasing.....	100%	1.6%	1.4%	1.4%
Garanti Factoring	81.84%	0.9%	0.9%	0.6%
Garanti Pension and Life	84.91%	0.5%	0.6%	0.3%
Garanti Bank Moscow AO ⁽⁴⁾	100%	NA	NA	NA
Garanti Securities.....	100%	0.0%	0.1%	0.1%
Garanti Asset Management	100%	0.0%	0.0%	0.0%
<i>Structured Entities⁽²⁾</i>				
Garanti Diversified Payment Rights Finance Company ..	0%	3.7%	4.0%	4.6%
RPV Company	0%	1.6%	1.6%	1.8%

Net Profit/(Loss) ⁽⁵⁾	Ownership ⁽¹⁾	For the year ended 31 December		
		2016	2017	2018
Türkiye Garanti Bankası.....	N/A	91.9%	90.5%	89.2%
Garanti Pension and Life	84.91%	4.5%	4.6%	6.1%
GHBV and Romania businesses ⁽³⁾	100%	0.2%	1.7%	2.0%
GBI	100%	0.9%	1.5%	0.9%
Garanti Securities.....	100%	0.4%	0.7%	0.8%
Garanti Factoring.....	81.84%	0.4%	0.4%	(0.4)%
Garanti Leasing.....	100%	1.5%	0.3%	1.2%
Garanti Asset Management.....	100%	0.2%	0.3%	0.4%
Garanti Bank Moscow AO ⁽⁴⁾	100%	0.0%	NA	NA
<i>Structured Entities⁽²⁾</i>				
Garanti Diversified Payment Rights Finance Company ..	0%	0.0%	0.0%	(0.2)%
RPV Company	0%	0.0%	0.0%	0.0%

(1) Ownership refers to the Bank's direct and indirect ownership in the relevant subsidiary.

(2) Garanti Diversified Payment Rights Finance Company and RPV Company are structured entities established for the Bank's fund-raising transactions and are consolidated in the accompanying consolidated financial statements. Neither the Bank nor any its subsidiaries has any shareholding interests in these companies. These companies have assets and liabilities in their own financial statements resulting from the fund-raising processes, many of which are eliminated during the consolidation processes.

(3) Includes 100% ownership in GHBV and in the following Romanian businesses as of 31 December 2017 and 2018: Garanti Romania, Motoractive and Ralfi through G Netherlands.

(4) On 5 December 2016, the Bank sold its shares (representing 99.94% of the share capital) of Garanti Bank Moscow AO, which (with respect to income for the period before its sale) was included in the Group's BRSA Financial Statements for the year ended 31 December 2016.

(5) As fees and commissions paid by one Group member to another increase the recipient's income and the payer's expenses, these percentages do not necessarily reflect fully the benefits that the Bank's subsidiaries provide to the Group.

The following provides brief summaries of each of the Bank's material subsidiaries other than Garanti Bilişim Teknolojisi ve Ticaret T.A.Ş. ("*Garanti Technology*"), which is described in "Information Technology" below. As Garanti Technology is not a financial subsidiary, it is accounted for at cost in the Group's financial statements.

Garanti Bank International

Established in 1990, GBI is a mid-sized European bank established in Amsterdam, the Netherlands and serves a retail, corporate and institutional clientele. GBI offers financial solutions to its customers and counterparties in the areas of trade and commodity finance, cash management, private banking, treasury and structured finance, while maintaining multi-product relationships with local and global financial institutions around the world. GBI also provides targeted retail banking services in the Netherlands and Germany.

GBI is a wholly-owned subsidiary of the Bank and has a presence in Germany, Switzerland and Turkey. GBI operates under Dutch and European Union laws, and is under the supervision of the ECB, De Nederlandsche Bank (DNB) and De Autoriteit Financiële Markten (AFM).

GBI generated a net profit/(loss) of €14.0 million in 2018 (€26.2 million in 2017 and €15.6 million in 2016). GBI's total assets amounted to €4,291 million as of 31 December 2018 (€4,277 million as of 31 December 2017 and €4,831 million as of 31 December 2016).

Garanti Pension and Life

Garanti Emeklilik ve Hayat A.Ş. ("*Garanti Pension and Life*"), founded in 1992 in İstanbul, offers life insurance policies and private pensions. The company utilises its expertise in bancassurance (*i.e.*, the relationship between an insurer and a bank pursuant to which the insurer uses the bank's sales channels in order to sell the insurer's insurance and pension products) to offer its insurance and pension products to the Bank's customers. Garanti Pension and Life, with 1,150,560 participants, had a market share of 16.73% in the pension business as of 29 December 2018 according to the Pension Monitoring Centre (*Emeklilik Gözetim Merkezi*).

Garanti Pension and Life managed a portfolio of TL 11.1 billion as of 29 December 2018 and held a 14.54% market share in pension fund assets under management as of 29 December 2018 according to the Pension Monitoring Centre. An auto-enrollment system was introduced in December 2016 for public and private sector employees, with staged adoption starting in January 2017. Garanti Pension and Life, with 553,228 participants among private

companies, was third in the market regarding pension fund management as of 31 December 2018 according to the Pension Monitoring Centre.

In the life insurance business, as of 31 December 2018 the company serviced 1.7 million insurance policyholders, on which business it generated TL 483.7 million in written premia in 2018 (TL 498.9 million in 2017 and TL 409.8 million in 2016). Garanti Pension and Life's direct premium production declined by 3% in 2018 as compared to 2017 and had a market share of 6.99% as of 31 December 2018 as published by the Insurance Association of Turkey (*Türkiye Sigorta Birliği*). Garanti Pension was the most profitable private company in the sector during 2018 according to the Insurance Association of Turkey.

Since 2007, Garanti Pension and Life has also been marketing, promoting and selling certain general insurance products of its previously affiliated entity Eureko Sigorta A.Ş. pursuant to a general insurance agency agreement. These products are sold to bancassurance customers through the Group's distribution network.

Garanti Pension and Life had net profit/(loss) of TL 454,189 thousand in 2018 (TL 323,576 thousand in 2017 and TL 245,940 thousand in 2016).

Garanti Leasing

In 1990, the Bank established a leasing company, Garanti Finansal Kiralama A.Ş. ("*Garanti Leasing*"). In 2018, Garanti Leasing executed 1,785 new financial leasing deals (principally for the leases of business and construction machines) and recorded a total of US\$493 million in new leases, as compared to 2,401 new financial leasing deals (US\$524 million in new leases) in 2017 and 2,814 new financial leasing deals (US\$741 million in new leases) in 2016. As of December 2018, the company had a market share of 10.35% for new contracts and a 10.29% market share in terms of transaction volume, each according to the Turkish Financial Institutions Association (*Finansal Kurumlar Birliği*). As of 31 December 2018, Garanti Leasing's total assets were TL 6,070,504 thousand (TL 5,440,877 thousand as of 31 December 2017 and TL 5,450,502 thousand as of 31 December 2016).

In 2018, Garanti Leasing had net profit/(loss) of TL 80,616 thousand (TL 20,747 thousand in 2017 and TL 84,003 thousand in 2016).

Garanti Holding and Romania Businesses

Garanti Holding BV ("*GHBV*"), having its official seat in Amsterdam, the Netherlands, was incorporated on 6 December 2007 as a private limited liability company. On 27 May 2010, the Bank purchased from Doğu Holding all of the shares of GHBV, which is the sole shareholder of G Netherlands BV ("*G Netherlands*"). G Netherlands is the shareholder of Garanti Romania, Motoractive IFN SA ("*Motoractive*") and Ralfi IFN SA ("*Ralfi*"), each founded in Romania.

G Netherlands was incorporated on 3 December 2007 in Amsterdam, the Netherlands and is an intermediate holding company with no trading activities. As of 31 December 2018, G Netherlands had investments in three Romanian companies specialising in financial services: Garanti Romania (99.9964%), which provides banking activities; Motoractive (99.99997%), which provides financial leases; and Ralfi (99.9994%), which provides consumer loans (sales finance and private credit cards). Motoractive Multiservices SRL, a company providing operating leasing and related services, was incorporated by Motoractive in April 2007 and is a 100% subsidiary thereof. On 14 November 2014, Domenia, a mortgage provider company existed at the original acquisition of GHBV in 2010, was acquired by Garanti Romania as a result of a merger process.

Garanti Romania was active in the Romanian market as a branch of GBI since 1998, which branch was transferred into the newly licensed bank, incorporated in Romania, in May 2010. As of 31 December 2018, Garanti Romania operated 78 branches, 29 of which were located in the capital city Bucharest. The bank offers a full scope of universal banking products and services to its 411,397 customers (as of 31 December 2018) from the retail, SME and corporate segments. With 302,085 credit and debit cards and 8,803 active (11,493 in total) POS terminals as of such date, Garanti Romania ranked in the top ten in terms of the numbers of issued credit cards (with a market share of 5.53% (including non-banking financial institutions) and 6.72% excluding non-banking financial institutions), in the issued credit cards market as of 31 December 2018 and POS terminals (with a market share of 5.62%) in Romania, according to the public figures available from the Romanian National Bank as of 31 December 2018.

Motoractive is a joint-stock company incorporated in Romania. Motoractive undertakes leasing activities, mainly motor vehicles but also industrial plant and office equipment. Motoractive had 1,720 customers with 4,625 active contracts as of 31 December 2018 and has an extensive partnership network.

Ralfi's main activity is to provide consumer loans, particularly sales finance and personal loans. As of 31 December 2018, Ralfi had 36,620 clients.

The consolidated asset size of GHBV was approximately €2.5 billion as of 31 December 2018 (€2.4 billion as of 31 December 2017 and €2.2 billion as of 31 December 2016). GHBV contributed €26.9 million to the Group's consolidated net profit/(loss) in 2018, as compared to €28.6 million in 2017 and €3.1 million in 2016.

Garanti Factoring

Garanti Faktoring A.Ş. ("Garanti Factoring"), founded in 1990, is one of Turkey's oldest factoring companies. As of the date of this Base Prospectus, 81.84% of the company's shares are owned by the Bank, 9.78% of its shares are owned by Export Credit Bank of Turkey and the remaining shares are traded on the Borsa İstanbul. With a broad customer base, Garanti Factoring makes use of the Bank's delivery channels to provide high-quality factoring products and services to its customers. The company recorded US\$2.5 million in volume of receivables financed through factoring in 2018 (US\$4.2 million in 2017 and US\$4.7 million in 2016), representing a market share of 8.98% as of 31 December 2018 in Turkey according to the Association of Financial Institutions (*Finansal Kurumlar Birliği*).

Garanti Factoring had a net profit/(loss) for 2018 of TL (57,376) thousand mainly due to ECLs allocated prudently for certain credit files (TL 27,603 thousand in 2017 and TL 19,716 thousand in 2016) and the company's total assets amounted to TL 2,434,061 thousand as of 31 December 2018 (TL 3,451,880 thousand as of 31 December 2017 and TL 2,899,452 thousand as of 31 December 2016).

Garanti Securities

Garanti Yatırım Menkul Kıymetler A.Ş. ("Garanti Securities") is a subsidiary of the Bank and one of the leading securities houses and investment banks in Turkey. Garanti Securities serves Turkish and international customers in the areas of investment banking, brokerage, research and treasury.

As one of the leading investment banks, Garanti Securities has successfully completed numerous mergers and acquisition, equity offerings, debt offerings and privatisation transactions, with a total transaction size of more than \$66 billion from its establishment in May 1991 through 31 December 2018 (\$7 billion in 2018 alone).

Garanti Securities provides equity brokerage services through its sales team and benefits from the Bank's branch network while providing its services to its retail clients. As of 31 December 2018, Garanti Securities provided brokerage services to 253,104 customers. In 2018, the company's market share in the equity market was 6.6%, ranking fourth in this market.

From the beginning of 2016, Garanti Securities' treasury department has been providing pricing to listed single stock and index options. The company has been acting as a market maker in the Turkish equity derivatives market and achieved TL 12.2 billion in volume in 2018 on the futures and options market, compared to TL 10.8 billion in 2017 and TL 5.6 billion in 2016. As a result of volume growth, Garanti Securities had a 31.34% market share in the index options market as of 31 December 2018.

In 2018, foreign exchange client transaction volume decreased to US\$14.3 billion from US\$18.8 billion in 2017, which had decreased from US\$57.8 billion in 2016. In 2017 and 2018, the decrease mainly resulted due to the reduced leverage levels imposed by the CMB in February 2017.

Garanti Asset Management

Founded in June 1997 as the first asset management company in Turkey, Garanti Portföy Yönetimi A.Ş. ("Garanti Asset Management") is a wholly-owned subsidiary of the Bank. As of 31 December 2018, Garanti Asset Management managed 20 mutual funds, in which Garanti Asset Management is also the owner/issuer, two mutual funds established under BBVA Durbana International Fund (SICAV), 22 pension funds of Garanti Pension and Life, 21 pension funds owned by other pension companies and the portfolio of Garanti Yatırım Ortaklığı A.Ş. (a closed-end fund listed on the Borsa İstanbul). The company also provides discretionary portfolio management services for both institutional and individual clients.

Garanti Asset Management's market share in terms of mutual funds was 8.79% as of 31 December 2018 according to Rasyonet, a third-party data vendor. Total assets under management amounted to TL 18.0 billion as of such date. The market share of pension funds was 14.48% as of 31 December 2018 (according to Rasyonet). The mutual funds managed by the company had a market value of US\$0.8 billion as of 31 December 2018. Garanti Asset

Management distributes its mutual funds through the Bank's branches, DCs and third party distribution channels, such as TEFAS (*Türkiye Elektronik Fon Alım Satım Platformu*) (Turkish Electronic Fund Distribution Platform).

International Operations

The Group's international operations include foreign branches of the Bank in the Turkish Republic of Northern Cyprus (five branches (together with a Country Directorate in Northern Cyprus that was established in order to comply with the legal requirements in Northern Cyprus)), Luxembourg and The Republic of Malta and an international representative office in each of London, Düsseldorf and Shanghai. The Bank's Domestic and Overseas Subsidiaries Coordination department also coordinates with the Bank's non-Turkish subsidiaries such as GBI and Garanti Romania, additional information about which can be found in "Subsidiaries" above.

The Shanghai representative office started its operations in May 1999 and was the first Turkish bank outlet in far east Asia. The Bank's management believes that its Shanghai office puts the Group in a favourable position in establishing relations with Chinese banks and to initiate and develop business contacts with Turkish and Asian companies doing business in China. Likewise, the London and Düsseldorf representative offices contribute to the Bank's international marketing efforts. The branches in the Republic of Malta, Turkish Republic of Northern Cyprus and Luxembourg are principally focused on servicing the needs of the Bank's Turkish customers in these locations.

Supporting the Bank's efforts in trade and other cross-border transactions, the Bank relies upon its network of international correspondent banks. As of 31 December 2018 the Bank's international network included more than 2,000 correspondent banks in over 150 countries around the world. The Bank cooperates with these correspondent banks in trade financings, remittances and other tailor-made transactions of interest to its customers.

The Group's focus on international banking and trade finance operations has, together with its diversified range of credit products, resulted in an increased demand for contingent loan products such as letters of guarantee, letters of credit and export financing. According to the foreign trade statistics announced by TurkStat, the Group is one of the leading Turkish banks in foreign trade, having a 16.5% share in Turkey's import letters of credit by number during 2018. As trade finance is a large fee generator, the Group intends to utilise its knowledge of trade finance, customer-oriented branch network, sophisticated technology and worldwide correspondent network to further strengthen its trade finance business.

Marketing and Distribution Channels

The Group is a well-recognised brand in Turkey. Over time, through the introduction of successful products such as Bonus Card, Miles&Smiles, ELMA and www.garanti.com.tr, the Group's brand has strengthened. The market's perception of the Group is periodically monitored by the Bank through brand tracking surveys and customer satisfaction surveys. These surveys have been useful in identifying customer perceptions of the Group's attributes.

The Bank's customer-facing divisions pursue a relatively sophisticated marketing strategy that is innovative and visible as well as customer-tailored, as further described below. Cross-selling is at the core of most product campaigns and the Group continuously focuses on enhancing the effectiveness of its activities to increase the profitability of its customer base while maintaining its focus on risk management principles. For example, the Bank's Retail Banking Department utilises media advertising, direct mailings (paper and electronic), SMS messaging and posters/brochures in branches. The Bank's SME Banking Department reaches potential customers in various manners, including sponsoring a monthly magazine that reviews aspects of the business and SME markets in Turkey. Marketing to potential commercial and, in particular, corporate customers is tailored to those customers' individual needs.

The Bank sells and cross-sells its customers either reactively or pro-actively using CRM tools.

From a reactive sales perspective: (a) for mass customers who walk into branches of the Bank, the Bank serves them using the Sales Lead Systems ("SLS"), and (b) for both upscale and mass market customers, the Bank implements a system called the Sales Opportunities Tool ("SOT") to inquire regarding customer product usage levels in each case in order to enable sales representatives or relationship managers to identify those products that can be sold reactively to these customers. SLS uses propensity and business rules, whereas SOT uses propensity and attrition rules and is designed around a unique customer profile.

From a pro-active sales perspective, the Bank targets its mass market customers with outbound calls from its call centre and the eligibility of these customers is identified using propensity and business rules. Within a branch, for both upscale and mass customers, the Bank has a system called Pusula (Compass). This system identifies customer needs and, subsequently, propensity, business rules and some external data are used to meet those needs with the

relevant products. The Bank offers these products to its customers as product bundles rather than as individual products, thereby seeking to meet both the customers' main and secondary needs. Finally, groups of upscale and mass market customers with similar needs are combined as lead lists for the Bank's sales representatives and relationship managers to pro-actively target.

As the Bank's management believes that selling additional products to the Group's existing customers is the most effective method of increasing revenues and profitability, cross-selling opportunities are actively sought and implemented.

Branch Network

As of 31 December 2018, the Bank had 926 domestic branches, seven branches in Northern Cyprus, one branch in Malta and representative offices in Düsseldorf and Shanghai. The Bank conducts cost-benefit studies on an on-going basis in order to determine and maintain the best geographical distribution of branches in Turkey. The Bank operates an extensive distribution network, operating in all 81 cities in Turkey, with approximately half of the Bank's branches being located in the three largest cities (namely İstanbul, Ankara and İzmir).

To enhance customer experience and capture the benefits of the increasing digital options, the Bank has introduced a new branch service model named "Garanti Plus." This new model integrates digital services more seamlessly into traditional branch services, positioning the Bank to be well prepared for future developments in service delivery. Garanti Plus has three main objectives: (a) improving customer experience, (b) increasing customer migration to the Bank's digital platform, thereby reducing branch dependency, and (c) upgrading employees' capabilities and thereby improve sales and operational efficiency. After a pilot program that was started in May 2017, the Bank transformed its entire domestic branch network to the new "Garanti Plus" service model, which seeks to decrease waiting times for customers and otherwise improve the customer experience and increase the efficiency of the Bank's sales force.

Digital Channels

In addition to its large branch network, the Bank has developed an extensive DC network that includes internet banking, ATMs, call centres, mobile banking and kiosks. The increasing use of DCs by the Bank's customers has increased the Bank's cost-efficiency, has provided improved convenience to its customers by meeting their financial needs and has helped the Bank develop deeper relationships with its customers. The omni-channel strategy provides the Bank's clients the advantage to conduct their transactions across a variety of alternative channels at all times. Going forward, the Bank's management aims to better integrate these channels.

The main benefits of the DC distribution strategy can be segmented into four groups:

- *Improving branch performance:* By substantially expanding the use of DCs, the Bank has significantly reduced less productive branch tasks (such as customer inquiries), freeing up the sales force and allowing them to focus on more profitable commercial activities and sales. Also, the migration to DCs has reduced the branch operating load and costs, with average cost per transaction being significantly lower for DC transactions.
- *Improving customer service and therefore retention:* Through DCs and their extended hours of operations (24/7), the Bank provides quick and convenient problem resolution.
- *Enhancing revenues:* The Bank exploits new sales opportunities by cross-selling and by telemarketing to potential customers through DCs, which also provide opportunities for incremental fees and charges. Accumulated commission income generated solely by transactions on DCs was over TL 880 million for 2018 (TL 650 million for 2017 and TL 500 million for 2016).
- *Deepening relationships with customers:* DCs not only lead to operational efficiency in relation to transactions, but also portfolio efficiency via upsell and cross-selling opportunities on these channels. In 2018, 60.9% of the revenue of products sold were generated through DCs within Bank.

In addition to high-quality banking services, DCs also provide convenience-oriented value-added services like Western Union remittances both online and via ATMs, mobile remittances, video agent services as well as online/mobile stock account openings and instant stock exchange services.

The Bank seeks to leverage its customers' experience on DCs by utilising experience and new technologies. In 2018, the Bank introduced "UGI" to its mobile banking platform. UGI is an artificial intelligence-based virtual assistant (a "bot") that performs banking transactions in a hands-free manner. It is a world-leading service among similar applications with its extensive and sophisticated understanding capacity and the ability to provide services for hundreds of thousands of different customer intents. UGI essentially allows users of the mobile app to speak to transact, including to obtain answers to questions about the latest account activity, to perform transfers, to buy or sell foreign currency or to find out an exchange rate. UGI's capability for understanding complex inquiries such as "how much did I spend on my credit card for groceries" differentiates UGI from most other virtual banking assistants. Another superior characteristic of UGI is providing an omni-channel experience - if users' requests cannot be addressed on the app, then UGI suggests other ways as a solution. As of 31 December 2018, 1.3 million customers have had more than 12 million interactions with UGI.

Until recently, the process for a customer to open an equity investment account was available only in branches which took approximately one hour, including sign approximately 50 pages. The Bank recently digitalised this process and an account can now be opened in as little as five minutes through a single digital approval, resulting in a significant increase in account openings. In 2018, more than 90% of new equity investment accounts were opened digitally.

Consistent with advances in technology and customer preferences, the Bank's customers are shifting their choice of distribution channel. In 2018, 95% of all non-cash transactions by the Bank's customers were realised using DCs, all of which otherwise would have had to have been accomplished through tellers. The Bank's principal DCs are described below:

- *Internet Banking & Mobile Banking:* The Bank had 7.1 million active digital banking users as of 31 December 2018. The Bank's internet banking service processed over 105 million financial transactions and offered more than 500 types of transactions in 2018. The Bank offers mobile banking services via different platforms, including on iOS devices (the iPhone operating system), iPad devices and all Android-operated devices. As of 31 December 2018, the Bank had approximately 6.4 million active mobile customers. In addition to conventional banking products, customers can use these platforms to buy modular insurance and travel health insurance and obtain certain general purpose loans that have been developed specifically for the needs of digital customers. The mobile banking platform offers many technological features such as login via eye scanning, money withdrawal/deposit and foreign exchange withdrawal/deposit using QR (quick response) technology and the "UGI" virtual assistant.
- *ATMs:* The Bank's 5,258 ATMs, as of 31 December 2018, served approximately 6.3 million different customers monthly during 2018. The ratio of cash withdrawal transactions to total transactions exceeded 60% during 2018, whereas the ratio of money withdrawals through the use of QR codes increased from 3% to 9% in 2018. In addition, new transactions became available for visually impaired customers and the customers of other banks (who can use the Bank's ATMs with their bank cards) on the Bank's ATMs, including credit card debt payment and money deposit transactions.
- *Call Centres:* The Bank's first call centre was opened in February 1998, making the Bank the first in Turkey with both online and phone banking channels. Almost all of the Bank's core banking services, including bill payments, tax payments, card payments and investment transactions, are offered through the Bank's two call centres. The call centre personnel seek to actively cross-sell the Group's products. In 2018, the call centres had 5,083,845 million customer contacts and the accumulated individual sales of products through call centres was 3,682,862 million. The call centre offers a "call steering service" pursuant to which customers can be directed to the related menu by saying their transaction needs without pressing any menu button on the phone. Last year, the call centre began offering a free speech solution that authenticates users while they are naturally talking with agents during their call with the call centre, which allows users to perform banking transactions without the need for any additional security questions.

Human Resources Management and Planning

The Bank's Human Resources department works in coordination with all of the Bank's departments to support the Bank's strategic plans. As of 31 December 2016, 2017 and 2018, the Group had 22,841, 21,850 and 21,316 employees, respectively. The decline in staffing in 2017 and 2018 was a result of natural attrition while the Bank's human resources department has frozen hirings since 2016.

While the Bank does hire some senior employees from outside the Group, non-entry level positions are generally filled through the promotion of existing employees of the Bank.

Incentive policies are designed to enhance the performance achievement of each employee by applying the proper amount of incentive compared to base salary and using job-specific measurable performance criteria. Thus, for sales teams, incentive payments constitute a higher portion of benefits compared to back-office specialised jobs (e.g., headquarters jobs). None of these incentive policies include arrangements for the involvement of employees in the capital of the Bank.

Properties

As of 31 December 2018, the total net book value of the Group's tangible assets (net) (which includes land, buildings and furniture) was TL 4,494,918 thousand, which was 1.1% of its total assets. The Group maintains comprehensive insurance coverage on all of the real estate properties that it owns.

Information Technology

The Bank's management believes that the Group differentiates itself in part through the high quality of its information technology. The Group has organised its IT functions within the Bank's wholly-owned subsidiary, Garanti Technology.

The IT solutions created by Garanti Technology have enabled the Group to improve its efficiency and effectiveness in serving its customers and to provide a better customer experience across all channels. The integrated solutions created in-house by Garanti Technology are pervasive across all channels and all levels of the Group. The services provided by Garanti Technology include business development (including marketing and management support), IT strategy, process and security services, software development, systems and operations, help desk, networking and field engineering.

Approximately 99% of the Group's operational transactions are processed through Garanti Technology, which aims to provide access and monitoring with a 99.99% availability and makes real-time copies of transaction records. In 2018, Garanti Technology was responsible for the processing of approximately 950 million transactions a day on average, with up to 1,228 million transactions a day on peak days. The financial and core banking applications within Garanti Technology are developed by a team of over 540 software developers.

The development of business continuity management standards in all of the Bank's subsidiaries is coordinated by the Bank's Internal Control Unit. The Bank has developed a Business Continuity and Disaster Recovery Plan in case of natural disaster or significant disruption. This plan aims to ensure that in the event of such circumstances arising, the Group can continue to provide services to its customers, fulfil its legal obligations, minimise financial losses arising from the disruption and safeguard information assets. The plan is revised and tested on an annual basis. These tests include stress tests against various different scenarios. The Bank has alternative locations for ensuring the continuity of banking services against unexpected incidents. The plan also includes specific directives to personnel to instruct them to react appropriately in a disaster situation. All personnel have access to the plan's guidelines through the Bank's intranet. The plan also sets out a communication strategy in order to seek to ensure appropriate communication with internal and external target stakeholders.

Insurance

The Group's fixed assets, cash-in-transit and cash-on-hand are covered by general insurance arrangements with third parties covering normal risks, and the Group also maintains blanket liability insurance (including in relation to electronic computer crime, professional indemnity and directors' and officers' liability). Loans that are secured by real estate are also required by the Group to be supported by fire and asset protection insurance with respect to secured assets. The Group does not have any credit risk insurance in relation to defaults by its customers and this is generally not available in Turkey.

Anti-Money Laundering, Combating the Financing of Terrorism and Anti-Bribery Policies

Turkey is a member country of the Financial Action Task Force (the "FATF") and has enacted laws 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 Financial Crimes Investigation Board (*Mali Suçları Araştırma Kurulu*), which is the Turkish financial intelligence unit. In Turkey, all banks and their employees are obliged to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money-laundering.

The main provisions of the applicable law include regulation of: (a) client identification, (b) reporting of suspicious activity, (c) training, internal audit and control, risk management systems and other measures, (d) periodical reporting, (e) information and document disclosure, (f) retention of records and data, (g) data access systems to public records, (h) protection of individuals and legal entities and (i) written declaration of beneficial owners by transacting customers, among other provisions. Suspicious transactions must be reported to the Turkish Financial Intelligence Unit, which is the Financial Crimes Investigation Board.

To ensure that the Bank is not used as an intermediary in money laundering and other criminal activities, a programme of compliance with the obligations of anti-money laundering and combating the financing of terrorism rules, which is to be undertaken by all employees, has been implemented. This programme 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.

In an effort to ensure compliance with FATF requirements, Law No. 6415 on the Prevention of the Financing of Terrorism was introduced on 16 February 2013. This law introduced an expanded scope to the financing of terrorism offense (as defined under Turkish anti-terrorism laws). The law includes further criminalising terrorist financing and implementing an adequate legal framework for identifying and freezing terrorist assets.

In October 2014, the Organisation for Economic Co-operation and Development (the “OECD”) Working Group on Bribery adopted the Phase 3 Report on Implementing the OECD Anti-Bribery Convention. In this report, the OECD Working Group expressed concerns about Turkey’s low level of anti-bribery enforcement and recommended that Turkey improve its efforts to proactively detect, investigate and prosecute allegations of foreign bribery. The OECD Working Group also expressed concern regarding certain deficiencies in Turkey’s corporate liability legislation and enforcement against legal persons and made several recommendations to address these concerns. Changes in Turkish laws and practices might arise from these recommendations, which the Bank will monitor.

Compliance with Sanctions Laws

OFAC administers laws that restrict the ability of U.S. persons to invest in, or otherwise engage in business with, SDNs, and similar laws have been put in place by other U.S. government agencies (including the State Department), the EU, the United Kingdom, the United Nations and Turkey. The Bank maintains policies and procedures designed to ensure that it complies with all such laws regarding doing business with, maintaining accounts for, or handling transactions or monetary transfers for Sanction Targets.

Before opening an account for, or entering into any transaction with, a customer, the Bank checks whether such customer is listed as a Sanction Target. In addition, the names of all customers and all incoming and outgoing transactions are continuously and automatically screened against a list of restricted countries and banks. All daily transactions are further reviewed for compliance with sanction lists by the Bank or a third party screening company. Accordingly, the Bank’s current policies restrict the Bank from engaging in any prohibited business investments and transactions with Sanction Targets, including Iran and Syria.

Credit Ratings

Each of the Bank’s credit ratings from S&P, Moody’s, Fitch and JCR Eurasia as of the date of this Base Prospectus is set out below. Each of S&P, Moody’s and Fitch is established in the EU and is registered under the CRA Regulation. JCR Eurasia, which is not established in the EU and is not registered in accordance with the CRA Regulation, is not included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation; *however*, it is a founding member of the European Association of Credit Rating Agencies and its parent (Japan Credit Rating Agency Ltd.) is in the ESMA list. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

S&P (17 August 2018)

Outlook:	Stable
Long Term Foreign Currency Issuer Credit Rating:	B+
Long Term Turkish Lira Issuer Credit Rating:	B+
Stand-alone Credit Profile:	b+

Moody's (26 September 2018)

Deposit Outlook:	Negative
Long Term Foreign Currency Deposit:	B2
Long Term Turkish Lira Deposit:	B1
Short Term Foreign Currency Deposit:	Not – Prime
Short Term Turkish Lira Deposit:	Not – Prime
Senior Unsecured Debt Outlook:	Negative
Senior Unsecured Debt:	B1
Baseline Credit Assessment (BCA):	b2
Adjusted BCA:	b1
National Scale Rating (NSR) Long Term Deposit:	A1.tr
NSR Short Term Deposit:	TR-1

Fitch (1 October 2018)

Outlook:	Negative
Long Term Foreign Currency:	BB-
Short Term Foreign Currency:	B
Long Term Turkish Lira:	BB
Short Term Turkish Lira:	B
Viability Rating:	b+
Support:	3
National:	AA (tur)

JCR Eurasia (17 August 2018)

Outlook FC/LC:	Negative
Long Term International Foreign Currency:	BBB
Long Term International Turkish Lira:	BBB+
Long Term National Local Rating:	AAA(TrK)
Short Term International Foreign Currency:	A-3
Short Term International Turkish Lira:	A-2
Short Term National Local Rating:	A-1+(TrK)
Sponsored Support:	1
Stand-Alone:	A

Litigation and Administrative Proceedings

The Group is subject to various ongoing legal proceedings, as described below, but the Bank's management does not believe that such proceedings, individually or taken together, are likely to have a significant effect on the Group's financial position or profitability.

Salary and Deposit Programs Investigation

The Turkish Competition Board issued decisions in August 2009 initiating an investigation into the salary and deposit programs operated by eight major banks in Turkey, including the Bank. Under these programs, corporate and commercial customers of the Bank agree to deposit the salary payments of their employees with the Bank in exchange for remuneration from the Bank. The subject of the investigation is whether the eight banks made a collective agreement for the level of fees that they pay in connection with these programmes. Similar to the practice of the other major banks in Turkey, the Bank enters into protocols with its customers regarding these programs, the terms of which protocols vary with respect to the level of fees the Bank pays and the length of the relevant protocol. On 20 August 2010, the investigation committee established by the Turkish Competition Board served its detailed report on each of the banks involved, which report recommended that the Turkish Competition Board impose a substantial fine upon the banks. On 8 March 2011, the Turkish Competition Board announced that it imposed an administrative fine amounting to TL 11,641,860 (approximately US\$7.6 million as of such date) on the Bank with the possibility of the Bank's appealing the decision to the 13th Chamber of the Council of State. The Bank has filed a lawsuit for the cancellation of the administrative fine following its receipt of the detailed decision of the Turkish Competition Board; *however*, according to the Law on Protection of Competition No. 4054, filing a lawsuit against a decision of the Turkish Competition Board will not stop the implementation of the Turkish Competition Board's decisions and the consequent collection of administrative fines. Accordingly, the Bank paid the administrative fine within one month of its receipt of the detailed decision. Following the Bank's receipt of the notification of the 13th Chamber of the Council of State's decision rejecting the Bank's annulment action, the Bank appealed such court's decision on 22 February 2016. The

appeal was rejected by the Council of State, Plenary Session of Administrative Law Chambers and the Bank requested a revision of the decision on 29 March 2019. The lawsuit is pending as of the date of this Base Prospectus.

Interest Rates Investigation

In a decision dated 2 November 2011, the Turkish Competition Board resolved to initiate an investigation against 12 banks operating in Turkey to determine whether they have acted in concert and violated Turkish competition laws in respect of interest rates and fees applicable to deposits, loans and credit card services that they offer. As part of this investigation, the Competition Board investigated the Bank and two of its subsidiaries, GPS and Garanti Mortgage. The Competition Board announced its fines on 8 March 2013, with the Bank and such subsidiaries being fined TL 213 million, and on 16 August 2013 the Bank paid three quarters of this administrative penalty (*i.e.*, TL 160.04 million), in accordance with the provisions of law permitting a 25% reduction if paid within 30 days after the Bank's receipt of the final decision (which was received on 17 July 2013). Notwithstanding this payment, the Bank filed an annulment action before the 2nd Administration Court of Ankara, which action was rejected. The Bank has appealed the court's decision of rejection; *however*, the 13th Chamber of the Council of State has also rejected the appeal. On 1 July 2016, the Bank requested the revision of such decision from the Council of State, Plenary Session of Administrative Law Chambers. As of the date of this Base Prospectus, the lawsuit is pending.

In addition to the monetary fines imposed by the Competition Board, the Bank, pursuant to articles 57 and 58 of the Law on the Protection of Competition, numerous customers have filed individually small claims against the Bank on the grounds that such customers have suffered damages. Of the approximately 1,000 lawsuits that have been initiated as of the date of this Base Prospectus, only a very small number have resulted in a court decision as of the date of this Base Prospectus, with all but one of those decisions resulting in a dismissal of the lawsuit. The Bank is appealing the one case that was decided against it. While the burden of proof lies with the customers and the Bank's management is of the view that no real damage was caused to any customers, there can be no guarantee that the Turkish courts would agree with such analysis and the number of such claims may increase. The amount of the fine imposed by the Competition Board (and any related damages successfully proven by a customer) will be sufficiently covered by the Bank's existing general provisions.

Consumer Transactions Inspection

In September 2013, the Custom and Trade Ministry (the "*Custom Ministry*") initiated an audit in the Bank regarding its consumer transactions. Specifically, the Custom Ministry officials reviewed the content of the Bank's standard loan agreements executed with the consumers (*e.g.*, housing loans, auto loans, overdraft loans, general purpose loans and credit card agreements), fees and commissions that are charged to consumers and advertisements and announcements by the Bank published in the media and addressed to consumers. The inspectors of the Custom Ministry issued an audit report and the Provincial Directorate of Industry and Commerce of the Governorship of İstanbul imposed an administrative fine amounting to TL 110.11 million against the Bank according to the Law on Consumer Protection, Law No. 6502 (and the abolished Law No. 4077). The Bank paid three quarters of this administrative penalty (*i.e.*, TL 82.58 million) in accordance with the provisions of law permitting a 25% reduction if paid within 30 days after the Bank's receipt of the final decision. Notwithstanding this payment, the Bank filed a lawsuit before the İstanbul Administrative Courts for cancellation of the administrative fine. The court of first instance has rejected such action and the Bank has appealed such decision. On 9 February 2018, the 8th Administrative Chamber of the İstanbul Regional Administrative Court cancelled the fine imposed against the Bank; *however*, the Custom Ministry appealed the decision before the 13th Chamber of the Council of State. The lawsuit is pending as of the date of this Base Prospectus.

Tax Evasion Lawsuit

The Bank is a party to a lawsuit filed before the authorised department of the Paris Court of Appeals. The lawsuit is filed against a number of French citizens who were claimed to be involved in tax evasion and similar activities with respect to their income generated from carbon emission allowances trading. The bank accounts established by two foreign individuals at the Bank and certain other international institutions as well as the transactions relating to these accounts have been investigated. The claims against the Bank represent an insignificant portion of this lawsuit and the Bank's management believes that the subject matter of this lawsuit should not have any material monetary or administrative impact on the Bank's ability to conduct its business. On 13 September 2017, the French court found the Bank not guilty for its activities in 2008 and early 2009 given its compliance with "know-your-customer" rules and account opening processes; *however*, the court decided to impose a fine of EUR 8 million with respect to the Bank's account closing actions during mid-2009. In addition, the French Treasury asked for civil damages from all of the defendants in the relevant lawsuit for the tax losses that it suffered. Accordingly, the Bank, jointly with the other defendants, will be subject to a damages claim for up to EUR 25 million. On 20 November 2017, the Bank

filed an appeal against the decision of the French court. The Bank's management is of the view that the Bank has complied with all applicable laws and has no wrongdoing in this matter.

RISK MANAGEMENT

General

The Bank measures and monitors its risk exposure on a consolidated and unconsolidated basis by using methods compliant with international standards and in accordance with applicable law. Advanced risk management tools are utilised in measuring operational risk, market risk, asset and liability risk, counterparty credit risk and credit risk. Within these categories, the Bank seeks to identify the risks and risk factors from various perspectives, including customer-centeredness, workplace, ethics and citizenship, finances and leadership, and prepares a set of action plans to mitigate these risks. The Bank also focuses on the reputational risks that it faces. The risks are then monitored by the relevant committees within the Bank.

The Bank's risk management strategies, policies and implementation procedures are reviewed within the framework of the Bank's needs and changes to law. The risk management process is designed so that the material themes and strategic goals are linked and form the basis for identifying risks and opportunities. Through the Bank's risk appetite framework, the Bank's management determines the risks that it is prepared to take based upon the predicted capability of the Bank to manage such risks so as to achieve the goals and strategic objectives that are defined by the Board. Risk-based limits and metrics pertaining to capital, liquidity and profitability, each of which are determined per the risk appetite framework, are monitored regularly.

The Risk Management Department handles the preparation of an internal capital adequacy assessment process report (the "ICAAP Report") to be submitted to the BRSA, which report presents an assessment of the Bank's risk appetite and internal capital adequacy assessment process. In addition, the Bank submits a stress test report to the BRSA, which report (*inter alia*) analyses the impact of potential negative macroeconomic data on the Bank's three-year budget plan and results within the framework of certain scenarios, as well as their impact upon certain key ratios of the Bank, including its capital adequacy ratios.

A summary of the Bank's management of certain risks is set forth below. See note 4.10 of the Group's 31 December 2018 BRSA Financial Statements for additional information on the management of these and other risks as of the date thereof.

Market Risk Management

The Bank measures its market risk in accordance with applicable laws, its internal policies and procedures and internationally accepted methodologies, which are implemented in line with the Bank's structure. Market risk is managed by measuring and limiting risk in accordance with these international standards, by allocating sufficient capital and minimising risk through hedging transactions.

Market risk is defined as the risk that the Bank faces due to fluctuations in the market price of positions that it maintains on or off its balance sheet for trading purposes and is calculated daily using the VaR model. The VaR is a measure of the maximum expected loss in the market price of a portfolio with a certain maturity at a certain confidence interval and a certain probability as a result of market value fluctuations. The VaR is calculated using a historical simulation method and two-year historical data at a 99% confidence interval. Regular backtesting is conducted to measure the reliability of the VaR model, which is also validated on an annual basis. Market risk is managed through capital, VaR and stop/loss limits approved by the Board. These limits, which are determined according to annual profit/loss targets, are monitored and reported daily by the Market Risk and Credit Risk Control Departments. In addition, a valuation function is performed by the Market and Structural Risk Department, which is independent from (and does not report to) the applicable line of business.

In order to identify the risks that might arise from major market volatilities, regular stress tests and scenario analyses are conducted using the VaR model.

Structural Interest Rate Risk Management

To determine and manage the Bank's exposure to structural interest rate risk arising from maturity mismatches in its balance sheet, the Bank's duration gap, economic value of equity ("EVE"), economic capital ("ECAP"), credit spread risk, net interest income ("NII"), earnings at risk ("EaR") and securities portfolio are monitored by measuring market price sensitivity.

The interest rate risk metrics that are calculated and the related reports that are generated are used by the Bank's management in managing balance sheet interest rate risk under the supervision of the ALCO. Stress tests and

scenario analyses are carried out within the framework of structural interest rate risk to measure the risks resulting from Bank-specific negative developments or major risks and vulnerabilities that might arise in the economic and financial environment under stress, in each case applying both internal and regulatory requirements for managing interest rate risk.

The results of stress tests are used by the Bank's management as one input in determining the Bank's risk appetite, limits and budgets, for generating balance sheet management strategies and for evaluating the Bank's need for capital. Within this framework, internal limits for EVE sensitivity, ECAP, NII sensitivity, EaR, securities revaluation differences, securities EVE sensitivity and credit spread risk are regularly monitored and reported. The interest rate risk in the banking book is measured on an unconsolidated basis using the standard shock method. Regulatory limits are monitored and reported to the BRSA on a monthly basis. The Bank also monitors that its subsidiaries set and monitor internal structural interest rate risk limits.

Structural Exchange Rate Risk Management

The potential impact of negative exchange rate fluctuations upon the Bank's capital adequacy ratio and foreign currency risk-weighted assets is regularly followed up, monitored according to internal limits and reported, including in circumstances in which the Bank performs material operations in currencies other than the local currency or maintains positions for shareholders' equity-hedging purposes. The analyses conducted in this framework are expanded to encompass potential sensitivities that might result from Bank-specific negative events or changes in the market by supervising the regulatory and internal structural exchange rate risk management requirements. In addition, the Bank's foreign currency position and the profit/(loss) movements resulting from this position are monitored and reported at regular intervals, as is the foreign currency sensitivity of the Bank's 12 month projected profit and loss expectation. The Bank also monitors that its subsidiaries set and monitor internal structural exchange rate risk limits.

Liquidity Risk Management

Within the framework of liquidity and funding risk policies approved by the Board, liquidity risk is managed under the supervision of the ALCO and the "Weekly Review Committee" in order to take appropriate and timely measures in case of reduced liquidity arising from market conditions or due to the Bank's financial structure. Under the liquidity contingency plan approved by the Board, the Bank monitors liquidity risk within the scope of stress indicators and thresholds that anticipate potential liquidity stresses that could activate the Bank's liquidity contingency plan. This plan includes communication procedures, predefined measures and action plans and a detailed allocation of roles and responsibilities in the circumstance of a liquidity stress event.

A liquidity risk stress test is performed each business day in order to identify potential liquidity tensions and to ensure that the Bank has a sufficient liquidity buffer to face exceptional liquidity stresses. Liquidity risk is monitored by internal limits and alert levels in order to assess the funding structure and liquidity capacity based upon maturity buckets and to manage short-term funding sources effectively, while compliance with minimum regulatory liquidity ratios is monitored. Core deposit and average life analyses are performed for deposits, which are an important balance sheet item in terms of liquidity management. Concentrations in liquidity and funding risks are monitored. During 2018, intraday liquidity risk began to be monitored regularly using defined metrics. Under the contingency plan within the intraday liquidity risk procedure approved by the Risk Management Committee, situations anticipating intraday liquidity stress, which could activate the contingency plan, are monitored and stress testing is performed for intraday liquidity risk. Within the "internal capital adequacy assessment process" ("ICAAP"), liquidity planning is performed annually. Stress test results for subsidiaries are monitored and the Bank monitors that its subsidiaries for which liquidity risk is applicable establish and monitor internal liquidity and funding limits to assess the robustness of their liquidity and funding structures and have liquidity and funding risk policies (including a liquidity contingency plan) approved by their respective boards of directors.

Credit Risk Management

Credit risk management, which involves a process of consistently evaluating and monitoring credit risk, and covers all of the Bank's credit portfolios. The adequacy of the Bank's internal capital is evaluated with stress tests and scenario analyses, which (including in reports to the Bank's management) are compared to their historic performance.

Within the scope of ICAAP and stress testing, the internal capital for credit risk, credit concentration risk calculations, stress tests and scenario analyses are evaluated on an annual basis. All credit units are coordinated to assess their compliance with internal credit requirements, which assessment is then reported to the relevant committees for their analysis and action.

Under the asset allocation performed annually in view of risk-based return, nominal limits are determined for credit portfolios, for which approval of the Board is required. Internal capital thresholds and risk-adjusted return targets for the entire portfolio are determined and monitored within the framework of asset allocation limits. Impact analyses are performed according to updated or renewed risk parameters and necessary documents are presented to the relevant committees from whom approval is required. In addition, development and improvement projects are carried out for the systemic automation of calculations and analyses.

In order to rate customers in the loan portfolios using objective criteria, outputs from scorecard models and internal risk rating models, which were developed using statistical methods on historical data, are incorporated into the relevant lending policies and procedures of the Bank. The probability of default calculated by models for loan portfolios, loss given default, credit conversion factors and other parameters are used for credit allocation authorisations, internal capital allocation, risk appetite indicators, asset allocation limits, risk-based profitability calculations, budgeting, concentration risk calculations and stress tests. In TFRS 9, the output of the internal credit decision systems as specified above (*i.e.*, the internal risk rating models, retail application and behavioural scorecards) are, together with other important explanatory variables, used as risk drivers to determine the final score category and the corresponding probability of default, which is used in the calculation of expected credit loss.

All of the methods and methodologies for credit risk management are subjected to qualitative and quantitative validation, and periodic monitoring of the models' performance is undertaken in order to determine whether any revisions are needed.

Operational Risk Management

Operational risk is managed on the basis of the three lines of defence approach within the framework of risk management policies approved by the Board. The Board determines the risk appetite for operational risk and related limits and the Bank's senior management ensures consistent and efficient implementation and maintenance of the operational risk management framework in relation to all activities, processes and products.

In the first line of the three lines of defence approach adopted for operational risk management, all business lines and departments of the Bank take part and manage their operational risks within the framework of the Bank's policies and implementation principles. The second line of the three lines of defence approach adopted for operational risk management supports the Bank's senior management for understanding and managing the operational risks that the Bank is exposed to and the Board's monitoring of operational risk management activities. This second line of defence consists of the Internal Control Unit, Risk Management and Compliance Department, which are independent units that report directly to the Board. In addition, units that have responsibility for factors that have a potential direct and/or indirect impact upon the Bank's general operational risk level (*e.g.*, the Financial Reporting and Accounting Department and the Anti-Fraud Monitoring Department) provide support, to the extent necessary and appropriate, to the management of operational risks that other units are exposed to in accordance with Article 26 of the Operational Risk Management Guide published by the BRSA. The risk management that takes place in the second line of defence designs measurement and assessment tools (*e.g.*, loss data, scenario analyses, risk indicators and self-assessment and a new product approval process) as part of operational risk measurement and management and provides the necessary guidance and coordination for their use. The Risk Management Department uses the data obtained by measurement tools to generate reports for the Bank's management and the Board. The Internal Audit Department, which performs internal audit activities, is the final line in the three lines of defence approach for operational risk management. The Internal Audit Department independently reviews all aspects of the operational risk management framework.

Reputational Risk Management

The Bank identifies, evaluates and manages its reputational risk, seeking to avoid transactions and activities that might cause reputational risk in the view of the Bank's customers, legal authorities and other stakeholders. Training of employees is held with the aim of raising awareness about reputational risk throughout the Bank and encouraging all employees to fulfil their applicable duties and responsibilities. In order to ensure efficient management of reputational risk throughout the Bank, the Bank monitors the Bank's reputation and seeks to protect its reputational risk through a methodical approach, taking necessary precautions before reputational risk occurs.

This methodical approach includes regularly reviewing and updating its map of reputational risks that it faces and the set of action plans to mitigate these risks. The Bank defines key risk indicators for each risk factor in order to monitor the strength of the risk mitigation procedures, including identifying the risks and risk factors from various perspectives, including customer-centeredness, workplace, ethics and citizenship, finances and leadership. Efforts carried out to this end include: (a) monitoring the media, the press and social media platforms with respect to the Bank's reputation, conducting a regular reputation analysis and managing potential impacts, (b) ensuring continued

awareness of compliance with laws, corporate standards, codes of conduct and best practices and (c) developing of processes that support the management of IT/information security and IT-related risks.

Counterparty Credit Risk

The counterparty credit risk strategy, policy and implementation principles are defined in a policy document approved by the Board. The Bank measures, monitors and creates limits for this risk in line with this policy. The Bank uses the “internal model method” to measure and report its counterparty credit risk for derivative transactions, repurchase transactions and security and commodity lending and uses the “current exposure method” for regulatory purposes. Within this scope, the Bank employs risk mitigation techniques through its framework agreements (*e.g.*, ISDA, CSA and GMRA), obtaining collateral and complementing margins as part of counterparty credit risk management to the extent allowed by national and international law. This model is validated annually. The Bank also calculates economic capital for counterparty credit risk by way of a model that uses parameters (*e.g.*, ratings, probability of default and loss given default) based upon an internal model.

Country Risk Management

Under the country risk policy approved by the Board, methods compliant with international norms and local law are employed to evaluate and monitor developments in country risk on the basis of individual countries. Actions are taken to make sure that the Bank’s country risk exposure remains within the set limits, and related reporting, control and audit systems are established as necessary.

Concentration Risk Management

The Bank defines and monitors any concentrations among different types of risks or in any individual risk that might result in material losses that would endanger the Bank’s ability to sustain fundamental activities or financial structure or lead to a significant change in the Bank’s risk profile, within the framework of the policy approved by the Board. Qualitative and quantitative assessments of concentrations on the basis of individual risks or among risks are addressed in reports produced according to risk-oriented policies and procedures.

Risk Management in Subsidiaries

The Bank determines the needs for risk management of entities that consolidate into it and (in coordination with the risk management personnel in these entities) ensures that required studies and reports with the scale appropriate for their structure, complexity, size and risks are effectively managed. Required studies are carried out with these entities in accordance with market conditions and legal regulations to align risk management policies, rules, procedures and risk limits with those of the Bank. These risk management activities are monitored periodically.

MANAGEMENT

Board of Directors

The Bank's board of directors (the "*Board*") meets regularly and, with the guidance of the Bank's senior management, is instrumental in planning the medium-and long-term strategy of the Group. The Board makes all major management decisions affecting the Bank. The Board acts as a supervisory body for the Bank's activities and determines the code of ethics and business conduct of the Bank.

Pursuant to the Bank's articles of association, the General Assembly of the Bank's shareholders sets the number of members on the Board, which should consist of at least seven members in addition to the CEO. The most recent General Assembly (which was held on 4 April 2019) increased the number of board members from ten to 11 (including the CEO). One of the board members who was previously elected as an independent board member and whose term of independent membership has expired was appointed to the newly constituted Board. A new independent board member was appointed to the available independent board membership position, increasing the number of women on the Board to two.

Each member has a right of one vote and it is not permissible that a member vote on behalf of another member by proxy. The members of the Board are appointed for a period of three years and may be re-elected. The members of the Board may not participate in discussions relating to or vote for personal matters or any matter concerning interests of relatives such as their spouses and children.

Corporate Governance Communiqué

On 3 January 2014, the CMB issued Communiqué No. II-17.1 on Corporate Governance (as amended, 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. The Corporate Governance Communiqué also contains principles relating to: (a) companies' shareholders, (b) public disclosure and transparency, (c) the stakeholders of companies and (d) the Board. A number of principles are compulsory, while the remaining principles apply on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalisation and the market value of their free float shares, subject to recalculation on an annual basis. The Bank is classified as a "Tier 1" company, thus requiring it to comply with the most stringent set of requirements. The Bank is also subject to corporate governance principles stated in banking regulations and in regulations for capital markets that are applicable to banks.

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, including the Bank. The Bank is required to state in its annual activity report whether it is in compliance with the principles applicable to it under the Corporate Governance Communiqué. In case of any non-compliance, explanations regarding such non-compliance are also to be included in such report. As of the date of this Base Prospectus, the Bank complies with the mandatory principles under the Corporate Governance Communiqué.

The Capital Markets Law authorises the CMB to require listed companies to comply with the corporate governance principles in whole or in part and to take certain measures with a view to monitor compliance with the new principles, which include requesting injunctions from the court or filing lawsuits to determine or to revoke any unlawful transactions or actions that contradict these principles.

Members of the Board

The directors of the Bank (the “*Directors*”) are the following:

Director	Year First Appointed	Current End of Term
Süleyman Sözen (Chairman)	1997 (Chairman since 2017)	March 2021
Jorge Sáenz Azcúnaga Carranza (Vice Chairman)	2016	March 2021
Ali Fuat Erbil	2015	March 2021
Sait Ergun Özen	2003	March 2021
Cüneyt Sezgin, PhD	2004	March 2021
Rafael Salinas Martinez de Lecea	2017	March 2021
Javier Bernal Dionis	2015	March 2021
Belkis Sema Yurdum	2013	March 2021
Jaime Saenz de Tejada Pulido	2014	March 2021
Ricardo Gomez Barredo	2017	March 2021
Mevhibe Canan Özsoy	2019	March 2021

Additional information on each of the Directors is set forth below:

Süleyman Sözen (Chairman)

Mr. Sözen is a graduate of Ankara University’s Faculty of Political Sciences and worked as a Chief Auditor at the Turkish Ministry of Finance and the Turkish Treasury. Since 1981, he has served in various positions in the private sector, mainly in financial institutions. Having served on the Board since 1997, Mr. Sözen was appointed as the Vice Chairman on 8 July 2003. Mr. Sözen holds a Certified Public Accountant licence and serves as the Chairman of the board of directors at Garanti Bank Moscow. Mr. Sözen also serves as a board member of Gürel İlaç and Görüş YMM and is the Chairman and the Vice Chairman at various other affiliates of Doğu Holding. Mr. Sözen has 35 years of experience in banking and business administration.

Jorge Sáenz-Azcúnaga (Vice Chairman)

Jorge Sáenz-Azcúnaga earned a BS in Business Administration from Universidad Deusto. He has devoted his entire career to BBVA, starting as a Research Analyst. He then worked as a Corporate Strategist, Head of CEO Office, Business Development (Commercial & Institutional Banking in Spain), Head of Strategy (Wholesale Banking & Asset Management), Head of Strategy and Planning (Spain & Portugal) and, between 2013 and 2015, as a Regional Manager for the north of Spain. As of 2015, he serves as the Head of Business Monitoring Spain, USA and Turkey and as a member of the board of directors of BBVA Compass in the U.S. As of 24 March 2016, he was appointed as a Board member. Since he has been a member of the Bank’s Audit Committee since 31 March 2016, he is considered to be an independent Board member, in accordance with the relevant regulations of the CMB. Mr. Sáenz-Azcúnaga has 24 years of experience in banking and business administration.

Ali Fuat Erbil, PhD (CEO)

Mr. Erbil graduated from the Middle East Technical University’s Computer Engineering Department. He obtained an MBA from Bilkent University and a PhD in Banking and Finance from İstanbul Technical University. After working as an executive at various private companies and banks, he joined the Bank in 1997 as the Senior Vice President of the Distribution Channels Department. Mr. Erbil was appointed as an Executive Vice President in April 1999, responsible for Retail Banking, Corporate Banking, Investment Banking, Financial Institutions and Human Resources departments. Since September 2015, Mr. Erbil has been serving as the President and CEO of the Bank and he is also the Chairman of Garanti Securities, Garanti Pension and Life, Garanti Factoring, Garanti Leasing, GPS and Garanti Technology. Mr. Erbil also serves as a board member at the Banks Association of Turkey.

Sait Ergun Özen

Mr. Sait Ergun Özen earned a Bachelor’s degree in Economics from State University of New York and is a graduate of the Advanced Management Programme at Harvard Business School. He started his banking career in 1987 at a private bank’s treasury department and joined the Bank in 1992. Mr. Özen served as the President and CEO of the Bank between April 2000 and September 2015. Since April 2000, he has been a Board member. Mr. Özen is also a board member at Garanti Securities, the Deputy Chairman of the board of directors at Garanti Bank Moscow and the Chairman of the board of directors at Garanti Romania. In addition, Mr. Özen serves as a board member of the İstanbul

Foundation for Culture and Arts (İKSV) and the Turkish Industrialists' and Businessmen's Association (TÜSİAD), and is a board member of the Trustees of the Turkish Education Association.

Cüneyt Sezgin, PhD

Mr. Sezgin received a Bachelor of Arts degree from the Middle East Technical University's Department of Business Administration, an MBA from Western Michigan University and a PhD from İstanbul University's Faculty of Economics. He has served in executive positions at several private banks and joined the Bank in 2001. Mr. Sezgin is a board member at Garanti Romania, Garanti Pension and Life, Garanti Securities and the Corporate Volunteer Association Turkey. Mr. Sezgin has been serving as a Board member since June 2004 and has been an independent Board member since April 2013. He has been serving as the Chairman of the Bank's Audit Committee.

Belkis Sema Yurdum

Ms. Sema Yurdum graduated from Boğaziçi University, Faculty of Administrative Sciences in 1979 and completed the Advanced Management Programme in Harvard Business School for senior managers in 2000. After working in a private sector company as an expert in human resources, she had a career in the banking sector from 1980 through 2005. She worked as an Executive Vice President of the Bank and held audit committee membership in various of its subsidiaries between 1992 and 2005. Since 2006, Ms. Yurdum has been engaged in senior consultancy services for various companies. She has been serving as an independent Board member since 30 April 2013.

Jaime Saenz de Tejada Pulido

Mr. Jaime Saenz de Tejada Pulido holds undergraduate degrees from Universidad Pontificia Comillas (ICADE) in both Law and Economics and Business. Mr. Saenz de Tejada Pulido joined BBVA in 1992 and is currently the CFO at BBVA Group. He has also been serving as a Board member since October 2014.

Rafael Salinas Martinez de Lecea

Mr. Salinas Martinez de Lecea graduated with a degree in economics and business management from Universidad de Alicante, later obtaining further studies at the Centro de Estudios Monetarios y Financieros del Banco de España (CEMFI), the London School of Economics (a masters degree in econometrics and mathematical economics) and the University of Chicago (a master in business administration). After beginning his career, Mr. Salinas Martinez de Lecea joined the BBVA Group in 1991, becoming Director of Derivative Products at BBV interactivos, S.V.B. This role was followed by serving as the Head of Assets and Liabilities at BBVA from 1998 to 2000, the Head of Capital Base Management at BBVA from 2000 to 2003, the CFO at BBVA subsidiary Banco de Crédito Local de España from 2003 to 2005 and Head of Risk & Portfolio Management at BBVA from 2006 to 2015. In 2015, he was appointed to his current role as Global Head of Global Risk Management for BBVA. He joined the Bank's Board in 2017.

Javier Bernal Dionis

Mr. Javier Bernal Dionis has a law degree from University of Barcelona (Spain) and an MBA from IESE Business School (University of Navarra, Spain). After working in Barna Consulting Group (Barcelona) as a Partner and in Promarsa (New York, USA) as General Manager, he joined BBVA in 1996. Until 1999, Mr. Bernal Dionis was the BBVA Segment Manager of Retail Banking (Spain). From 2000 to 2003, Mr. Bernal Dionis worked independently and founded an internet portal. Since 2003, Mr. Bernal Dionis has worked in a number of different departments in BBVA: Head of Innovation and Business Development, reporting to the CEO between 2004 and 2005; Head of Business Development (Spain & Portugal) between 2006 and 2010; Head of Commercial & Retail Banking under Global Retail and Banking Business from 2011 to 2014; and Head of Business Alignment between BBVA and the Bank from 2014 to 2015. He was also a member of the BBVA Group Executive Committee between 2006 and 2010 and the Spanish and Portugal Executive Committee between 2010 and 2011. He has been serving as a Board member since July 2015 and a board member at each of Garanti Pension and Life, Garanti Bank Moscow, Garanti Bank Romania, Garanti Leasing, Garanti Securities and Garanti Payment Systems. Mr. Bernal is responsible for the coordination between BBVA and the Bank.

Ricardo Gomez Barredo

Mr. Gomez Barredo earned a degree in economics and business management from Universidad Autónoma de Madrid and undertook further studies at ICADE at Universidad Pontificia Comillas (a master in tax advice) and the IESE Business School. Mr. Gomez Barredo worked in the tax and legal department at PriceWaterhouse from 1988 to 2003 and as the Head of Tax Consultancy at Industria Española del Aluminio, S.A. from 1993 to 1994. In 1994,

Mr. Gomez Barredo joined the BBVA Group, working in various tax roles before becoming a Deputy Director of Tax Consulting at BBVA in 2000. He was appointed as the Head of Financial Analysis and Planning at BBVA in 2003 and then became the Head of Financial Planning and Management Control at BBVA in 2007. In 2011, Mr. Gomez Barredo was appointed to his current position of Head of Global Accounting and Information Management at BBVA. He joined the Bank's Board in 2017.

Mevhibe Canan Özsoy

Ms. Canan Özsoy graduated from İstanbul University with a Bachelor's degree in dental medicine in 1985, obtained a masters degree in Dental Medicine at the same university in 1987, earned an MBA from Bogazici University in 1994 and then obtained an energy technologies masters degree at Sabancı University in 2015. Before joining the pharmaceutical industry in 1990, Ms. Özsoy had a career as a dentist. She has occupied sales and marketing and commercial leadership positions in Hoechst Marion Roussel, Glaxo Wellcome and Sanofi Aventis group companies, each of which operate in the pharmaceutical industry. She was appointed as Vice President in charge of Marketing International in 2007 at General Electric Healthcare, Paris and was then assigned as Chief Marketing Officer at General Electric Healthcare, USA in 2009. She returned to Paris as General Manager of Global Mammography in 2011 and led the mammography business field of General Electric. Ms. Özsoy was appointed as the Chairman and Chief Executive Officer at General Elektrik Ticaret ve Servis A.Ş. in 2012. In addition, she serves as the Chief Growth Officer in charge of Middle-East, North Africa and Turkey since 2017 for General Electric. She is also a board member of Grid Solutions Enerji Endustrisi A.Ş., GE Enerji Endustrisi Ticaret ve Servis A.Ş., Komet Enerji Sanayi ve Ticaret A.Ş., GE Renewable Enerji A.Ş., TUSAŞ Motor Sanayii A.Ş., Artesis Teknoloji Sistemleri A.Ş., Sağlık ve Eğitim Vakfı (SEV) and Amerikan Şirketler Derneği.

The Executives

In addition to the Bank's CEO, Ali Fuat Erbil, the Bank's senior executives (the "Executives") as of the date of this Base Prospectus include the following:

Executive	Title	Responsibility	Year Joined Bank
Mahmut Akten	Executive Vice President	Retail Banking	2012
Didem Dinçer Başer	Executive Vice President	Digital Banking	2005
Aydın Düren	Executive Vice President	Legal Services	2009
B. Ebru Edin	Executive Vice President	Corporate and Investment Banking	1997
İlker Kuruöz	Executive Vice President	Engineering Services and Data	2018
Cemal Onaran	Executive Vice President	SME Banking	2007
Osman Tüzün	Executive Vice President	Human Resources, Customer Satisfaction and Support Services	1999
Aydın Güler	Executive Vice President	Finance and Accounting	1990
Selahattin Güldü	Executive Vice President	Commercial Banking	1990
Ali Temel	Executive Vice President	Chief Credit Risk Officer	2016

Additional information on each of the Executives is set forth below.

Mahmut Akten

Mr. Akten holds an undergraduate degree from Boğaziçi University's Electrical and Electronics Engineering department and a graduate degree from Carnegie Mellon University in Business Administration. Mr. Akten started his career in 1999 in the United States, and after serving in various positions in the finance and treasury departments of a global construction materials company, he joined a global management consulting firm in 2006. Mr. Akten worked in the Boston and İstanbul offices of such firm between the years 2006 and 2012, lastly as an Associate Partner. Mr. Akten joined the Bank on 1 July 2012 as the Senior Vice President responsible for Mass Retail Banking Marketing. As of 1 January 2017, Mr. Akten was appointed as the Executive Vice President responsible for Retail Banking and he is a Board Member of Garanti Technology. Mr. Akten's areas of responsibility are Retail Banking Marketing, Mass Retail Banking Marketing and Affluent Banking Marketing.

Didem Dinçer Başer

Ms. Başer graduated from Boğaziçi University's Department of Civil Engineering and earned her graduate degree from the University of California, Berkeley College of Engineering. She started her career in 2005 and worked for a global management consulting firm for seven years and left the firm as an Associate Partner. Ms. Başer joined the

Bank in 2005 and worked as the Coordinator of the Retail Banking Business Line during her first seven years. She was appointed as the Executive Vice President of Digital Banking in 2012 and has also been a board member of Garanti Pension and Life. Ms. Bařer is responsible for the management of digital banking and social platforms.

Aydın Dören

Mr. Dören graduated from İstanbul University's Faculty of Law and earned his graduate degree in International Law from the American University's Washington College of Law. After serving as an associate, partner and the managing partner for over 18 years at international law firms in New York, London and İstanbul, Mr. Dören joined the Bank on 1 February 2009 as the Executive Vice President in charge of legal affairs. Mr. Dören is a board member of GPS, the Teachers Academy Foundation, Garanti Mortgage and Vice President of the Fund. Since June 2015, Mr. Dören is also the Corporate Secretary of the Bank. Mr. Dören is responsible for legal advisory services, legal collections, litigation, GPC's legal services and legal operations.

B. Ebru Edin

Mrs. Edin graduated from Boğaziçi University's Department of Civil Engineering. Mrs. Edin started her career in the banking sector in 1993. She joined the Bank's Corporate Banking division in 1997. In 1999, she was part of the team that established the Bank's Project Finance Department. Leading the department for six years as Senior Vice President, she became the Project and Acquisition Finance Coordinator in 2006. She was appointed to her current position in November 2009. In 2010, she became a member of the Sustainability Committee and, as of the date of this Base Prospectus, coordinates the Sustainability team, which was created in 2012 to implement the decisions of the Sustainability Committee. Ms. Edin is the Vice President of the Sustainable Development Association and an Associate Member of the Teachers Academy Foundation. Ms. Edin is responsible for corporate and investment banking.

İlker Kuruöz

Mr. İlker Kuruöz graduated from the Computer Engineering Department of Bilkent University and received an MBA degree from Bilkent University. Starting his career in 1994, he worked at two private companies prior to joining the Group in 1996 as the Senior Vice President of Garanti Technology, where he served until 2006. From 2006 to 2016, he held an executive position in a private company. In 2016, he was appointed as the CEO of Doğuş Bilgi İşlem ve Teknoloji Hizmetleri A.Ş. In 2018, Mr. Kuruöz joined the Bank as the Executive Vice President in charge of Engineering Services and Data.

Cemal Onaran

Mr. Onaran holds an undergraduate degree from Middle East Technical University's Public Administration department and started his career as an Assistant Auditor in the Bank's Audit Committee. Mr. Onaran worked as the Regional Manager in various regions of the Bank in İstanbul between the years 2000 and 2007. After the establishment of Garanti Mortgage in October 2007, Mr. Onaran was appointed as the General Manager of Garanti Mortgage. Mr. Onaran has served as the General Manager of Garanti Pension and Life since 1 August 2012 and was appointed as the Executive Vice President of the Bank in charge of SME Banking as of 1 January 2017.

Osman Tüzün

Mr. Osman Tüzün graduated from the Computer Engineering Department of Middle East Technical University and received his MBA degree from Bilkent University. He started his banking career in 1992 and served at various branches and head office departments for seven years. Mr. Tüzün joined the Bank in 1999 as the Senior Vice President responsible for Branchless Banking. He served as the Senior Vice President of Retail Banking between 2000 to 2005 and was the CEO at a private sector company between 2005 and 2008. In 2008, Mr. Tüzün returned to the Bank as the Coordinator responsible for Human Resources, and in August 2015 he was appointed as an Executive Vice President. Mr. Tüzün is the Chairman of the board of directors of the Fund. Mr. Tüzün is responsible for human resources, learning and development, construction, purchasing and real estate.

Aydın Güler

Mr. Aydın Güler graduated from İstanbul Technical University's Department of Mechanical Engineering and joined the Bank's Fund Management Department in 1990. After working at different Head Office departments for 10 years, he was appointed as the Senior Vice President responsible for Risk Management and Management Reporting in 2000. Between the years 2001 and 2013, Mr. Güler served as the Senior Vice President responsible for Financial Planning and Analysis and was appointed as the Coordinator of the same department in 2013. In December 2015,

Mr. Güler was appointed as the Executive Vice President in charge of Finance and Accounting and he is a board member at the Fund. Mr. Güler is responsible for assets and liabilities management, financial planning and analysis, investor relations, general accounting, consolidation and international accounting, management of tax operations and coordination with the BBVA.

Selahattin Güldü

Mr. Selahattin Güldü graduated from Middle East Technical University's Public Administration Department. He started his career in 1990 at the Bank. Starting his career in Internal Audit, he was appointed as a Branch Manager in 1997 and then worked as the Regional Manager in various regions of the Bank in İstanbul between 1999 and 2018. In April 2018, Mr. Güldü was appointed as the Executive Vice President responsible for Commercial Banking.

Ali Temel

Mr. Ali Temel earned his undergraduate degree from Boğaziçi University's Department of Electrical and Electronic Engineering and started his carrier in the banking sector in 1990 at a private bank. Mr. Temel joined the Bank in 1997 and, after working as the Senior Vice President in charge of Cash Management and Commercial Banking departments, he served as the Executive Vice President responsible for Commercial Banking between 1999 and 2001 and the Executive Vice President responsible for Loans between 2001 and 2012. On 10 December 2015, Mr. Temel was appointed as the Chief Credit Risk Officer. Mr. Temel is responsible for wholesale risk, retail risk, risk planning, monitoring and reporting, risk analytics, technology and innovation and regional loans coordination.

Conflicts of Interest

Except as described in the following sentence, there are no actual or potential conflicts of interest between the duties of any of the Directors and any of the Executives and their respective private interests or other duties. A number of Directors also currently hold management positions at BBVA. As such, there may be a conflict of interest between the Directors' respective duties to the Bank and any duties they may owe to BBVA.

Address

The business address of the Bank's executive management and the Board is the Bank's headquarters at Nispetiye Mahallesi, Aytar Caddesi No: 2 Levent, Beşiktaş 34340, İstanbul, Turkey. The Bank's telephone number is +90 212 318 1818.

Corporate Governance, Risk and Other Committees

There are a number of committees set up at the Bank to fulfill the supervisory function. The Board oversees and audits the entire Bank via the Credit Committee, Audit Committee, Corporate Governance Committee, Remuneration Committee and Risk Committee. In addition to these, there are committees whose members are composed of the Bank's executives (*e.g.*, the Employee Committee, Customer Committee, Garanti Assets & Liabilities Committee, Weekly Review Committee, Cost Management and Efficiency Committee, Sustainability Committee, Consumer Committee, Integrity Committee, Volcker Rule Oversight Committee, New Business and Product Committee, Corporate Assurance Committee, Responsible Business Committee, Innovation Committee, IT Strategy Committee, Personnel Committee, Risk Management Committee, Information Security Committee, Disciplinary Committee, Wholesale Credit Risk Committee, Credit Admission Committee, Retail Credit Risk Committee, Risk Technology and Analytics Committee, Local Benefits Committee, IT Risk Committee, Credit Cards and Member Merchants' Pricing Committee and Data Security and Protection Steering Committee).

Certain information relating to some of these committees is set out below.

Credit Committee

In accordance with the Banking Law, the Board has delegated a certain amount of its loan allocation authority to the Bank's Credit Committee. The Credit Committee holds weekly meetings to review loan proposals sent by the branches to the head office that exceed the head office's loan authorisation limit. The Credit Committee reviews these loan proposals and decides on those that are within its authorisation limits, and submits those others it deems appropriate but are outside of its authorised limits to the Board for finalisation.

Audit Committee

The Audit Committee was set up to assist the Board in the performance of its audit and supervision functions. The Audit Committee is responsible for:

- monitoring the effectiveness and adequacy of the Bank's internal control, risk management and internal audit systems, and overseeing the operation of these systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information,
- conducting necessary preliminary evaluations for the selection of independent audit firms, appraisal and support services providers, and regularly monitoring the activities of these firms,
- ensuring that the internal audit functions of consolidated entities are performed in a consolidated and coordinated manner,
- developing the audit and control processes in order to ensure ICAAP adequacy and accuracy, and
- monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

Corporate Governance Committee

The Corporate Governance Committee is responsible for monitoring the Bank's compliance with corporate governance principles, undertaking improvement efforts, nominating the independent members of the Board and offering suggestions regarding the nominees to the Board. Within the framework of the Corporate Governance Communiqué, the Corporate Governance Committee:

- monitors whether corporate governance principles are implemented at the Bank, determines the grounds for non-implementation, if applicable, as well as any potential conflicts of interest arising from failure to fully comply with these principles, and presents suggestions to the Board for the improvement of corporate governance practices,
- oversees the activities of the Investor Relations Department,
- evaluates the proposed nominees for independent Board membership, including those nominated by management and investors, considering whether the nominees fulfil the independence criteria and presents its assessment report to the Board for approval,
- makes an assessment for election of independent members to the seats vacated due to a situation that eradicates independence and the resignation of a Board member who loses his independence, so as to re-establish the minimum number of independent Board members through temporarily elected members who will serve until the immediately following General Assembly Meeting to be held, and presents its written assessment to the Board,
- works to create a transparent system for the identification, evaluation and training of nominees who are appropriate for the Board and managerial positions with administrative responsibility, and to determine related policies and strategies, and
- makes regular assessments about the structure and efficiency of the Board and presents suggested changes to the Board.

Remuneration Committee

The Remuneration Committee's responsibilities are as follows:

- conducting the oversight and supervision process required to ensure that the Bank's remuneration policy and practices comply with applicable laws and risk management principles,
- reviewing, at least once a year, the Bank's remuneration policy in order to ensure compliance with applicable laws in Turkey, or with market practices, and updating the policy, if necessary,

- presenting, at least once a year, a report including the findings and proposed action plans to the Board,
- determining and approving salary packages for executive and non-executive members of the Board, the CEO and Executive Vice Presidents, and
- monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

Risk Committee

The Risk Committee is responsible for:

- monitoring and overseeing the strategy and general risk policies of the Bank and reviewing the risk appetite declaration and core metrics, risk tolerance levels, limit structure and metrics, in each case taking into consideration the strength of the Bank's capital and the overall quality of risk management, measurement and reporting,
- reviewing and approving, as appropriate, the corporate risk policies for each risk type and the yearly limits for each risk typend business area with the level of detail that is deemed appropriate at the time,
- reviewing and approving, as appropriate, measures to mitigate the impact of identified risks,
- monitoring the evolution of the Bank's global risk profile and risk exposure by type of risk, business line, product or customer segment, and how these compare to the Bank's risk strategy, policies and risk appetite,
- assessing the adequacy of the risk information and risk internal control systems in the Bank to provide for the appropriate functioning of risk management as well as the suitability of the structure and process of risk management within the Bank,
- monitoring that the pricing of investment and deposit products offered to clients adequately take into consideration the Bank's business model and risk strategy, and implementing a remediation plan should it be necessary,
- verifying that necessary actions are taken to ensure the availability of adequate systems, staffing and general resources are in place for managing the Bank's risks,
- analysing and assessing the quality of the Bank's asset valuation, asset classification and risk estimation procedures,
- promoting the continuous development and improvement of advanced risk management models and practices within the Bank, while closely monitoring requirements and recommendations of regulators and supervisors, and
- receiving and reviewing reports on capital planning and capital adequacy and providing an effective review of the Bank's enterprise risk management and capital planning processes.

Employee Committee

The Employee Committee is responsible for determining the Bank's human resources policies and carrying out and coordinating activities in order to improve employee engagement and satisfaction, monitoring results and developing action plans when needed. With the support of the Bank's management, the committee also aims to promote learning in order to enhance the Bank's development and tracks the impact of training on the Bank's business.

Customer Committee

The Customer Committee is responsible for developing the Bank's customer experience strategies. The committee is also responsible for implementing and monitoring the Bank's efforts that aim to enhance customer experience at every touch point and seeks to improve customer satisfaction scores. The committee monitors the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

Garanti Assets & Liabilities Committee

The main goal of the Garanti Assets & Liabilities Committee (*i.e.*, ALCO) is to assist the CEO with decision-making processes concerning assets and liabilities management (including liquidity and funding, interest rates and exchange rates) and capital. The ALCO is structured around the following objectives:

- coordinate and review the implementation of policies for managing the sources and uses of funds that should provide an appropriate level of profitability consistent with the planned growth within acceptable levels of risk,
- monitor and analyse profitability and net interest income,
- allow senior management to thoroughly understand, efficiently develop and refine the Bank's ALM and capital policies by assisting them in overseeing and supervising the management activities of the Finance Department,
- follow-up limits to control balance sheet and capital risks, as well as risk profiles defined by the Board,
- assess the status of financial markets and macroeconomic variables,
- monitor that individual business lines are aligned in terms of overall objectives and proactively controlled, with regard to prudential risks under the ALM and capital function control,
- review and assess the impact of changes in market and other variables on the Bank's ALM risk and capital profile,
- evaluate strategies presented by the Finance Department and review the execution of previously approved actions,
- monitor regulatory capital-adjusted profitability measures,
- challenge and regularly monitor medium-term capital and liquidity plans for base scenarios and adverse or severely adverse scenarios,
- analyse extraordinary liquidity and funding situations that require the ALCO to be summoned (if deemed appropriate, the ALCO will activate the Bank's liquidity contingency plan. The liquidity contingency plan activation will be notified to the Corporate Asset Liability Committee),
- approve the procedure for the Bank's hedge accounting transactions process,
- approve the Bank's funds transfer pricing methodology,
- approve the Bank's assumptions, methodology and structural risk measurement techniques,
- approve internal framework documents for the Bank's ALM and capital management, and
- monitor the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and take action to keep them up-to-date.

Weekly Review Committee

The Weekly Review Committee is charged with managing the assets and liabilities of the Bank. Its objective is to assess interest rate, exchange rate, liquidity and market risks. Based upon these assessments and taking into account the Bank's strategies and competitive conditions, the committee adopts the decisions to be executed by the relevant units of the Bank in relation to the management of the Bank's balance sheet and monitors their implementation.

Cost Management and Efficiency Committee

The objective of the Cost Management Committee is to support the Board in controlling costs within the context of real revenue performance (operating efficiency) and securing savings by optimising budget implementations over the course of the year. The committee is also responsible for:

- identifying areas in which operational efficiencies can be achieved and providing a platform to discuss potential improvements,
- informing committee members about cost developments in the future and evaluating saving suggestions,
- providing a platform to discuss and make decisions related to new ideas and alternatives about efficient cost management, in each case taking into consideration the Bank's strategies,
- approving expense or investment projects and proposals received from the Bank's units within the established limits of delegation,
- clarifying the corresponding budget allocations,
- ensuring local or regional implementation of corporate models, standards and specifications, and
- monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

Sustainability Committee

The Sustainability Committee is responsible for:

- overseeing the efforts for assessing potential risks resulting from the Bank's energy consumption, waste management, etc. and its direct impact upon the environment,
- supervising the efforts for assessing potential risks arising from indirect environmental, social and economic impact resulting from financed projects and other loans, and providing necessary opinions to relevant decision-making parties,
- monitoring efforts for management of risks in environmental, social and governance area with a potential negative impact on the Bank's reputation and operations,
- ensuring conformity of all decisions made and all projects carried out within the framework of the sustainability structure created within the Bank with other policies and related regulations of the Bank,
- managing the efforts to allow the Bank to offer products and services that support sustainable development,
- supervising the efficiency of sustainability efforts,
- providing information to the Board on the committee's activities when needed, and
- monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

Consumer Committee

The Consumer Committee works to ensure that matters and practices regarding retail products and services that might lead to risks and/or dissatisfaction on the part of consumers and/or applicable regulations are addressed and considered and that necessary actions for their improvements are planned. The committee is responsible for:

- providing information on findings referred to the committee by the Internal Audit Department and the Internal Control and Compliance units, and developing actions for those findings as deemed necessary,
- providing information on improvement areas resulting from analyses based upon customer notifications (*e.g.*, complaints and objections) and developing actions for those as deemed necessary, and
- monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

Integrity Committee

The main objective of the Integrity Committee is to contribute to preserve the corporate ethical integrity of the Bank. The primary function of the committee is to provide for the implementation of the Bank's code of ethics within the framework of the following responsibilities:

- encouraging and monitoring efforts for creating a shared culture of integrity within the Bank,
- making sure the Bank's code of conduct is implemented homogeneously across the Bank and, in this context, formulating and disseminating descriptive notes when needed,
- implementing exclusion criteria with regard to compliance with certain provisions of the Bank's code of conduct,
- notifying to the Disciplinary Committee matters deemed to be in contradiction to the Bank's disciplinary rules and obtaining information regarding the ongoing examinations, procedures and actions taken in response thereto,
- reporting any incidents and circumstances that might pose a material risk to the Bank to top management or the individual in charge of preparing the financial statements accurately,
- following up on actions agreed upon during the committee's meetings,
- encouraging adoption of necessary measures for handling suggestions regarding compliance with the Bank's code of conduct, implementation of the code of conduct and assessing ethically questionable behaviours,
- promoting and monitoring the efficient operation of the complaint channel and taking measures for necessary improvements where appropriate, and
- monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

Volcker Rule Oversight Committee

The Volcker Rule Oversight Committee is an internal body established under the provisions of the Volcker Rule Compliance Programme that has been approved by the Board. This committee was formed to evaluate the conformity of the Bank's and its subsidiaries' activities, and of the compliance programme, to the "Volcker Rule" and to supervise the effectiveness of the compliance programme. The Volcker Rule Oversight Committee's main roles and responsibilities are to:

- establish a sufficient Volcker Rule-compliance culture across the Bank,
- evaluate the conformity of the Volcker Rule Compliance Programme to the Volcker Rule,
- assess declarations of compliance received from the Bank's subsidiaries, evaluate conformity of the Bank's operations to the Volcker Rule, make decisions on this subject and communicate these decisions to the related committee of the BBVA Group,
- resolve any Volcker Rule-related issues that are submitted to the committee's agenda, and
- monitor the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

New Business and Product Committee

The purpose of the New Business and Product Committee is to review all new business, products and services as well as evaluate the ability of the Bank's business units and subsidiaries (or third parties) in offering, servicing or administering the various aspects of a new business, product or service. The committee's responsibilities are to:

- evaluate the fitness of all proposed new businesses, products and services into the Bank's strategy and target risk profile, approve or reject these proposals in accordance with the New Business Product Committee By-laws and the New Business and Product Approval Guidelines and submit them to the Board for approval as necessary,
- conduct an ongoing review of each new business, product and service for a minimum 12-month period following its launch in order to ensure its proper implementation (in this context, the committee may revoke the approval of a previously approved business, product or service, halt the introduction of a product or service or discontinue a product or service already in use),
- summarise and inform on its deliberations and decisions, as appropriate, to members of senior management, managers within affected business lines and the Board's Risk Committee, and
- monitor the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

Corporate Assurance Committee

The purpose of the Corporate Assurance Committee is to inform the Bank's top management about internal control problems that might prevent business and/or the Bank's goals and to provide business lines with guidance from the Bank's top management about these problems. The scope of the Committee includes internal control findings and issues that are considered to have priority for the Bank, regarding their effect and urgency, fundamentally compliance, financial reporting, risk management, operational risk, reputation risk, technology and fraud. The goals and responsibilities of the committee are to:

- promote top level coordination and standardisation for improvements to the internal control system by focusing on critical risks and controls that need monitoring by the Bank's top management,
- discuss internal control problems/issues on its agenda and under its responsibility and evaluate proposed measures and actions,
- monitor mitigation of risks to a desired level by reviewing the relevant action plans,
- manage necessary coordination in case of a need for contribution from different units, and
- inform the Board about the main internal control problems.

Responsible Business Committee

The Responsible Business Committee ensures that responsible business concepts are integrated into the Bank's functions and strategic priorities and monitoring that the Bank places relevant stakeholders at the centre of decision-making processes. The goals and responsibilities of the committee include to:

- monitor responsible business trends globally and the development of responsible business concepts within the BBVA Group, evaluate how these trends and developments could be aligned and implemented at the Bank and give direction on the development of the responsible business activities across the Bank,
- give direction for the preparation of the Bank's responsible business plan and its key performance indicators and approve these,
- monitor updates on all initiatives within the Bank's responsible business plan and the related key performance indicators, and request changes to the plan, as necessary, and/or assess/approve the suggested changes,
- promote the correct and timely execution of the action plans set forth in the Bank's responsible business plan,

- review and approve the general community investment plan and the Bank's responsible business communication plan,
- monitor the Bank's "transparent/clear/responsible" ("TCR") plan, which is a strategic initiative to establish a transparent, clear and responsible communication with customers, and its accomplishments and make proposals to the TCR plan to be reviewed by the Customer Committee, and
- give direction for the development of the responsible business policies and strategy, review and approve these policies and strategy, the responsible business reports and/or the responsible business-related sections of the Bank's annual reports.

Risk Management Committee

The purpose of the Risk Management Committee is to develop the Bank's strategies, policies, procedures and infrastructure required to identify, assess, measure, plan and manage material risks faced by the Bank in the ordinary course of business. The committee is responsible for:

- the development of the Bank's enterprise risk management architecture, which includes the establishment of a risk appetite framework, a model governing the organisation and governance of the function, a risk identification and monitoring model and the infrastructure and processes required to efficiently and transparently manage the risks,
- the identification, assessment, measurement, planning and management of the risks that the Bank is exposed to,
- the assessment of the Bank's economic capital adequacy under both in the ordinary course of business and in stress scenarios,
- monitoring and analysis of all significant matters related to the Bank's risk exposure on an ongoing basis,
- providing guidance to the Bank's management concerning significant risk-related matters,
- overseeing the risk framework and performance of the Bank's subsidiaries,
- promoting and developing a risk culture throughout the Group, and
- monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

Information Security Committee

The goals and responsibilities of the Information Security Committee are as follows:

- coordinating efforts to provide information security,
- contributing to the formulation of the Bank's information security policy and other policies concerning the subdomains of information security, overseeing the functionality of the system, and assessing and deciding on suggested improvements, and
- monitoring the policies, procedures, regulations and similar documents under its responsibility with respect to necessary updates and taking action to keep them up-to-date.

Compensation

The Group aims to provide compensation that allows it to attract and retain individuals with the skills necessary to manage successfully and grow its business. The Group's compensation policy seeks to provide total compensation that is competitive with other financial organisations similar to it in terms of size and complexity of operations. The Group's policy is to link a significant portion of its senior executives' compensation to the performance

of the business through incentive plans. Therefore, in structuring remuneration packages, the Group aims to link potential rewards to the performance of the business, as well as to the performance of the individual.

Since the Board has delegated its authority to determine the remuneration of the Directors and Executives, including the Bank's President and CEO, to the Remuneration Committee, this committee determines the remuneration paid to the Directors and the Executives.

The net payment provided or to be provided to the key management of the Bank and its consolidated financial subsidiaries (including members of their respective board of directors) amounted to TL 152,889 thousand during 2018 (TL 150,727 thousand during 2017 and TL 137,735 thousand during 2016) including compensation paid to key management personnel who left their position during the year.

The Group does not have any directors' service contracts providing for benefits upon termination of employment, nor does it offer any share-based incentive programs to directors or employees.

Pension Plans. There is no private pension plan paid for by the Bank for its executives other than the fund for all its Turkish employees, which fund has similar liabilities to Turkey's Social Security Institution. The plan, which is called Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı (the "*Fund*"), is a separate legal entity and a foundation recognised by an official decree and provides pension and post-retirement medical benefits to all qualified Bank employees. This benefit plan is funded through contributions both by the Bank's employees and the Bank as required by Turkey's Social Security Law. Employees of other members of the Group do not participate in this benefit plan.

This benefit plan is composed of: (a) the contractual benefits provided under the articles of association of the Fund to the participating employees, which are subject to transfer to the SSF as described in the next paragraph, and (b) other "excess" benefits and payments provided in the existing trust indenture but not transferable to the SSF (and medical benefits provided by the Bank for its constructive obligation (as defined in TAS 19), an obligation that derives from an entity's actions whether by an established pattern of past practice, a published policy or a sufficient specific current statement) (the "*excess benefits*").

According to Turkish law, the Council of Ministers has the authority to determine the date that the contractual benefits of the participating employees will be transferred to the SSF. At the time of this transfer, an actuarial calculation will be conducted to establish if a bank's fund's assets are sufficient to meet its liabilities. The SSF is required to collect the unfunded portion (if any) from the employee benefit funds and the banks employing the relevant fund participants, which will be severally liable, in annual instalments to be paid over a period of up to 15 years. The payment would be in Turkish Lira and would be announced by the Turkish Treasury for each year.

Although no official work has commenced to implement the transfer of any of the Bank's retirement fund assets and liabilities to the SSF, the Bank engaged Aon Hewitt S.A. (an alliance member of Hewitt Associates) to conduct an actuarial study, which reported no deficit based upon the assumptions stated in the applicable law. These assumptions are sensitive to elements such as the number of employees in the current workforce, the workforce turnover rate, the aging rate of the workforce and the other parameters stipulated in the relevant legislation. Therefore, it is possible that the actuarial study may turn out to be incorrect if any of the assumptions upon which it is based differ from the calculations made at the time of the actual transfer. If there is a shortfall at the time of the transfer of the fund (as determined by the SSF), then the Bank would be liable to make the supplemental payments described above for 15 years.

The excess benefits, which are not subject to the transfer to the SSF, are accounted for in the Group's BRSA Financial Statements in accordance with TAS 19 ("Employee Benefits"). The obligation in respect of this retained portion of the benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, which benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognised past service costs and the fair value of any plan assets are deducted.

The pension and medical benefits transferable to the SSF and the excess benefits are calculated annually by the same independent actuary stated above, which is registered with the Turkish Treasury. As per the independent actuary report dated 23 December 2018, the Bank had no excess obligation that needed to be provided for as of 31 December 2018.

OWNERSHIP

The Bank was established in 1946 as a partnership of 103 businessmen. In 1975, a 56% interest in the Bank was acquired by Koç Holding and a 33% interest by Sabancı Holding. In 1983, the two groups sold their shareholdings in the Bank to Mr. Ayhan Şahenk and various companies of the Doğuş Group. These companies are now controlled by the Bank's Chairman, Mr. Ferit Şahenk, after the death of Mr. Ayhan Şahenk in 2001.

Under the terms of an agreement between Doğuş Holding and GEAM, on 22 December 2005, GEAM acquired from Doğuş Holding 53,550,000,000 shares in the Bank (representing 25.50% of the shares in the Bank then in issue). On 24 December 2007, GEAM transferred shares representing a 4.65% interest in the Bank back to the Doğuş Group, which reduced GEAM's holding in the Bank to 20.85% with a 30.52% interest being controlled (directly and indirectly) by Doğuş Holding.

All but two of the Bank's founders' shares were purchased by the Bank and cancelled on 1 March 2010. The remaining founders' shares do not have any dividend or other rights but the owners of such founders' shares have a right to redeem such shares for the sum of TL 3,876,307.00 each.

On 22 March 2011, BBVA acquired 26,418,840,000 shares in the Bank (representing 6.2902% of the shares in the Bank then in issue) from the Doğuş Shareholders and 78,120,000,000 shares in the Bank (representing 18.6% of the shares in the Bank then in issue) from (*inter alia*) GEAM.

On 7 April 2011, BBVA acquired 503,160,000 shares in the Bank, thereby increasing its shareholding in the Bank to 25.01% of the Bank's share capital.

On 27 July 2015, BBVA acquired 62,538,000,000 shares in the Bank (representing 14.89% of the shares in the Bank then in issue) from Doğuş Holding and members of the Şahenk family.

The Bank's shares are traded on the Borsa İstanbul. The Bank has established Level I and Rule 144A American Depositary Share facilities that provide for the conversion of shares in the Bank into American Depositary Shares and *vice versa*. The Bank of New York Mellon acts as the depositary bank and, at present, the American Depositary Shares are tradeable on OTCQX International Premier (the U.S. over-the-counter market).

On 21 February 2017, Doğuş Holding and Doğuş Araştırma Geliştirme ve Müşavirlik Hizmetleri A.Ş. (the "Sellers") entered into a share purchase agreement with BBVA to transfer their shares representing 9.95% of the Bank's issued share capital with a nominal value of TL 417,900 thousand to BBVA (the "Share Purchase Transaction"). According to the agreement, BBVA agreed to pay TL 3,322,305 thousand. Completion of the Share Purchase Transaction occurred on 22 March 2017, resulting in BBVA owning 49.85% of the total issued share capital of the Bank.

Shareholdings

As of 31 December 2018, the Bank's issued shares were held as follows:

Shareholder	Shares held	% of issued share capital
BBVA.....	209,370,000,000	49.8500%
Other shareholders.....	210,630,000,000	50.1500%
Total.....	420,000,000,000	100.0000%

As far as the Bank is aware, other than BBVA, no Person holds a greater than 5% interest in the issued share capital of the Bank.

BBVA

The BBVA Group is a global retail financial group founded in 1857 that provides its customers around the world a full range of financial and non-financial products and services. As of 31 December 2018, the BBVA Group had a presence in over 30 countries and had 125,627 employees. As of 31 December 2018, the BBVA Group's consolidated total assets were €677 billion (€690 billion as of 31 December 2017 and €732 billion as of 31 December 2016) and its net attributable profit for 2018 was €5.3 billion (€3.5 billion for 2017 and €3.5 million for 2016).

BBVA is a highly diversified international financial group, with strengths in the traditional banking businesses of retail banking, asset management and wholesale banking. On an operational basis, the BBVA Group subdivides its business into the following geographic business areas: Spain, Eurasia, Mexico, South America and the United States.

As of the date of this Base Prospectus, the BBVA Group is in the process of converting to a single global brand used in all of the markets in which it operates, including in connection with its digital transformation strategy. As part of its new brand strategy in Turkey, the Bank will operate as “Garanti BBVA” under a renewed logo once the relevant legal process is complete.

(Source: BBVA)

Dividends and Dividend Policy

In accordance with Turkish law, the distribution of profits and the payment of any annual dividend in respect of the preceding fiscal year are recommended by the Board each year for approval by the Bank’s shareholders at the annual shareholders’ meeting, which must be held following the end of the preceding fiscal year. In addition, while not required by law, Turkish banks (including the Bank) generally consult with the BRSA before announcing any dividends. The Bank’s dividend policy in recent years has been to reinvest a substantial portion of the cash amount of any dividends in its capital.

Each common share of the Bank entitles the holder thereof to the same amount of dividend. Distribution of dividends can be made in the form of cash or bonus shares.

In accordance with the corporate governance rules, the Bank formed a written dividend distribution policy, which was submitted for the approval of its shareholders at the general assembly meeting held in 2013. Subsequently, the Bank has published such policy on its web-site. As of the date of this Base Prospectus, the Bank’s dividend policy is to distribute up to 30% of the distributable net profit subject to the approval of the BRSA. On 4 April 2019, the Bank’s General Assembly approved the transfer of 2018’s distributable net profit of TL 6,638,235,755.02 to the Bank’s extraordinary reserves account, with no funds being distributed to shareholders due to domestic economic developments.

RELATED PARTY TRANSACTIONS

During the period from 1 January 2016 to the date of this Base Prospectus, the Group had various types of exposures to related parties, including loans, deposits and non-cash considerations. All of the related-party credit applications must go through the Group's normal credit review process. All extensions of credit to the related parties are made on an arm's-length basis and the credit and payment terms in respect of such credits are no more favourable than those offered to third parties.

Turkish banking regulations limit exposure to related parties to 20% of the total capital, and the Group's exposure to the Doğuş Group and the BBVA Group are (or have been, as applicable) well within the limit permitted by the regulations. See "Turkish Regulatory Environment - Lending Limits." The following tables indicate the level of the Group's relationships with members of the BBVA Group and the Doğuş Group (for dates as of which they were related parties of the Group) as of the dates indicated. See also note 5.13 of the Group's 31 December 2018 BRSA Financial Statements for additional information on related party risks.

	As of 31 December		
	2016	2017	2018
BBVA Group	<i>(TL thousands, except percentages)</i>		
Cash loans	-	621	4,329,526
As a % of assets	0.0%	0.0%	1.1%
As a % of shareholders' equity	0.0%	0.0%	9.2%
Contingent obligations	240,693	683,622	995,647
As a % of contingent obligations	0.5%	1.2%	1.5%
As a % of shareholders' equity	0.7%	1.6%	2.1%
Total BBVA Group Exposure	240,693	684,243	5,325,173

	As of 31 December	
	2016	2017
	<i>(TL thousands, except percentages)</i>	
Doğuş Group⁽¹⁾		
Cash loans	2,216,830	2,661,712
As a % of assets	0.7%	0.7%
As a % of shareholders' equity	6.2%	6.4%
Contingent obligations	884,526	1,765,810
As a % of contingent obligations	1.8%	3.1%
As a % of shareholders' equity	2.5%	4.2%
Total Doğuş Group Exposure	3,101,356	4,427,522

(1) The Doğuş Group ceased to be considered to be a related party as of 20 December 2018 as it no longer met the criteria under TAS 24 (*Related Party Disclosures*).

The Group's exposure to the BBVA Group is principally denominated in foreign currencies. All the related-party loans are performing and the Group has never had to take provisions for, or to write-off any loan to, any of the companies of the BBVA Group or the Doğuş Group.

The contingent exposure to the BBVA Group and the Doğuş Group primarily consists (or, as applicable, consisted) of bid bonds and performance bonds provided in connection with construction contracting work awarded mainly to the Doğuş Group.

The Group also had derivative transactions with the BBVA Group and the Doğuş Group as of the indicated dates as follows:

	As of 31 December		
	2016	2017	2018
		<i>(TL thousands)</i>	
BBVA Group	13,797,354	20,033,893	19,576,878
Doğuş Group	856,464	800,157	(1)

(1) The Doğuş Group ceased to be considered to be a related party as of 20 December 2018 as it no longer met the criteria under TAS 24 (*Related Party Disclosures*).

The Group had deposits from members of the BBVA Group and the Doğuş Group as of the indicated dates as follows:

	As of 31 December		
	2016	2017	2018
		<i>(TL thousands)</i>	
BBVA Group	445,608	107,560	351,755
Doğuş Group	700,871	774,396	(1)

(1) The Doğuş Group ceased to be considered to be a related party as of 20 December 2018 as it no longer met the criteria under TAS 24 (*Related Party Disclosures*).

Please refer to the BRSA Financial Statements incorporated by reference into this Base Prospectus for additional information on related party transactions.

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. See "Responsibility Statement."

The Turkish Banking Sector

After a phase of consolidation, liquidations and significant regulatory enhancements in the 2000s, the Turkish banking sector has experienced a period of stability. The total number of banks (including deposit-taking banks, investment banks and development banks) in the sector has held relatively steady with approximately 45 banks consistently since 2008. During this phase, bank combinations have been few and changes to the roster have resulted principally from strategic investors purchasing existing local banks. Foreign investors have, amongst others, included BBVA, BNP Paribas, Sberbank, Citigroup, ING, Bank of China, Intesa Sanpaolo, MUFG Bank, Ltd., Industrial and Commercial Bank of China, Qatar National Bank and, in the most recent significant acquisition, Emirates NBD entered into an agreement with Sberbank in 2018 to acquire its stake in Denizbank A.Ş. ("*Denizbank*"), a mid-sized bank in Turkey, although such acquisition has not been finalised as of the date of this Base Prospectus. Emlak Katılım Bankası A.Ş., a new participation bank that is 100% owned by the Turkish government, obtained authorisation from the BRSA on 26 February 2019 to commence its activities initially with TL 750 million in capital.

As of 31 March 2019, 47 banks (including domestic and foreign banks but excluding the Central Bank) (source: Banks Association of Turkey) were operating in Turkey (six participation banks, which conduct their business under different legislation in accordance with Islamic banking principles, are not included in this analysis). Thirty-four of these were deposit-taking banks (including the Bank) and the remaining banks were development and investment banks. Among the deposit-taking banks, three banks were state-controlled banks, nine were private domestic banks, 21 were private foreign banks and one was under the administration of the SDIF.

The Banking Law permits deposit-taking banks to engage in all fields of financial activities, including deposit collection, corporate and consumer lending, foreign exchange transactions, capital market activities and securities trading. Typically, major commercial banks have nationwide branch networks and provide a full range of banking services, while smaller commercial banks focus on wholesale banking. The main objectives of development and investment banks are to provide medium-and long-term funding for investment in different sectors.

Deposit-taking Turkish banks' total balance sheets have grown at a compound annual growth rate ("CAGR") of 18.0% from 31 December 2010 to 31 December 2018, driven by loan book expansion and customer deposits growth, which increased by a CAGR of 21.5% and 16.7%, respectively, during such period, in each case according to the BRSA. Despite strong growth of net loans and customer deposits, the Turkish banking sector remains relatively under-penetrated compared to the eurozone. Loans/GDP and customer deposits/GDP ratios of the Turkish banking sector were 64.7% and 55.0%, respectively, as of 31 December 2018 according to BRSA and Turkstat data, whereas 19 countries in the eurozone's banking sector had average loan and customer deposit penetration ratios of 98% and 108%, 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) 31 December				
	2014	2015	2016	2017	2018
	<i>(TL millions, except percentages)</i>				
Balance sheet					
Loans ⁽¹⁾	1,118,887	1,339,149	1,558,034	1,869,476	2,088,599
Total assets	1,805,427	2,130,602	2,455,261	2,922,704	3,403,339
Customer deposits	987,463	1,171,251	1,372,359	1,605,926	1,899,352
Shareholders' equity.....	201,117	228,140	262,391	314,934	367,782
Income statement					
Net interest income	59,705	70,409	83,488	103,385	133,019
Net fees and commissions income	19,351	21,037	22,761	27,167	34,862
Total income	86,500	97,784	119,410	137,884	180,496
Net Profit.....	22,936	23,885	34,224	44,593	47,376
Key ratios					
Loans to deposits.....	113.3%	114.3%	113.5%	116.4%	110.0%
Net interest margin.....	4.2%	4.2%	4.5%	4.6%	4.8%
Return on average shareholders' equity	12.5%	11.3%	13.9%	15.4%	13.8%
Capital adequacy ratio.....	15.7%	15.0%	15.1%	16.5%	16.9%

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

(1) Due to the implementation of TFRS 9 as of 1 January 2018, NPLs were excluded from the "Loans" line item as of 31 December 2018. As such, NPLs have been excluded from the "Loans" line items as of 31 December 2014, 2015, 2016 and 2017 for comparison purposes.

Competition

The Turkish banking industry is highly competitive and relatively concentrated with the top ten deposit-taking banks accounting for 90.8% of total assets of deposit-taking banks as of 31 December 2018 according to data from the BRSA. Among the top ten Turkish banks, there are three state-controlled banks - Ziraat, Halkbank and Vakıfbank, which were ranked first, third and sixth, respectively, in terms of total assets as of 31 December 2018 according to the bank-only financials published in the Public Disclosure Platform (www.kap.gov.tr). These three state-controlled banks accounted for 40.4% of deposit-taking Turkish banks' performing loans and 36.6% of customer deposits as of such date according to the BRSA. The top four privately-owned banks as of such date were Türkiye İş Bankası A.Ş., the Bank, Akbank T.A.Ş. and Yapı ve Kredi Bankası A.Ş., which in total accounted for 41.6% of deposit-taking Turkish banks' performing loans and 43.5% of customer deposits as of such date according to the BRSA. The remaining banks in the top ten deposit-taking banks in Turkey as of such date included three mid-sized banks, namely QNB Finansbank A.Ş., Denizbank and Türk Ekonomi Bankası A.Ş., which were controlled by QNB, Sberbank (expected to be replaced by Emirates NBD) and TEB Holding (a joint venture between BNP Paribas and Turkey's Çolakoğlu Group), respectively, as of such date.

TURKISH REGULATORY ENVIRONMENT

Regulatory Institutions

Turkish banks and branches of foreign banks in Turkey are primarily governed by two regulatory authorities in Turkey, the BRSA and the Central Bank.

The Role of the BRSA

In June 1999, the Banks Act No. 4389 (which has been replaced by the Banking Law) established the BRSA. The BRSA supervises the application of banking legislation, monitors the banking system and is responsible for ensuring that banks observe banking legislation.

Articles 82 and 93 of the Banking Law state that the BRSA, having the status of a public legal entity with administrative and financial autonomy, is established in order to ensure application of the Banking Law and other relevant acts, to ensure that savings are protected and to carry out other activities as necessary by issuing regulations within the limits of the authority granted to it by the Banking Law. The BRSA is obliged and authorised to take and implement any decisions and measures in order to prevent any transaction or action that might jeopardise the rights of depositors and the regular and secure operation of banks and/or might lead to substantial damages to the national economy, as well as to ensure efficient functioning of the credit system.

The BRSA has responsibility for all banks operating in Turkey, including development and investment banks, 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 No. 29057 dated 11 July 2014 (the "*ICAAP 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 ICAAP Regulation also requires banks to conduct an ICAAP, which is an internal process whereby banks calculate the amount of capital required to cover the risks to which they are or may be exposed on an unconsolidated and consolidated basis and with a forward-looking perspective, taking into account their near- and medium-term business and strategic plans. The ICAAP is required to be designed in accordance with the bank's needs and risk attitude and should constitute an integral part of the decision-making process and corporate culture of the bank. In this context, each bank is required to prepare an ICAAP Report representing the bank's own assessment of its capital and liquidity requirements. An ICAAP Report helps a bank in constructing and operating an ICAAP compatible with its risk profile, activity environment and strategic plans. An ICAAP Report for any given year is required to be submitted annually by the end of March of the following year together with the stress test analysis, data, system and process verification research and internal model validation reports. The board of directors of a bank is responsible for maintenance of adequate equity to ensure establishment and implementation of the ICAAP Report.

The Role of the Central Bank

The Central Bank was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, determining the exchange rate regime in Turkey jointly with the government and to design and implement this regime, maintenance of price stability and continuity, regulation of the money supply, management of official gold and foreign exchange reserves, monitoring of the financial system and advising the government on financial matters. The Central Bank exercises its powers independently of the government. The Central Bank is empowered to determine the inflation target together with the government, and to adopt a monetary policy in

compliance with such target. The Central Bank is the only authorised and responsible institution for the implementation of such monetary policy.

The Central Bank has responsibility for all banks operating in Turkey, including foreign banks. The Central Bank sets mandatory reserve levels. In addition, each bank must provide the Central Bank, on a current basis, information adequate to permit off-site evaluation of its financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis depending upon the nature of the information to be reported.

Banks Association of Turkey

The Banks Association of Turkey is an organisation that provides limited supervision of and coordination among banks (excluding the participation banks) operating in Turkey. All banks (excluding the participation banks) in Turkey are obligated to become members of this association. As the representative body of the banking sector, the association aims to examine, protect and promote its members' professional interests; *however*, despite its supervisory and disciplinary functions, it does not possess any powers to regulate banking.

Shareholdings

The direct or indirect acquisition by a Person of shares that represent 10% or more of the share capital of any bank or the direct or indirect acquisition or disposition of such shares by a Person if the total number of shares held by such Person increases above or falls below 10%, 20%, 33% or 50% of the share capital of a bank, requires the permission of the BRSA in order to preserve full voting and other shareholders' rights associated with such shares. In addition, irrespective of the thresholds above, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee (or the issuance of new shares with such privileges) is also subject to the authorisation of the BRSA. In the absence of such authorisation, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders' rights with respect to the shares but not of the right to collect dividends declared on such shares. Additionally, the acquisition or transfer of any shares of a legal entity that owns 10% or more of the share capital of a bank is subject to the BRSA'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 BRSA's permission might be given on the condition that the Person who acquires the shares possesses the qualifications required for a founder of a bank. In a case in which such shares of a bank are transferred without the permission of the BRSA, the voting and other shareholder rights of the Person stemming from these shares, other than the right to receive dividends, shall be exercised by the SDIF.

The board of directors of a bank is responsible for taking necessary measures to ascertain that shareholders attending a general assembly have obtained the applicable authorisations from the BRSA. If the BRSA determines that a shareholder has exercised voting or other shareholders' rights (other than the right to collect dividends) without due authorisation as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to start the procedure to cancel such applicable general assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the Banking Law if such procedure has not been started yet). If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without authorisation by the BRSA. In the case that the procedure to cancel such general assembly resolutions is not yet started, or such transfer of shares is not deemed appropriate by the BRSA even though the procedure to cancel such general assembly resolutions is started, then, upon the notification of the BRSA, the SDIF has the authority to exercise such voting and other shareholders' rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

Lending Limits

The Banking Law sets out certain lending limits for banks and other financial institutions designed to protect those institutions from excessive exposure to any one counterparty (or group of related counterparties). In particular:

- (a) Credits extended to a natural person, a legal entity or a risk group (as defined under Article 49 of the Banking Law) in the amounts of 10% or more of a bank's shareholders' equity are classified as large credits and the total of such credits cannot be more than eight times the bank's shareholders' equity. In this context, "credits" include cash credits and non-cash credits such as letters of guarantee, counter-guarantees, sureties, avals, endorsements and acceptances extended by a bank, bonds and similar capital market instruments purchased by it, loans (whether deposits or other), receivables arising from the future sales of

assets, overdue cash credits, accrued but not collected interest, amounts of non-cash credits converted into cash and futures and options and other similar contracts, partnership interests, shareholding interests and transactions recognised as loans by the BRSA. Avals, guarantees and sureties accepted from a natural person or legal entity in a risk group for the security of loans extended to that risk group are not taken into account in calculating loan limits.

(b) 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 such persons or a partnership in which such persons participate with unlimited liability or in which such persons act as a member of the board of directors or general managers constitute a risk group, for which the lending limits are reduced to 20% of a bank's equity capital, subject to the BRSA's discretion to increase such lending limits up to 25% or to lower it to the legal limit. Natural 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.

(c) 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 Turkish Treasury, the Central Bank, the Privatisation Administration and the Housing Development Administration of Turkey as well as transactions carried out against bills, bonds 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 equity, 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 NPLs are set out in Article 53 of the Banking Law and in regulations issued by the BRSA (principally through the Classification of Loans and Provisions Regulation, which entered into force as of 1 January 2018 and replaced the former regulation). Note that as the loan classification and provisioning rules changed effective as of 1 January 2018 following the entry into force of TFRS 9, group classification and provisions levels for periods before and after 1 January 2018 are not directly comparable.

Current Rules

Pursuant to the Classification of Loans and Provisions Regulation, banks are required to classify their loans and receivables into one of the following groups:

(a) *Group I: Loans of a Standard Nature:* This group involves each loan (which, for purposes of the Classification of Loans and Provisions Regulation, includes other receivables, and shall be understood as such elsewhere in this Base Prospectus):

- (i) that has 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) repayments of which have been made within due dates or have not been overdue for more than 30 days, for which no repayment problems are expected in the future, and that have the ability to be collected in full without recourse to any collateral,
- (iv) for which no weakening of the creditworthiness of the applicable debtor has been found, and
- (v) to which 12 month expected credit loss reserve applies under TFRS 9.

(b) *Group II: Loans Under Close Monitoring:* This group involves each loan:

- (i) that has been extended to financially creditworthy natural persons and legal entities and where negative changes in the debtor's solvency or cash flow have been observed or predicted due to adverse events in macroeconomic conditions or in the sector in which the debtor operates, or other adverse events solely related to the respective debtor,
- (ii) that needs to be closely monitored due to reasons such as significant financial risk carried by the debtor at the time of the utilisation of the loan,
- (iii) in connection with which problems are likely to occur as to principal and interest payments under the conditions of the loan agreement, and where such problems (in case not resolved) might result in non-payment risk before recourse to any collateral,

(iv) although the creditworthiness of the debtor has not weakened in comparison with its creditworthiness on the day the loan is granted, there is likelihood of such weakening due to the debtor's irregular and unmanageable cash flow,

(v) the collection of principal and/or interest payments of which are overdue for more than 30 but less than 90 days following any payment due date (including the maturity date) for reasons that cannot be interpreted as a weakening in creditworthiness,

(vi) for which its debtor shows significant increase in credit risk according to TFRS 9,

(vii) repayments of which are fully dependent upon collateral and the net realisable value of such collateral falls under the receivable amount,

(viii) that has been subject to restructuring when monitored under Group I or Group II without being subject to classification as an NPL, or

(ix) that has been subject to restructuring while being monitored as an NPL and classified as a performing loan upon satisfaction of the relevant conditions stated in the regulation.

(c) *Group III: Loans with Limited Recovery*: This group involves each loan:

(i) in connection with which the debtor's creditworthiness has weakened,

(ii) that demonstrates limited possibility for the collection of the full amount due to the insufficiency of net realisable value of the collateral or the debtor's equity to meet the collection of the full amount on the due date without any recourse to the collateral, and that would likely result in losses in case such problems are not resolved,

(iii) collection of the principal and/or interest of which has/have been delayed for more than 90 days but not more than 180 days from the payment due date,

(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 payment due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity as a result of adverse events in macroeconomic conditions or in the sector in which the debtor operates or other adverse events solely related to the debtor, or

(v) that has been classified as a performing loan after restructuring but principal and/or interest payments of which have been overdue for more than 30 days within one year of restructuring or have been subject to another restructuring within a year of a previous restructuring.

(d) *Group IV: Loans with Improbable Recovery*: This group involves each loan:

(i) principal and/or interest payments of which will probably not be repaid in full under the terms of the loan agreement without recourse to any collateral,

(ii) in connection with which the debtor's creditworthiness has significantly deteriorated, but which loan is not considered as an actual loss due to expected factors such as merger, the possibility of finding new financing or a capital increase to enhance the debtor's creditworthiness or the possibility of the loan being collected,

(iii) the collection of principal and/or interest payments of which has been overdue for more than 180 days but less than one year following any payment due date (including the maturity date), or

(iv) the collection of principal and/or interest payments of which is expected to be overdue for more than 180 days following any payment due date (including the maturity date) as a result of adverse events in macroeconomic conditions or in the sector in which the debtor operates or adverse events solely related to the debtor.

(e) *Group V: Loans Considered as Losses*: This group involves each loan:

(i) for which, as a result of the complete loss of the debtor's creditworthiness, no collection is expected or only a negligible part of the total receivable amount is expected to be collected,

(ii) although having the characteristics stated in Groups III and IV, the collection of the total receivable amount of which, albeit due and payable, is unlikely within a period exceeding one year, or

(iii) the collection of principal and/or interest payments of which has been overdue for more than one year following any payment due date.

Pursuant to the Classification of Loans and Provisions Regulation, the following loans are classified as NPLs: (a) loans that are classified under Groups III, IV and V, (b) loans the debtors of which are deemed to have defaulted pursuant to the Communiqué on the Calculation of Principal Subject to Credit Risk by Internal-Ratings Based Approaches (published in the Official Gazette dated 23 October 2015 and numbered 29511) or (c) loans to which, as a result of debtor's default, the lifetime expected credit loss reserve applies under TFRS 9. Financial guarantees are also classified as NPLs on the basis of their nominal amounts in case where: (i) a risk of a compensation claim by the creditor has occurred or (ii) the debt assumed under the relevant financial guarantee falls within the scope of any of the circumstances stated in clause (a), (b) or (c). If several loans have been extended to a debtor by the same bank and any of these loans is classified as an NPL, then all other loans extended to such debtor by such bank shall also be classified as NPLs; *however*, for consumer loans, even if any of these loans is classified as an NPL, other consumer loans granted to the same debtor may be classified in the respective applicable group other than Group I. According to the decision of the BRSA dated 15 November 2018 and numbered 8095, KGF-guaranteed loans will not be classified as an NPL unless there is an overdue amount for more than 90 days following the due date. As per the BRSA regulation published in the Official Gazette dated 27 March 2018 and numbered 30373, banks may choose to not classify any receivable up to TL 100 as an NPL.

The Classification of Loans and Provisions Regulation includes detailed rules and criteria in relation to concepts of the "reclassification" and "restructuring" of loans. As for the reclassification of loans, banks are required to evaluate such loans with a view to whether such loans are to be reclassified under different groups, which evaluation is to be made at least once during each three-month financial statement term or (irrespective of this period) upon the occurrence of developments in macroeconomic circumstances or the sector in which the respective debtor operates that pose risk on such debtor's performance of its obligations. Such evaluation shall be conducted independently from the credit and risk analysis made at the time of the extension of the loan.

The reclassification of NPLs as performing loans is subject to the following conditions: (a) all overdue repayments that have caused the relevant loan to be classified as NPL have been collected in full without any recourse to any security, (b) as of the date of the reclassification, there has not been any overdue repayment and the last two repayments preceding such date (except the repayments mentioned in clause (a)) have been realised in full by their due date, and (c) conditions for such loans to be classified under Group I or II have been fulfilled. Furthermore, loans that have been fully or partially written-down by the banks in their assets, security for which loans has been enforced to satisfy the debt or repayment of which has been made in kind, cannot be classified as a performing loan.

The restructuring of a loan is defined as privileges granted to a debtor who faces or would probably face financial difficulties in relation to the repayment of the loan, which privileges would not be granted to other debtors not facing such repayment difficulties. These privileges consist of: (a) amendments to the conditions of the loan agreement or (b) partial or full refinancing of the loan. In this respect, an NPL may be reclassified as a restructured loan under Group II subject to the following conditions: (i) upon evaluation of the financial standing of the debtor, it has been determined that the conditions for the applicable loan to be classified as an NPL have disappeared, (ii) the loan has been monitored as an NPL at least for one year following restructuring, (iii) as of the date of reclassification as a Group II loan, there has not been any delay in principal and/or interest payments nor are there any expectation of any such delay in the future, and (iv) overdue payments and/or written-down principal payments in relation to the restructured loan have been collected. Furthermore, such restructured NPL being reclassified as a performing Group II loan may be excluded from the scope of the restructuring if all the following conditions are met: (A) such loan has been monitored as a restructured loan under Group II at least for one year, (B) at least 10% of the outstanding debt amount has been repaid during such one year monitoring period, (C) there has not been any delay of more than 30 days in principal and/or interest payments of any loan extended to the applicable debtor during such monitoring period and (D) the financial difficulty that led to the restructuring of the loan no longer exists. The banks applying TFRS 9 may reclassify their performing loans, which had been previously classified as restructured loans under Group II, under Group I again following a minimum three month monitoring period, subject to the satisfaction of the requirements listed under subparagraphs (C) and (D) above (regardless of the conditions under subparagraphs (A) and (B) stated above). For

Group I loans whose debtors are not in financial distress, amendments to the conditions of the loan agreement and/or partial or full refinancing of the loan are not considered to be within the scope of restructuring and banks may continue to monitor such loans under Group I.

Pursuant to the Classification of Loans and Provisions Regulation, the general rule is that banks shall apply provisions for their loans pursuant to TFRS 9; *however*, the BRSA may, on an exceptional basis, authorise a bank to apply the applicable provisions set forth in the Classification of Loans and Provisions Regulation instead of those required by TFRS 9, subject to the presence of detailed and acceptable grounds. With respect to the requirements under TFRS 9, “twelve-months expected credit loss reserve” and “lifetime expected credit loss reserve set aside due to significant increase in credit risk profile of the debtor” are considered as general provisions while “lifetime expected credit loss reserve set aside due to debtor’s default” is considered as special provisions.

Banks that have been authorised not to apply provisions under TFRS 9 are required to determine their general and special provisions in accordance with Articles 10 and 11 of the Classification of Loans and Provisions Regulation. In this respect, such banks are required to set aside general provisions for at least 1.5% and 3.0% of their total cash loans portfolio under Groups I and II, respectively. For non-cash loans, undertakings and derivatives, general provisions to be set aside are calculated by applying the foregoing percentages to the risk-weighted amounts determined pursuant to the 2015 Capital Adequacy Regulation. Subject to the presence of a written pledge or assignment agreement, loans secured with cash, deposit, participation funds and gold deposit accounts, bonds that are issued by the Turkish government and the Central Bank and guarantees and sureties provided by such are not subject to the general set aside calculation. Loans extended to the Turkish government and the Central Bank are not considered in such calculation. As to special provisions, banks are required to set aside provisions for NPLs under Groups III, IV and V of at least 20%, 50%, and 100%, respectively, of the incurred credit loss.

For both general provisions and special provisions, banks are required to consider country risks and transfer risks. In addition, the BRSA may increase such provision requirements for certain banks or loans taking into account the concentration, from time to time, of matters such as the size, type, due date, currency, interest structure, sector to which loans are extended, geographic circumstances, collateral and the credit risk level and management.

According to amendments to the Equity Regulation and the 2015 Capital Adequacy Regulation that will be effective as of 1 January 2020, general provisions will no longer be allowed to be included in the supplementary capital (*i.e.*, Tier 2 capital) of Turkish banks and will be deducted from their risk-weighted assets.

Previous Rules

For periods before 1 January 2018, the previous “Regulation on Provisions and Classification of Loans and Receivables” provided that banks were 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 involved loans and other receivables:

- (i) that had been disbursed to financially creditworthy natural persons and legal entities,
- (ii) the principal and interest payments of which had been structured according to the solvency and cash flow of the debtor,
- (iii) the reimbursement of which had been made within specified periods, for which no reimbursement problems were expected in the future and that could be fully collected, and
- (iv) for which no weakening of the creditworthiness of the applicable debtor had been found.

The terms of a bank’s loans and receivables monitored in this group could be modified if such loans and receivables continued to have the conditions envisaged for this group.

(b) *Group II: Loans and Other Receivables Under Close Monitoring:* This group involved loans and other receivables:

- (i) that had been disbursed to financially creditworthy natural persons and legal entities and where the principal and interest payments of which there was no problem at present, but that needed to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the

debtor, probable materialisation of the latter or significant financial risk carried by the person or legal entity utilising the loan,

(ii) whose principal and interest payments according to the conditions of the loan agreement were not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might have resulted in partial or full non-reimbursement risk,

(iii) that were very likely to be repaid but collection of principal and interest payments had been delayed for more than 30 days from their due dates for justifiable reasons but not falling within the scope of "Loans and other Receivables with Limited Recovery" set forth under Group III below, or

(iv) although the creditworthiness of the debtor had not weakened, there was a high likelihood of weakening due to the debtor's irregular and unmanageable cash flow.

If a loan customer had multiple loans and any of these loans was classified in Group II and others were classified in Group I, then all of such customer's loans were required to be classified in Group II. The terms of a bank's loans and receivables monitored in this group could be modified if such loans and receivables continued to have the conditions envisaged for this group.

(c) *Group III: Loans and Other Receivables with Limited Recovery*: This group involved 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 were not eliminated, they were likely to cause loss,

(ii) the creditworthiness of whose debtor had weakened and where the loan was deemed to have weakened,

(iii) collection of whose principal and/or interest had 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 was of the opinion that collection by the bank of the principal or interest of the loan or both would be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.

(d) *Group IV: Loans and Other Receivables with Improbable Recovery*: This group involved loans and other receivables:

(i) that seemed unlikely to be repaid or liquidated under existing conditions,

(ii) in connection with which there was a strong likelihood that the bank would not be able to collect the full loan amount that had become due or payable under the terms stated in the loan agreement,

(iii) whose debtor's creditworthiness was deemed to have significantly weakened but which were not yet 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 was a delay of more than 180 days but not more than one year from the due date in the collection of the principal or interest or both.

(e) *Group V: Loans and Other Receivables Considered as Losses*: This group involved loans and other receivables:

(i) that were deemed to be uncollectible,

(ii) collection of whose principal or interest or both had 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 was of the opinion that they had become weakened and that the debtor had lost creditworthiness due to the strong possibility that it would not be possible to fully collect the amounts that had become due and payable within a period of over one year.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks were 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 required Turkish banks to provide a general provision calculated at 1% of the total cash loan portfolio *plus* 0.2% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) (except for: (a) commercial cash loans defined in Group I, for which the general provision was calculated at 0.5% of the total commercial cash loan portfolio, (b) commercial non-cash loans defined in Group I, for which the general provision was calculated at 0.1% of the total commercial non-cash commercial loan portfolio, (c) cash and non-cash loans defined in Group I for SMEs and relating to transit trade, export, export sales and deliveries and services, activities resulting in gains of foreign currency and syndicate loans used for the financing of large-scale public tenders, for which the general loan loss reserve was calculated at 0% for standard loans defined in Group I and a general provision calculated at 2.0% of the total cash loan portfolio *plus* 0.4 % of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) for closely-monitored loans defined in Group II (except for: (i) commercial cash loans, cash loans for SMEs and relating to transit trade, export, export sales and deliveries and services, and activities resulting in gains of foreign currency, for which the general loan loss reserve was calculated at 1.0% and (ii) non-cash loans related to the items stated in clause (i) for which the general loan loss reserve was calculated at 0.2%). The exceptions regarding the loan loss reserve calculation stated above were applied to the respective loans defined in Group I and Group II until 31 December 2017. For payment obligations arising from the relevant law in relation to each check slip that was delivered by a bank at least five years previously, 25% of the non-cash rates referred to above were applied.

On 14 December 2016, the BRSA published amendments to the previous rules, adding new provisional articles related to the restructuring of loans and other receivables and to the delay periods during the state of emergency. The provisional Article 12 stated that (among other things) the loans and other receivables classified as NPLs by the banks could be restructured up to two times until 31 December 2017. Such restructured loans could be classified under Group II if: (a) in the first restructuring, there was no overdue debt as of the date of the reclassification and the last three payments prior to the date of the reclassification have been made in a timely manner and in full, and (b) in the second restructuring, there was no overdue debt as of the date of the reclassification and the last six payments prior to the date of the reclassification had been made in a timely manner and in full. Banks must continue to reserve the required provisions for the groups they are classified in during such restructuring period. Loans and other receivables classified under Group II after the restructuring were monitored under the “Renewed/Restructured Loans Account.” Information regarding renewed/restructured loans and other receivables was required to be disclosed in the annual and interim financial reports of the banks. Furthermore, the provisional Article 13 (which entered into force retroactively as of 21 July 2016) stated (among other things) that the delay periods of payments stipulated for the loans defined in Groups II, III, IV and V could be counted as of 21 January 2017 for: (i) the obligations of the credit debtors that had been liquidated, assigned to the Directorate General of Foundations or the Turkish Treasury or to which the SDIF was assigned as the trustee as per the Decrees enforced within the scope of the state of emergency declared in Turkey by the Decree of the Council of Ministers dated 20 July 2016, (ii) public officials who had been discharged from their positions within the scope of the state of emergency and (iii) natural persons and legal entities the assets of which were subject to injunctions within the scope of the state of emergency.

If the sum of the letters of guarantee, acceptance credits, letters of credit undertakings, endorsements, purchase guarantees in security issuances, factoring guarantees or other guarantees and sureties and pre-financing loans without letters of guarantee of a bank was higher than ten times its equity calculated pursuant to banking regulations, a 0.3% general provision ratio was 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 could apply the same ratio or a higher ratio as the general provision requirement ratio.

Turkish banks were 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 dated 1 November 2006) (the “*Regulation on Loan Transactions of Banks*”) by applying the general provision rate applicable for cash loans. In addition to the general provisions, specific provisions were required to 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 was required to be set aside for each check slip of customers who had loans under Groups III, IV and V, which checks were delivered by the bank at least five years previously; *however*, if a bank set aside specific provisions at a rate of 100% for NPLs, then it did 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 had 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, were defined as NPLs. If several loans had been extended to a borrower by the same bank and if any of these loans was considered as an NPL, then all outstanding risks of such borrower were classified in the same group as the NPL even if such loans would not otherwise fall under the same group as such NPL; *however*, for certain consumer loans, even if any of these loans was considered to be an NPL, other consumer loans granted to the borrower could be classified in the applicable group other than Group I. Banks also could classify any receivable up to TL 100 as an NPL.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, the BRSA was entitled to increase these provision rates taking into account the sector and country risk status of the borrower.

When calculating the special reserve requirements for NPLs, the value of collateral received from an applicable borrower was deducted from such borrower's loans and receivables in Groups III, IV and V in the following proportions in order to determine the amount of the required reserves:

Category	Discount Rate
Category I collateral.....	100%
Category II collateral.....	75%
Category III collateral	50%
Category IV collateral	25%

In case the value of the collateral exceeded the amount of the NPL, the above-mentioned rates of consideration were applied only to the portion of the collateral that was equal to the amount of the NPL.

In the event of a borrower's failure to repay loans or any other receivables due to a temporary lack of liquidity of such borrower, a bank was allowed to refinance such borrower with additional funding for strengthening the borrower's liquidity position or to structure a new repayment plan. Despite such refinancing or new repayment plan, such loans and other receivables were required to be monitored in their current loan groups (whether Group III, IV or V) for at least a six month period and, within such period, the bank was required to continue setting aside provisions at the special provision rates applicable to the group in which they were included. After the lapse of such six month period, if total collections reached at least 15% of the total receivable for restructured loans for such borrower, then the remaining receivables from such borrower were reclassified under the "Renewed/Restructured Loans Account." A bank could refinance such a borrower for a second time if the borrower failed to repay the refinanced loan; *provided* that at least 20% of the principal and other receivables were collected on a yearly basis.

In addition to the general provisioning rules, the BRSA from time to time enacted provisional rules relating to exposures to debtors in certain industries or countries.

Capital Adequacy

Article 45 of the Banking Law defines "capital adequacy" as having adequate capital 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% (excluding capital buffers). In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the regulatory capital ratio of 8% (in each case, excluding capital buffers).

The BRSA is authorised to increase the minimum capital adequacy ratio and the minimum consolidated capital adequacy ratio, to set different ratios for each bank and to revise risk weights of assets that are based upon participation accounts, but must consider each bank's internal systems as well as its asset and financial structures.

In order to implement the rules of the report titled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee in December 2010 and revised in June 2011 (*i.e.*, Basel III) into Turkish law, the Equity Regulation and amendments to the 2012 Capital Adequacy Regulation were published in

the Official Gazette No. 28756 dated 5 September 2013 and entered into force on 1 January 2014. Subsequently, the BRSA replaced the 2012 Capital Adequacy Regulation with the 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016. The 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 (*i.e.*, Common Equity Tier 1 capital) and additional principal capital (*i.e.*, additional Tier 1 capital) and (b) supplementary capital (*i.e.*, Tier 2 capital) *minus* capital deductions. Pursuant to the 2015 Capital Adequacy Regulation: (i) both the unconsolidated and consolidated minimum Common Equity Tier 1 capital adequacy ratio are 4.5% and (ii) both unconsolidated and consolidated minimum Tier 1 capital adequacy ratio are 6.0%.

The BRSA published several new regulations and communiqués or amendments to its existing regulations and communiqués (as published in the Official Gazette No. 29511 dated 23 October 2015 and No. 29599 dated 20 January 2016) in accordance with the Basel Committee’s RCAP, which is conducted by the BIS with a view to ensure Turkey’s compliance with Basel regulations. These amendments, which entered into force on 31 March 2016, included revisions to the Equity Regulation and the 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016 in replacement of the 2012 Capital Adequacy Regulation. The 2015 Capital Adequacy Regulation sustained the capital adequacy ratios introduced by the former regulation but changed the risk weights of certain items, including: (a) the risk weights of foreign currency-denominated required reserves held with the Central Bank from 0% to 50%; *however*, on 24 February 2017, the BRSA amended its guidance to allow foreign exchanged-denominated required reserves held with the Central Bank to be subject to a 0% risk weight, and (b) the exclusion of the general reserve for possible losses from capital calculations.

The 2015 Capital Adequacy Regulation also lowered the risk weights of certain assets and credit conversion factors, including reducing: (a) the risk weights of residential mortgage loans from 50% to 35%, (b) the risk weights of consumer loans (excluding residential mortgage loans) qualifying as retail loans (*perakende alacaklar*) in accordance with the 2015 Capital Adequacy Regulation and instalment payments of credit cards from a range of 100% to 250% (depending upon their outstanding tenor) to 75% (irrespective of their tenor); *provided* that such receivables are not reclassified as NPLs, and (c) the credit conversion factors of commitments for credit cards and overdrafts from 20% to 0%. As of 7 February 2017, the BRSA published a decision that enables banks to use 0% risk weightings for Turkish Lira-denominated exposures guaranteed by the KGF and supported by the Turkish Treasury. On 12 June 2018, the BRSA announced its decision (dated 7 June 2018 and numbered 7841) to amend the per customer total risk limit for loans described in clause (b), which is the upper limit for such loans subjected to the 75% risk weight, from TL 4,200,000 to TL 5,500,000, which was then increased to TL 7,000,000 on 18 January 2019.

On 11 July 2017, clause 9(8)(b) of the Equity Regulation was repealed. In this context, the excess amount mentioned in Article 57 of the Banking Law (*i.e.*, “the total book value of the real property owned by a bank cannot exceed 50% of its capital base”), and the commodity goods and properties that banks acquire due to their receivables (*e.g.*, foreclosed-upon collateral) but have not disposed within three years, are no longer deducted from a bank’s capital base.

In 2013, the BRSA published the Regulation on the Capital Conservation and Countercyclical Capital Buffer, which entered into force on 1 January 2014 and provides additional core capital requirements both on a consolidated and unconsolidated basis. Pursuant to this regulation, the additional core capital requirements are to be calculated by the multiplication of the amount of risk-weighted assets by the sum of a capital conservation buffer ratio and bank-specific countercyclical buffer ratio. According to this regulation, the capital conservation buffer for banks was set at 1.250% for 2017, 1.875% for 2018 and 2.500% for 2019. The BRSA has published: (a) its decision dated 18 December 2015 (No. 6602) regarding the procedures for and principles on calculation, application and announcement of a countercyclical capital buffer and (b) its decision dated 24 December 2015 (No. 6619) regarding the determination of such countercyclical capital buffer. Pursuant to these decisions, the countercyclical capital buffer for Turkish banks’ exposures in Turkey was initially set at 0% of a bank’s risk-weighted assets in Turkey (effective as of 1 January 2016); *however*, such ratio might fluctuate between 0% and 2.5% as announced from time to time by the BRSA. Any increase to the countercyclical capital buffer ratio is to be effective one year after the relevant public announcement, whereas any reduction is to be effective as of the date of the relevant public announcement.

In 2013, the BRSA also published the Regulation on the Measurement and Evaluation of Leverage Levels of Banks (which entered into force on 1 January 2014 with the exception of certain provisions that entered into effect on 1 January 2015), seeking to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and unconsolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach).

In February 2016, the BRSA issued the D-SIBs Regulation in line with the Basel Committee standards, introducing a methodology for assessing the degree to which banks are considered to be systemically important to the

Turkish domestic market and setting out the additional capital requirements for those banks classified as D-SIBs. The contemplated methodology uses an indicator-based approach to identify and classify D-SIBs in Turkey under four different categories: size, interconnectedness, lack of substitutability and complexity. Initially, a score for each bank is to be calculated based upon their 2014 year-end consolidated financial statements by assessing each bank's position against a threshold score to be determined by the BRSA. The D-SIBs Regulation requires banks identified as D-SIBs to maintain a capital buffer depending upon their respective classification. As of 1 January 2019, these buffers are to be applied as 3% for Group 4 banks, 2% for Group 3 banks, 1.5% for Group 2 banks and 1% for Group 1 banks. As of the date of this Base Prospectus, the Bank is classified as a Group 3 D-SIB under the D-SIBs Regulation.

Furthermore, the Regulation on Liquidity Coverage Ratios seeks to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. The Regulation on Liquidity Coverage Ratios provides that the ratio of the high quality asset stock to the net cash outflows, both of which are calculated in line with the regulation, cannot be lower than 100% in respect of total consolidated and unconsolidated liquidity and 80% in respect of consolidated and unconsolidated foreign exchange liquidity; *however*, pursuant to the BRSA Decision on Liquidity Ratios, for the period between 5 January 2015 and 31 December 2015, such ratios were applied as 60% and 40%, respectively, and such ratios were increased by ten percentage points for each year from 1 January 2016 until 1 January 2019. The BRSA Decision on Liquidity Ratios further provides that a 0% liquidity adequacy ratio limit applies to deposit banks. On 15 August 2017, the BRSA revised from 50% to 100% the ratio of required reserves held with the Central Bank that can be included in liquidity calculations. Unconsolidated total and foreign currency liquidity coverage ratios cannot be non-compliant more than six times within a calendar year, which includes non-compliances that have 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 the non-compliances that have already been remedied.

Pursuant to the Equity Regulation, if a Turkish bank invests in debt instruments of other banks or financial institutions that are already invested in that Turkish bank's additional Tier 1 or Tier 2 capital, then the amount of such debt instrument (and their issuance premia) are required to be deducted when calculating that Turkish bank's additional Tier 1 or Tier 2 capital (as applicable).

On 7 June 2018, the BRSA published the Communiqué on Principles regarding the Debt Instruments to be included in the Calculation of Banks' Equity, which sets forth procedures and principles for the write-up and write-down of the debt instruments or loans that are included in the calculation of banks' equity (*i.e.*, additional Tier 1 and Tier 2 capital) as well as procedures and principles related to conversion of such debt instruments into shares.

See also a discussion of the implementation of Basel III in “-Basel Committee - Basel III” below.

BRSA's Temporary Resolutions on Capital Adequacy Ratios

Due to increasing volatility in foreign exchange rates and their rapid adverse effect on Turkish banks' capital adequacy ratios, the BRSA published a temporary resolution in August 2018 that changed the foreign exchange rate references that could be used when calculating-risk weighted assets, which serve as the denominator in capital adequacy ratio calculations. This change resulted in the reporting of higher capital adequacy ratios. According to these resolutions, banks were allowed to use the higher of the following two foreign exchange rates: (a) the rate as of the end of the second quarter of 2018 (*i.e.*, US\$1/TL 4.5756) or (b) the arithmetic average of foreign exchange rates for the last 252 İstanbul business days prior to the relevant calculation date. Additionally, in accordance with another temporary resolution of the BRSA, “Financial Assets Measured at Fair Value Through Other Comprehensive Income” were not included as part of regulatory capital, which is another variable used in capital adequacy ratio calculations.

These resolutions were revoked by the BRSA in December 2018 and thus are not reflected in the 31 December 2018 financial statements. Capital adequacy ratios to be reported by the Bank are expected to be calculated in accordance with the standard methodology in place prior to the effectiveness of these temporary resolutions.

Tier 2 Rules

According to the Equity Regulation, which came into force on 1 January 2014, Tier 2 capital shall be calculated by subtracting capital deductions from general provisions that are set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts for receivables (as the case may be, depending upon the method used by the bank to calculate the credit risk amounts of the applicable receivables) and the debt instruments that have been approved by the BRSA upon the application of the board of directors of the applicable

bank along with a written statement confirming compliance of the debt instruments with the conditions set forth below and their issuance premia (the “Tier 2 Conditions”):

(a) the debt instrument shall have been issued by the bank and approved by the CMB and shall have been fully collected in cash,

(b) in the event of dissolution of the bank, the debt instrument shall have priority over debt instruments that are included in additional Tier 1 capital and shall be subordinated with respect to rights of deposit holders and all other creditors,

(c) the debt instrument shall not be related to any derivative operation or contract, nor shall it be tied to any guarantee or security, in one way or another, directly or indirectly, in a manner that violates the condition stated in clause (b),

(d) the debt instrument must have an initial maturity of at least five years and shall not include any provision that may incentivise prepayment, such as dividends and increase of interest rate,

(e) if the debt instrument includes a prepayment option, such option shall be exercisable no earlier than five years after issuance and only with the approval of the BRSA; approval of the BRSA is subject to the following conditions:

(i) the bank should not create any market expectation that the option will be exercised by the bank,

(ii) the debt instrument shall be replaced by another debt instrument either of the same quality or higher quality, and such replacement shall not have a restrictive effect on the bank’s ability to sustain its operations, or

(iii) following the exercise of the option, the equity of the bank shall exceed the higher of: (A) the capital adequacy requirement that is to be calculated pursuant to the 2015 Capital Adequacy Regulation along with the Regulation on the Capital Conservation and Countercyclical Capital Buffer, (B) the capital requirement derived as a result of an ICAAP of the bank and (C) the higher capital requirement set by the BRSA (if any);

however, if tax legislation or other regulations are materially amended, a prepayment option may be exercised; *provided* that the above conditions in this clause (e) are met and the BRSA approves,

(f) the debt instrument shall not provide investors with the right to demand early amortisation except for during a bankruptcy or dissolution process relating to the issuer,

(g) the debt instrument’s dividend or interest payments shall not be linked to the creditworthiness of the issuer,

(h) the debt instrument shall not be: (i) purchased by the issuer or by corporations controlled by the issuer or significantly under the influence of the issuer or (ii) assigned to such entities, and its purchase shall not be directly or indirectly financed by the issuer itself,

(i) if there is a possibility that the bank’s operating licence 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 losses incurred by the bank, 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 in clause (e).

In addition, procedures and principles regarding the deduction of the debt instrument's value and/or removal of the debt instrument from the bank's records, and/or the debt instrument's conversion to share certificates, are determined by the BRSA.

Loans (as opposed to securities) that have been approved by the BRSA upon the application of the board of directors of the applicable bank accompanied by a written statement confirming that all of the Tier 2 Conditions (except for the condition stated in clause (a) of the 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 Equity Regulation also provides a limit for inclusion of general provisions to be set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts of receivables (as the case may be, depending upon the method used by the bank to calculate the credit risk amount of such receivables) in Tier 2 capital such that 1.25% of the risk-weighted sum of the receivables in calculating the credit risk exposure by using the standardised approach is taken into consideration; *however*, the portion of surplus of this amount that exceeds general provisions is not taken into consideration in calculating the Tier 2 capital. As of 1 January 2020, general provisions will no longer be allowed to be included in the supplementary capital (*i.e.*, Tier 2 capital) of Turkish banks and the aforementioned limit that is calculated on the basis of risk-weighted assets related to credit risk will no longer be applicable.

Furthermore, in addition to the Tier 2 Conditions stated above, the BRSA may require new conditions for each debt instrument and the procedure and principles regarding the removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates are determined by the BRSA.

Applications to include debt instruments or loans into Tier 2 capital are required to be accompanied by the original copy or a notarised copy of the applicable agreement(s) or the CMB's letter and text confirming the registration of such debt instrument or, if an applicable agreement is not yet signed, then a draft of such agreement (with submission of its original or a notarised copy to the BRSA within five Istanbul business days following the signing date of such agreement). The Equity Regulation provides that if the terms of the executed loan agreement or debt instrument contain different provisions than the draft thereof so provided to the BRSA, then a written statement of the board of directors confirming that such difference does not affect the Tier 2 capital qualifications is required to be submitted to the BRSA within five Istanbul business days following the signing date of such loan agreement or the issuance date of such debt instrument. If the applicable interest rate is not explicitly indicated in such loan agreement or the prospectus of such debt instrument (*borçlanma aracı izahnamesi*), as applicable, or if such interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorise the inclusion of the loan or debt instrument in the calculation of Tier 2 capital.

Debt instruments and loans that are approved by the BRSA are included in accounts of Tier 2 capital as of the date of transfer to the relevant accounts in the applicable bank's records. Loans and debt instruments that have been included in Tier 2 capital calculations and that have less than five years to maturity shall be included in Tier 2 capital calculations after being reduced by 20% each year.

Basel Committee

Basel II. The most significant difference between the capital adequacy regulations in place before 1 July 2012 and the Basel II regulations is the calculation of risk-weighted assets related to credit risk. The current regulations seek to align more closely the minimum capital requirement of a bank with its borrowers' credit risk profile. The impact of the new regulations on capital adequacy levels of Turkish banks largely stems from exposures to the Turkish government, principally through the holding of Turkish government bonds. While the previous rules provided a 0% risk weight for exposures to the Turkish sovereign and the Central Bank, the rules of Basel II require that claims on sovereign entities and their central banks be risk-weighted according to their credit assessment, which (as of the date of this Base Prospectus) results in a 100% risk weighting for Turkey; *however*, the Turkish rules implementing the Basel principles in Turkey revised this general rule by providing that Turkish Lira-denominated claims on sovereign entities in Turkey and the Central Bank shall have a 0% risk weight. See "Basel III" below for the risk weights of foreign currency-denominated claims on the Central Bank in the form of required reserves.

The BRSA published the Communiqué on the Calculation of Principal Subject to Credit Risk by Internal-Ratings Based Approaches and the Communiqué on the Calculation of Principal Subject to Operational Risk by

Advanced Measurement Approaches for the banks to apply internal ratings for the calculation of principal subject to credit risk and advanced measurement approaches for the calculation of principal subject to operational risk, which entered into effect on 1 January 2015. The BRSA also issued various guidelines noting that the use of such internal rating and advanced measurement approaches in the calculation of capital adequacy is subject to the BRSA's permission.

Basel III. Turkish banks' capital adequacy requirements have been and will continue to be affected by Basel III, as implemented by the Equity Regulation, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements. In 2013, the BRSA announced its intention to adopt the Basel III requirements and published initially the Equity Regulation and amendments to the 2012 Capital Adequacy Regulation, each entering into effect on 1 January 2014. The Equity Regulation introduced core Tier 1 capital and additional Tier 1 capital as components of Tier 1 capital. Subsequently, the BRSA replaced the 2012 Capital Adequacy Regulation with the 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016. These changes: (a) introduced a minimum 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 unconsolidated 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 categorised under "other assets." The Equity Regulation also introduced new Tier 2 rules and determined new criteria for debt instruments to be included in the Tier 2 capital. According to the 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016, the risk weights of foreign currency-denominated required reserves on the Central Bank in the form of required reserves were increased from 0% to 50%; *however*, on 24 February 2017, the BRSA amended its guidance to allow foreign exchange-required reserves held with the Central Bank to be subject to a 0% risk weight.

In order to further align Turkish banking legislation with Basel principles, the BRSA has published from time to time new regulations and communiqués amending or replacing the existing regulations and communiqués, some of which amendments entered into force on 31 March 2016. For information related to the leverage ratios, capital adequacy ratios and liquidity coverage ratios of banks, see "Capital Adequacy" above.

The BIS reviewed Turkey's compliance 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 might have a material adverse effect on the Group's business, financial condition and/or results of operations.

Liquidity and Reserve Requirements

Article 46 of the Banking Law requires banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures set out by the BRSA. Within this framework, a comprehensive liquidity arrangement has been put into force by the BRSA, following the consent of the Central Bank.

Pursuant to the Communiqué Regarding Reserve Requirements (the "*Communiqué Regarding Reserve Requirements*"), the Central Bank imposes different reserve requirements for different currencies and different tenors and adjusts these rates from time to time in order to encourage or discourage certain types of lending.

The reserve requirements also apply to gold deposit accounts. Furthermore, banks are permitted to maintain: (a) a portion of the Turkish Lira reserve requirements in U.S. dollars and another portion of the Turkish Lira reserve requirements in standard gold and (b) a portion or all of the reserve requirements applicable to precious metal deposit accounts in standard gold, which portions are revised from time to time by the Central Bank. In addition, banks are required to maintain their required reserves against their U.S. dollar-denominated liabilities in U.S. dollars only.

Furthermore, pursuant to the Communiqué Regarding Reserve Requirements, a bank must establish additional mandatory reserves if its financial leverage ratio falls within certain intervals. The financial leverage ratio is calculated according to the division of a bank's capital into the sum of the following items:

- (a) its total liabilities,
- (b) its total non-cash loans and obligations,

- (c) its revocable commitments *multiplied* by 0.1,
- (d) the total sum of each of its derivatives commitments multiplied by its respective loan conversion rate, and
- (e) its irrevocable commitments.

This additional mandatory reserve amount is calculated quarterly according to the arithmetic mean of the monthly leverage ratio.

In December 2018 and January 2019, the Central Bank amended the Communiqué Regarding Reserve Requirements to exclude in the calculation of reserve requirements the following liabilities on the balance sheet: (a) funds acquired on the Borsa İstanbul with repo transactions and (b) deposits and participation funds of official institutions. These amendments also removed a temporary article that distinguished the reserve requirement regime applicable to foreign currency liabilities other than deposits and participation funds that existed up to and prior to 28 August 2015 from those created after such date. The Central Bank further amended the Communiqué Regarding Reserve Requirements on 16 February 2019 to decrease the Turkish Lira reserve ratios for: (i) up to (and including) one year time deposits and participation funds to 7% (with a decrease of 1 percentage point), (ii) from one year to (and including) three-year time deposits and participation funds to 3.5% (with a decrease of 0.5 percentage point) and (iii) 1% for deposits and participation funds with maturities longer than three years (with a decrease of 0.5 percentage point).

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:

Leverage Ratio	Additional Reserve Requirement
Below 3.0%	2.0%
From 3.0% (inclusive) to 4.0%	1.5%
From 4.0% (inclusive) to 5.0%	1.0%

Reserve accounts kept in Turkish Lira may be interest-bearing pursuant to guidelines adopted by the Central Bank from time to time according to the reserve requirement manual issued by the Central Bank on 11 April 2014.

Foreign Exchange Requirements

According to the Regulation on Foreign Exchange Net Position/Capital Base issued by the BRSA and published in the Official Gazette No. 26333 dated 1 November 2006, 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 Turkish Auditor Regulation. Independent auditors are held liable for damages and losses to third parties and are subject to stricter reporting obligations. Professional liability insurance is required for: (a) independent auditors and (b) evaluators, rating agencies and certain other support services (if requested by the service-acquiring bank or required by the BRSA). Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms. The ICAAP Regulation established standards as to principles of internal control, internal audit and risk management systems and an ICAAP in order to bring such regulations into compliance with Basel II requirements.

In 2015 and 2016, the BRSA issued certain amendments to the ICAAP 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 20 January 2016 and the other amendments entered into force on 31 March 2016. These amendments impose new regulatory requirements to enhance the effectiveness of internal risk management and internal capital adequacy assessments by introducing, among other things, new stress test requirements. Accordingly, the board of directors and senior management of a bank are required to ensure that a bank has established appropriate risk management systems and that it applies an ICAAP such that the bank has adequate capital to meet the risks incurred by it. The ICAAP Report is required to be audited by either the internal audit department or an independent audit firm in accordance with the internal audit procedures of a bank.

All banks (public and private) also undergo annual audits and interim audits by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities and foreign exchange transactions. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The Central Bank has the right to monitor compliance by banks with the Central Bank's regulations through on-site and off-site examinations.

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 ICAAP 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 Savings Deposit Insurance Fund (SDIF)

Article 111 of the Banking Law relates to the SDIF. The SDIF has been established to develop trust and stability in the banking sector by strengthening the financial structures of Turkish banks, restructuring Turkish banks as needed and insuring the savings deposits of Turkish banks. The SDIF is a public legal entity set up to insure savings deposits held with banks and (along with all other Turkish banks) the Bank is subject to its regulations. The SDIF is responsible for and authorised to take measures for restructuring, transfers to third parties and strengthening the financial structures of banks, the shares of which and/or the management and control of which have been transferred to the SDIF in accordance with Article 71 of the Banking Law, as well as other duties imposed on it.

(a) *Insurance of Deposits.* Pursuant to Article 63 of the Banking Law, savings deposits (except for commercial deposits) held with banks are insured by the SDIF. The scope and amount of savings deposits subject to the insurance are determined by the SDIF upon the approval of the Central Bank, the BRSA and the Turkish Treasury. The tariff of the insurance premium, the time and method of collection of this premium, and other relevant matters are determined by the SDIF upon the approval of the BRSA.

(b) *Borrowings of the SDIF.* The SDIF: (i) may incur indebtedness with authorisation from the Turkish Treasury or (ii) the Turkish 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 Turkish Treasury, are to be determined together by the Turkish 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 BRSA are not covered by the SDIF's insurance.

(f) *Premiums as an Expense Item.* Premiums paid by a bank into the SDIF are to be treated as an expense in the calculation of that bank's corporate tax.

(g) *Liquidation.* In the event of the bankruptcy of a bank, the SDIF is a privileged creditor and may liquidate the bank under the provisions of the Execution and Bankruptcy Law No. 2004, exercising the duties and powers of the bankruptcy office and creditors' meeting and the bankruptcy administration.

(h) *Claims.* In the event of the bankruptcy of a bank, holders of savings deposits will have a privileged claim in respect of the part of their deposit that is not covered by the SDIF's insurance.

Since 15 February 2013, up to TL 100,000 of the amounts of a depositor's deposit accounts benefit from the SDIF insurance guarantee.

The main powers and duties of the SDIF pursuant to the SDIF regulation published in the Official Gazette No. 26119 dated 25 March 2006, and as amended from time to time, 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 organisations in which domestic and foreign equivalent agencies participate, and signing memoranda of understanding with the authorised bodies of foreign countries regarding the matters that fall within the SDIF's span of duty,
- (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 Turkish 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 banking licence has been revoked by the BRSA,
- (g) fulfilling the necessary operations regarding the transfer, sale and merger of the banks whose shareholder rights (except to 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 banking licence 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, natural 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 Licence

If the results of an audit show that a bank's financial structure has seriously weakened, then the BRSA may require the bank's board of directors to take measures to strengthen its financial position. Pursuant to the Banking Law, in the event that the BRSA in its sole discretion determines that:

(a) the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due,

(b) the bank is not complying with liquidity requirements,

(c) the bank's profitability is not sufficient to conduct its business in a secure manner due to disturbances in the relation and balance between expenses and profit,

(d) the regulatory equity capital of such bank is not sufficient or is likely to become insufficient,

(e) the quality of the assets of such bank have been impaired in a manner potentially weakening its financial structure,

(f) the decisions, transactions or applications of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA,

(g) such bank does not establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the audit of such systems, or

(h) imprudent acts of such bank's management materially increase the risks stipulated under the Banking Law and relevant legislation or potentially weaken the bank's financial structure,

then the BRSA may require the board of directors of such bank:

(i) to increase its equity capital,

(ii) not to distribute dividends for a temporary period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund,

(iii) to increase its loan provisions,

(iv) to stop extension of loans to its shareholders,

(v) to dispose of its assets in order to strengthen its liquidity,

(vi) to limit or stop its new investments,

(vii) to limit its salary and other payments,

(viii) to cease its long-term investments,

(ix) to comply with the relevant banking legislation,

(x) to cease its risky transactions by re-evaluating its credit policy,

(xi) to take all actions to decrease any maturity, foreign exchange and interest rate risks for a period determined by the BRSA and in accordance with a plan approved by the BRSA, and/or

(xii) to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, its financial structure cannot be strengthened despite the fact that such actions have been taken or the BRSA determines that taking such actions will not lead to a favourable result, then the BRSA may require such bank to:

(a) strengthen its financial structure, increase its liquidity and/or increase its capital adequacy,

(b) dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSA,

(c) decrease its operational and management costs,

(d) postpone its payments under any name whatsoever, excluding the regular payments to be made to its employees,

(e) limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors,

(f) convene an extraordinary general assembly in order to change some or all of the members of the board of directors or assign new member(s) to the board of directors, in the event any board member is responsible for a failure to comply with relevant legislation, a failure to establish efficient and sufficient operation of internal audit, internal control and risk management systems or non-operation of these systems efficiently or there is a factor that impedes supervision or such member(s) of the board of directors cause(s) to increase risks significantly as stipulated above,

(g) implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank and the members of the board of directors and the shareholders with qualified shares must undertake the implementation of such plan in writing, and/or

(h) to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, the problem cannot be solved despite the fact that the actions have been taken or the BRSA determines that taking such actions will not lead to a favourable result, then the BRSA may require such bank to:

(a) limit or cease its business or the business of the whole organisation, including its relations with its local or foreign branches and correspondents, for a temporary period,

(b) apply various restrictions, including restrictions on the interest rate and maturity with respect to resource collection and utilisation,

(c) remove from office (in whole or in part) some or all of its members of the board of directors, general manager and deputy general managers and the relevant department and branch managers and obtain approval from the BRSA as to the persons to be appointed to replace them,

(d) make available long-term loans; *provided* that these will not exceed the amount of deposit or participation accounts subject to insurance, and be secured by the shares or other assets of the controlling shareholders,

(e) limit or cease its non-performing operations and to dispose of its non-performing assets,

(f) merge with one or more other interested bank(s),

(g) provide new shareholders in order to increase its equity capital,

(h) deduct any resulting losses from its own funds, and/or

(i) take any other action that the BRSA may deem necessary.

In the event that: (a) the aforementioned actions are not (in whole or in part) taken by the applicable bank within a period of time set forth by the BRSA or in any case within 12 months, (b) the financial structure of such bank cannot be strengthened despite its having taken such actions, (c) it is determined that taking these actions will not lead to the strengthening of the bank's financial structure, (d) the continuation of the activities of such bank would jeopardise the rights of the depositors and the participation account owners and the security and stability of the financial system, (e) such bank cannot cover its liabilities as they become due, (f) the total amount of the liabilities of such bank exceeds the total amount of its assets or (g) the controlling shareholders or directors of such bank are found to have utilised such bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardised the secure functioning of the bank or caused such bank to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members, may revoke the licence of such bank to engage in banking operations and/or to accept deposits and transfer the management, supervision and control of the shareholding rights (excluding dividends) of such bank to the SDIF for the purpose of whole or partial transfer or sale of such bank to third persons or the merger thereof; *provided* that any loss is deducted from the share capital of current shareholders.

In the event that the licence of a bank to engage in banking operations and/or to accept deposits is revoked, then that bank's management and audit will be taken over by the SDIF. Any and all execution and bankruptcy proceedings (including preliminary injunction) against such bank would be discontinued as from the date on which the BRSA's decision to revoke such bank's licence is published in the Official Gazette. From the date of revocation of such bank's licence, 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 licence is revoked.

Annual Reporting

Pursuant to the Banking Law, Turkish banks are required to follow the BRSA's principles and procedures (which are established in consultation with the Turkish Accounting Standards Board and international standards) when preparing their annual reports. Turkish listed companies must also comply with the Communiqué on Principles of Financial Reporting in Capital Markets issued by the CMB. In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation.

Furthermore, Turkish companies (including banks) are required to comply with the Regulation regarding Determination of the Minimum Content of the Companies' Annual Reports published by the Ministry of Customs and Trade, as well as the Corporate Governance Communiqué, when preparing their annual reports. These reports are required to include the following information: management and organisation structures, human resources, activities, financial situation, assessment of management and expectations and a summary of the directors' report and independent auditor's report.

A bank cannot settle its balance sheets without ensuring reconciliation with the legal and auxiliary books and records of its branches and domestic and foreign correspondents.

The BRSA is authorised to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

Pursuant to the Regulation on the Principles and Procedures Concerning the Preparation of Annual Reports by Banks published in the Official Gazette No. 26333 dated 1 November 2006, the chairman of the board, audit committee, general manager, deputy general manager responsible for financial reporting and the relevant unit manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records.

Independent auditors must approve the annual reports prepared by the banks.

Banks are required to submit their financial reports to related authorities and publish them in accordance with the BRSA's principles and procedures.

According to BRSA regulations, the annual report is subject to the approval of the board of directors and must be submitted to shareholders at least 15 days before the annual general assembly of the bank. Banks also must submit

an electronic copy of their annual reports to the BRSA within seven days following the publication of the reports. Banks must also keep a copy of such reports in their headquarters and an electronic copy of the annual report should be available at a bank's branches in order to be printed and submitted to the shareholders upon request. In addition they must publish them on their websites by the end of May following the end of the relevant fiscal year.

Amendments to the Regulation on the Principles and Procedures Regarding the Preparation of Annual Reports by Banks, which entered into force on 31 March 2016, 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 31 March 2016) to the Communiqué on Financial Statements to be Disclosed to the Public setting forth principles of disclosure of annotated financial statements of banks in accordance with the Communiqué on Public Disclosure regarding Risk Management of Banks and the Equity Regulation. The amendments reflect the updated requirements relating to information to be disclosed to the public in line with the amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios, liquidity coverage ratios and leverage ratios. Rules relating to equity items presented in the financial statements were also amended in line with the amendments to the Equity Regulation. Furthermore, the changes require publication of a loan agreement of the bank or a prospectus relating to a loan or debt instrument, which will be taken into account in the calculation of the capital of a (parent company) bank as an element for additional principal capital (*i.e.*, additional Tier 1 capital) and supplementary capital (*i.e.*, Tier 2 capital), on the bank's website. Additionally, banks are required to make necessary disclosures on their websites immediately upon repayment of a debt instrument, depreciation or conversion of a share certificate or occurrence of any other material change.

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

On 15 September 2018, the Ministry of Commerce issued a communiqué that sets forth the procedures and principles relating to the application of Article 376 of the TCC, which article regulates the measures that Turkish companies (*i.e.*, joint stock companies, limited liability companies and limited partnerships, in which the capital is divided into shares, including financial institutions) are required to adopt in case of loss of capital or insolvency. This new communiqué aims to clarify and complement the remedial actions that can be taken in relation to the treatment of foreign exchange losses in the calculation of the loss of capital or insolvency. As companies in Turkey prepare their financial statements in Turkish Lira, the value of any foreign currency-denominated asset and liability is converted into Turkish Lira based upon the currency rate applicable as of the date of such financial statements; *however*, until 1 January 2023, the communiqué allows companies to disregard any losses arising from the exchange rate volatility of any outstanding foreign currency-denominated liability while making any capital loss or insolvency calculations. As such, companies will not be required to apply any measures set forth in Article 376 of the TCC to maintain their capital if the relevant loss of capital or insolvency arises from currency fluctuations.

Financial Services Fee

Pursuant to Heading XI of Tariff No. 8 attached to the Law on Fees (Law No. 492) amended by the Law No. 5951, banks are required to pay to the relevant tax office to which their head office reports an annual financial services fee for each of their branches. The amount of the fee is determined in accordance with the population of the district in which the relevant branch is located.

Corporate Governance Principles

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

As of the date of this 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. The Bank is required to state in its annual activity report whether it is in compliance with the principles applicable to it under the Corporate Governance Communiqué. In case of any non-compliance, explanations regarding such non-compliance are also required to be included in such report. Should the Bank fail to comply with any mandatory obligations, then it may be subject to sanctions from the CMB.

The Corporate Governance Communiqué contains principles relating to: (a) companies' shareholders and other stakeholders, (b) public disclosure and transparency and (c) boards of directors. A number of principles are compulsory, while the remaining principles apply on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalisation and the market value of their free-float shares, subject to recalculation on an annual basis.

The mandatory principles under the Corporate Governance Communiqué include provisions relating to: (a) the composition of the board of directors, (b) appointment of independent board members, (c) board committees, (d) specific corporate approval requirements for related party transactions, transactions that may result in a conflict of interest and certain other transactions deemed material by the Corporate Governance Communiqué and (e) information rights in connection with general assembly meetings. According to the Corporate Governance Communiqué, banks may, taking into account the size of their operations and type of their structures, determine their corporate governance principles based upon those stated in the Corporate Governance Communiqué provided that they comply with the principles and procedures set out in the Banking Law and the provisions of other regulations entered into effect in accordance therewith.

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 the audit committee, at least one member should meet the mandatory qualification required for independent board members as set out in the Corporate Governance Communiqué. The Corporate Governance Communiqué further initiated a pre-assessment system to determine the "independency" of individuals nominated as independent board members in "1st Group" 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 authorised to issue a "negative view" on any nominee and prevent their appointment as independent members of the board of directors. The Corporate Governance Communiqué also requires listed companies to establish certain other board committees; *however*, banks are exempt from this requirement for the audit committee, early detection of risk committee and remuneration committee. The Bank is classified as a "1st Group" company.

In addition to the mandatory principles regarding the composition of the board and the independent board members, the Corporate Governance Communiqué introduced specific corporate approval requirements for all material related party transactions. All those types of transactions shall be approved by the majority of the independent board members. If not, then they shall be brought to the general assembly meeting where related parties to those transactions are not allowed to vote. Meeting quorum shall not be sought for these resolutions and the resolution quorum is the simple majority of the attendees who may vote. For banks and financial institutions, transactions with related parties arising from their ordinary activities are not subject to the requirements of related party transactions.

The Capital Markets Law authorises the CMB to require listed companies to comply with the corporate governance principles in whole or in part and to take certain measures with a view to 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.

In addition to the provisions of the Corporate Governance Communiqué related to the remuneration policy of banks, the BRSA published a guideline on good pricing practices in banks, which entered into force on 31 March 2016. This guideline sets out the general principles for employee remuneration as well as standards for remuneration to be made to the board of directors and senior management of banks.

As of the date of this Base Prospectus, the Bank is in compliance with the mandatory principles under the Corporate Governance Communiqué, as well as with applicable requirements for having independent directors.

Anti-Money Laundering

Turkey is a member country of the FATF and has enacted laws to combat money laundering, terrorist financing and other financial crimes. In Turkey, all banks and their employees are obligated to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money laundering set forth in Law No. 5549 on Prevention of Laundering Proceeds of Crime.

Minimum standards and duties under such laws include customer identification, record keeping, suspicious transaction reporting, employee training, monitoring activities and the designation of a compliance officer. Suspicious transactions must be reported to the Financial Crimes Investigation Board.

Consumer Loan, Provisioning and Credit Card Regulations

On 8 October 2013, the BRSA published regulations that aim to limit the expansion of individual loans and payments (especially credit card instalments). The rules: (a) include overdrafts on deposit accounts and loans on credit cards in the category of consumer loans for purposes of provisioning requirements, (b) set a limit of TL 1,000 for credit cards issued to consumers who apply for a credit card for the first time if their income cannot be determined by the bank, (c) require credit card issuers to monitor cardholders' income levels before each limit increase of the credit card and (d) increase the minimum monthly payment required to be made by cardholders. On 6 September 2016, the BRSA increased the credit limit from TL 1,000 to TL 1,300 on credit cards issued to first-time applicants if an applicant's income cannot be determined by the bank.

Before increasing the limit of a credit card, a bank is required to monitor the income level of the consumer and it should not increase the credit card limit if the customer's aggregate credit card limit exceeds four times his or her monthly income. In addition, minimum payment ratios for credit cards may not be lower than 30%, 35% and 40% for credit cards with limits lower than TL 15,000, from TL 15,000 to but excluding TL 20,000 and from TL 20,000, respectively, or 40% for newly-issued credit cards for one year from the date of first use. The 2015 Capital Adequacy Regulation lowered the risk weight for instalment payments of credit cards to 75% irrespective of their tenor, which was in a range of 100% to 250% depending upon their outstanding tenor.

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 purchases of goods or services, and such card will not be available for a limit upgrade, until the total amount in the statements is paid.

The BRSA, by amending the Regulation on Bank Cards and Credit Cards, has adopted limitations on the length of the periods of instalment payments on credit cards. On 11 January 2019, the Regulation on Bank Cards and Credit Cards was amended and the BRSA was empowered to determine (in consultation with the Presidency of Turkey Strategy and Budget Directorate, the Turkish Treasury and the Ministry of Trade) instalment periods for goods and services and cash withdrawals, which had previously been regulated under this regulation. On 11 January 2019, the BRSA issued a decision (as amended on 25 February 2019 and 27 March 2019) providing that the instalment payment period (including the period for the postponement of payments and the debts split into instalments for a fee) for the purchase of goods and services and cash withdrawals (including for computer purchases, domestic expenditures relating to travel agencies, health and social services) is not permitted to exceed 12 months; *provided* that such limit is only three months for electronic appliance purchases, four months for jewellery expenditures (except for pressed and bullions jewellery), six months for payments made to clubs and associations, travel agencies assisting with international travel, airlines and accommodation and nine months for the purchase of televisions up to TL 3,000, domestic expenditures relating to airlines and accommodation, purchases of health products and tax payments. In addition, credit card instalment payments (except for corporate credit cards) are not allowed for pressed and bullion jewellery

expenditures, telecommunication related expenses, expenses related to direct marketing, expenditures made outside of Turkey and purchases of nutriment, liquor, fuels, cosmetics, office equipment, gift cards, gift checks and other similar intangible goods. With respect to corporate credit cards, the instalment period (including the period for the postponement of payments and the debts split into instalments for a fee) for the purchase of goods and services and cash withdrawals is not permitted to exceed 12 months.

Furthermore, in 2013, the Law on the Protection of Consumers (Law No: 6502) imposed new rules applicable to Turkish banks, such as requiring banks to offer to its customers at least one credit card type for which no annual subscription fee (or other similar fee) is payable. Furthermore, while a bank is generally permitted to charge its customers fees for accounts held with it, no such fees may be payable on certain specific accounts (such as fixed term loan accounts and mortgage accounts).

In April 2019, the Central Bank amended the Communiqué on Maximum Interest Rates to be Applied for Credit Card Transactions (which it had originally published in November 2016), replacing the then-existing rates applicable from April until June 2019. Accordingly, the maximum contractual interest rates for Turkish Lira and foreign currency credit card transactions are 2.15% and 1.72%, respectively, until the end of June 2019. The monthly maximum default interest rates are 2.65% and 2.22% for credit card transactions in Turkish Lira and foreign currency, respectively, until the end of June 2019. The Central Bank might announce new interest rates to be applied after June 2019.

Loan Transactions

On 31 December 2013, the BRSA adopted rules on loan-to-value and instalments of certain types of loans and, on 27 September 2016, the BRSA made certain amendments to such rules. Pursuant to these rules, the minimum loan-to-value requirement for housing loans extended to consumers, financial lease transactions for housing and loans (except auto loans) secured by houses is 80% (which was 75% before such amendments). The BRSA further determined the minimum loan-to-value requirement for houses that have an energy identification document within the scope of Energy Efficiency Law No. 5627 and are classified within group A as 90% and those classified within group B as 85%. In addition, in accordance with the Regulation on Loan Transactions of Banks, for auto loans extended to consumers, loans secured by autos and autos leased under financial lease transactions, the loan-to-value requirement is 70%; *provided that*, in each case, the sale price of the respective auto is not higher than TL 120,000; *however*, if the sale price of the respective auto is above this TL 120,000 threshold, then the minimum loan-to-value ratio for the portion of the loan below the threshold amount is 70% and the remainder is set at 50%.

As for limitations regarding instalments, save for 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 for student loans, financing of debts owed to public institutions where the loan amount is directly deposited into the relevant public institution's account and any refinancing of the same, the maturity of consumer loans and auto loans for autos final invoice amount of which are TL 120,000 or less are not permitted to exceed 60 months, whereas such limit is 48 months for auto loans extended for the purchase of autos final invoice amount of which are more than TL 120,000 and loans secured with autos, 12 months for loans granted for purchases of computers, 6 months for loans granted for purchases of tablets, 12 months for mobile phones that cost up to TL 3,500 and six months for loans granted for purchases mobile phones that cost more than TL 3,500.

Also, pursuant to the provisional article of the Regulation on Loan Transactions of Banks, the debt balances of individual loans (which include loans provided for durable and semi-durable consumer goods, weddings, education and health) utilised before 27 September 2016 may be restructured upon the request of the borrower over a period of up to 72 months (or up to 48 months if an additional loan is provided to the customer within the scope of the restructuring). The BRSA introduced two provisional articles to the Regulation on Loan Transactions of Banks on 10 February 2019 and 26 February 2019, respectively, providing that the debt balances of individual loans that were non-performing as of 10 February 2019 may be restructured upon the request of the borrower for a period of up to 60 months. In addition, debt balances of individual loans may be restructured upon the request of the borrower for a period of up to 60 months.

On 25 January 2019, the Regulation on Loan Transactions of Banks was further amended. Accordingly, the board of directors of a bank must determine, in writing, the procedures for assessment, approval and workflow in respect of loan transactions, service agreements, purchase agreements for goods or such other agreements to be entered into with: (a) the risk group that such bank is involved in (*i.e.*, 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) or (b) individuals or legal entities specified in Article 50(1) of the Banking Law. In addition, such

transactions exceeding the materiality threshold to be determined by the board of directors of a bank shall be subject to board of directors' approval. The BRSA is also entitled to introduce restrictions on the materiality thresholds that banks determine.

In addition, such amendments: (a) require that a credit rating note from an authorised institution be obtained prior to extension of certain loans, the scope of which will be determined by the BRSA, and (b) have exempted from the lending limits set forth in Article 54 of the Banking Law the loans extended to banks that are majority-owned, jointly or solely, by the Turkish Treasury, the Privatisation Administration, the Turkish Wealth Fund or other public institutions within the central administration.

On 3 October 2014, the BRSA published its Regulation on the Procedures and Principles Regarding Fees to be Collected from Financial Institutions' Customers, 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. The charge of any other fees and commissions by Turkish banks is subject to the BRSA's approval.

Foreign Currency Restrictions

Decree 32 and the Capital Movements Circular of the Central Bank (the "*Capital Movements Circular*") were amended, effective as of 2 May 2018, in order to introduce restrictions on Turkish resident legal entities utilising foreign currency loans. While this regime maintained the previous prohibition on Turkish individuals utilising foreign exchange loans and foreign exchange-indexed loans, it introduced a strict prohibition on Turkish resident non-bank legal entities (each a "*Corporate Borrower*") utilising foreign currency-indexed loans and also imposed restrictions on Corporate Borrowers utilising foreign currency loans (the "*F/X Loan Restriction*").

Accordingly, a Corporate Borrower is only permitted to utilise foreign currency loans if: (a) it generates foreign currency-denominated income (which is defined as "the revenue derived from export, transit trade, sales and deliveries considered as export and foreign currency generating activities" and activities that are accepted as foreign currency income and other activities to be approved by the relevant Ministry) (the "*F/X Income Exemption*"), (b) the purpose of the loan is to finance an activity that is exempt from the F/X Loan Restriction (the "*Activity Exemption*") or (c) if, as of 2 May 2018, the unpaid outstanding balance of its total foreign currency loans ("*Loan Balance*") was more than US\$15 million.

As far as the F/X Income Exemption is concerned, if the Loan Balance of a Corporate Borrower was below US\$15 million, then the sum of the foreign currency loans to be utilised and the existing Loan Balance must not be more than the combined value of such Corporate Borrower's foreign currency income as stated in its financial statements for the last three financial years. Turkish-resident financial institution lenders are required to control whether a Corporate Borrower complies with this rule. In case of any non-compliance with the F/X Loan Restriction rules, Turkish-resident financial institution lenders are required either to cancel or convert into Turkish Lira the portion of the foreign currency loans to such Corporate Borrower that exceeds this value. In case of a breach of this obligation, an administrative monetary fine might be imposed.

In respect of the Activity Exemption, a legal entity must qualify as a public institution, bank, factoring, financial leasing or financing company resident in Turkey in order to utilise foreign currency loans. In the case of Corporate Borrowers, the Activity Exemption must relate to an activity in the context of, among others: (a) a domestic tender with an international element awarded to such Corporate Borrower, (b) defence industry projects approved by the Undersecretariat of Defence Industry, (c) public-private partnership projects or (d) an export, transit trade, sales and related deliveries subject to the relevant Corporate Borrower certifying the scope of its relevant activity and its potential sources of foreign currency incomes (*muhtemel döviz geliri*). In order for a Corporate Borrower to benefit from the Activity Exemption summarised in clause (d), it must not have had any foreign currency revenue within the last three financial years (which otherwise would be subject to the F/X Income Exemption) and the maximum amount of foreign currency loans that such Corporate Borrower can utilise is limited to the amount stated in its certified sources of foreign revenue.

The Turkish Treasury is entitled to extend the scope of the Activity Exemption and has exercised such authority in respect of, among others, privatisation tenders, public tenders awarded with a foreign exchange consideration, unlicensed electricity generation projects within this scope and foreign currency loans to be used by fully owned (directly or indirectly) Turkish subsidiaries of foreign companies from other group companies resident abroad.

On 13 September 2018, Decree 32 was amended to impose restrictions on the use of, or indexing to, foreign currency in the following contracts executed between Persons residing in Turkey: sale and purchase of movable and immovable property, leasing of all kinds of movable and immovable property (including vehicle and financial leasing), employment, service and construction contracts. According to such amendments, Turkish residents were required to amend any relevant contract so that the contract price and all other payment obligations thereunder were re-determined in Turkish Lira within a 30-day transition period (*i.e.*, by 13 October 2018). On 6 October 2018 and 16 November 2018, the Turkish Treasury issued an amending communiqué that broadened the scope of, but provided certain exemptions to, these restrictions. Among other exemptions, capital market instruments (including any Notes issued directly to Turkish investors) are exempt from these restrictions. Accordingly, the issuance, purchase and sale of capital market instruments in accordance with the Capital Markets Law may be denominated in, or indexed to, foreign currency.

A communiqué numbered 2018-32/48 regarding export prices was published in the Official Gazette dated 4 September 2018 and numbered 30525. This communiqué requires exporters to sell 80% of their foreign currency export revenues to Turkish banks within 180 days following the date of the export. This obligation applies to all Turkish resident exporters and the exporters are liable for fulfillment of those obligations, which the intermediary banks are required to monitor. The BRSA extended the application of this provision to one year from the effect date of the requirement (*i.e.*, until 4 September 2019).

In addition, the BRSA capped Turkish banks' exposure under swap, spot and forward transactions with foreign entities to 25% of a bank's regulatory capital. In the case of a bank exceeding this level, new transactions may not be executed or renewed until the 25% level (which is calculated on a daily basis) is attained; *however*, transactions conducted between local banks and their consolidated affiliates located abroad that qualify as a bank or financial institution are exempt from this restriction. Separately, when calculating the transactions falling within the scope of the 25% threshold, local banks are to consider transactions having a maturity of: (a) 90 to 360 days at 75% of their amount and (b) no less than 360 days at 50% of their amount.

Recent Amendments to the Turkish Insolvency and Restructuring Regime

The Enforcement and Bankruptcy Law No. 2004 prevents a contractual arrangement by which a contractual event of default clause is stipulated to be triggered in case any application is made by a Turkish company for debt restructuring upon settlement (*uzlaşma yoluyla yeniden yapılandırma*) within the scope of this law. In addition, changes were introduced to this law on 15 March 2018 that (*inter alia*) states that the contractual termination, default and acceleration clauses of an agreement cannot be triggered in case the debtor makes a *concordat* application and such application shall not constitute a breach of such agreement.

On 15 August 2018, the BRSA published the Regulation on Restructuring of Debts in the Financial Sector (the "*Restructuring Regulation*") pursuant to which a framework agreement (the "*Framework Agreement*") was drafted by the Banks Association of Turkey. On 19 September 2018, the Banks Association of Turkey announced that Turkish banks (including the Bank) and other financial institutions, whose shares correspond to approximately 90% of the total loans in the market, executed the Framework Agreement, which entered into force on the same date following the approval of the BRSA. The main aim of the regulation is to enhance the repayment ability of debtors in repaying their debts to the financial sector in order for these companies to sustain their operations and contribute to the employment in Turkey. The Framework Agreement determined: (a) the scope of debts to be restructured, (b) the minimum qualifications of the eligible debtors, (c) the minimum debt amount to be restructured, (d) the content of the restructuring agreements and (e) the procedure to determine a debtor's eligibility, which is the capacity of a debtor to repay its debts following the restructuring process in line with the repayment schedule. According to the Framework Agreement, debtors that have a principal debt of more than TL 100 million (including cash and non-cash debt) are eligible to apply to restructure their debts. According to the Framework Agreement, the eligible debtor(s) and the applicable credit institutions may sign a restructuring agreement at any time through 19 September 2020. As such, certain borrowers of the Bank might apply for restructuring of their debt.

In this respect, eligible creditors (the "*Creditors*") that have signed or will be signing the Framework Agreement will constitute a creditors consortium and, to the extent that a debtor is able to meet certain eligibility conditions set out in the Restructuring Regulation and the Framework Agreement (together the "*New Restructuring Framework*"), it will have the right to apply to one of the three Creditors carrying the highest three exposures to initiate the restructuring process. Pursuant to the Framework Agreement, when a debtor makes an application for restructuring, there is a minimum 90 day standstill period, which can be extended to 150 days. If the restructuring agreement is signed, then, during the standstill period, all enforcement actions by the respective Creditors that sign the Framework Agreement are suspended and no new enforcement action can be initiated by such Creditors against such debtor. The debtor and any related party (including such debtor's subsidiaries, other affiliates and their respective shareholders) are under the "equal treatment" principle during the standstill period, which requires them not to favour any Creditor over

any other Creditor. Following the negotiations, if a restructuring protocol is entered into between such number of Creditors representing at least two-thirds of the outstanding debt of the debtor that has been agreed to be restructured under the Framework Agreement, then all Creditors that have signed the Framework Agreement must restructure their loans to such debtor. According to the New Restructuring Framework, a restructuring protocol may (*inter alia*) provide for a reduction of restructured debt, extension of maturities of the restructured debt, extension of new money loans, introduction of new framework for the governance of the debtor, injection of shareholder equity contribution, disposal of certain part of the business of the debtor and the provision of additional collaterals.

The Restructuring Regulation was further amended on 21 November 2018 to enable foreign credit institutions to participate in the restructuring process under the Framework Agreement. According to the Restructuring Regulation, only debtors that are expected to gain the financial ability to repay their obligations in a reasonable period of time are allowed to benefit from financial restructuring. To this end, the solvency of such debtors that would like to benefit from a restructuring scheme is to be determined by the entities specified in the Framework Agreement. The Framework Agreement was approved by the BRSA on 5 February 2019. Furthermore, a draft law on restructuring (the “*Draft Restructuring Law*”) was circulated to Turkish banks for their review and the Banks Association of Turkey sent the banks’ input to the BRSA on 25 September 2018. The Draft Restructuring Law contemplates certain tax exemptions for, and suspension of execution proceedings against, debtors subject to restructuring.

Credit Guarantee Fund

The KGF was established pursuant to Decree No. 93/4496 dated 14 July 1993 in order to provide guarantees for SMEs and other enterprises, in particular, to those that are not able to obtain bank loans due to their insufficient collateral. In order to improve financing possibilities and contribute to the effective operation of the credit system, pursuant to provisional Article 20 of the Law regarding the Regulation of Public Financing and Debt Management (Law No. 4749) dated 28 March 2002, resources up to TL 2 billion could be transferred by the Minister in charge of the Turkish Treasury to the credit guarantee institutions. Such amount was increased to TL 25 billion in accordance with the Law No. 6670 dated 18 January 2017. In addition, pursuant to Decree No. 2016/9538 on Treasury Support to be provided to the Credit Guarantee Institutions (published in the Official Gazette No. 29896 and dated 22 November 2016) (as amended from time to time), the KGF guarantees are supported by the Turkish Treasury. The KGF can provide guarantees from 80% to 100% of the sum of interest, dividend and rent payments except for the default interest and principal balance on the date of loan payment for both SMEs and non-SMEs.

Pursuant to Presidential Decree No. 162 dated 11 October 2018, loans guaranteed by the Turkish Treasury under the KGF programme may be restructured up to 96 months for working capital loans and up to 156 months for investment loans. Such Presidential Decree also requires lenders to provide an opportunity to borrowers to restructure their KGF-guaranteed loans prior to any recourse to the KGF guarantee.

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.

As of the date of this Base Prospectus, the Issuer is required to notify Central Registry İstanbul within three İstanbul business days from the applicable Issue Date of a Tranche of Notes of the amount, Issue Date, ISIN (if any), interest commencement date, maturity date, interest rate, name of the custodian and currency of such Notes and the country of issuance.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised 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 computerised 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 organisations. 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 securities among Direct Participants on whose behalf it acts with respect to notes accepted into DTC’s book-entry settlement system (“*DTC Notes*”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the SEC. Participants with which beneficial owners of DTC Notes (“*DTC Beneficial Owners*”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective DTC Beneficial Owners. Accordingly, although DTC Beneficial Owners who hold interests in DTC Notes through Participants will not possess the securities, 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 DTC Beneficial Owner is in turn to be recorded on the relevant Direct Participant’s and Indirect Participant’s records. DTC Beneficial Owners will not receive written confirmation from DTC of their purchases, but DTC Beneficial Owners are expected to receive written confirmations providing details of each transaction, as well as periodic statements of their holdings, from the Participant through which the DTC Beneficial Owner holds its interest in the DTC Notes. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of DTC Beneficial Owners. DTC Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual DTC Beneficial Owners; DTC’s records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the DTC Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to DTC Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the DTC Notes will be made to DTC or its nominee. DTC's practice is to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC, subject to the receipt of funds and corresponding detail information from the Issuer or the relevant Paying Agent. Payments by Participants to DTC 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 DTC Beneficial Owners is the responsibility of Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Direct Participants in accordance with their requests and proportionate entitlements and that will be legended as described in "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 DTC Beneficial Owner desiring to pledge its interest in DTC Notes to Persons 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 securities from DTC as described below.

The laws in some jurisdictions might 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 interest to Persons 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 interest for Notes in definitive form. The ability of any holder of an interest in Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such interests might be impaired if the proposed transferee of such interests is not eligible to hold such interests through a Participant.

Clearstream, Luxembourg

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of a number of currencies, including U.S. dollars and Turkish Lira. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in several countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the *Commission de Surveillance du Secteur Financier* and the *Banque Centrale du Luxembourg*, which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are recognised 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 a direct participant in 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 that do not participate in the Clearstream, Luxembourg system, or otherwise take action in respect of such interest, might be limited by the lack of a definitive note for such interest because Clearstream, Luxembourg can act only on behalf of Clearstream, Luxembourg's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions might require that certain Persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such Persons might be limited. In addition, beneficial owners of Notes held through the Clearstream, Luxembourg system will receive payments of principal, interest and any other amounts in respect of the Notes only through Clearstream, Luxembourg participants.

Euroclear

Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between its direct participants. 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 participants in Euroclear.

The ability of an owner of a beneficial interest in a Note held through Euroclear to pledge such interest to Persons that do not participate in the Euroclear system, or otherwise take action in respect of such interest, might be limited by the lack of a definitive note for such interest because Euroclear can act only on behalf of Euroclear's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions might require that certain Persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such Persons might be limited. In addition, beneficial owners of Notes held through the Euroclear system will receive payments of principal, interest and any other amounts in respect of the Notes only through Euroclear participants.

Book-entry Ownership of and Payments in respect of Global Notes

The Issuer has applied to each of Euroclear and Clearstream, Luxembourg to have Global Note(s) accepted in its book-entry settlement system. Upon the issue of any such Global Note, Euroclear and/or Clearstream, Luxembourg, as applicable, will credit, on its internal book-entry system, the respective nominal amounts of the interests represented by such Global Note to the accounts of Persons who have accounts with Euroclear and/or Clearstream, Luxembourg, as applicable. Such accounts initially will be designated by or on behalf of the relevant Dealer(s) or investor(s). Interests in such a Global Note through Euroclear and/or Clearstream, Luxembourg, as applicable, will be limited to participants 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 participants) and the records of direct or indirect Euroclear and/or Clearstream, Luxembourg participants (with respect to interests of indirect Euroclear and/or Clearstream, Luxembourg participants).

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(s) or investor(s). Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants and Indirect Participants, including, in the case of any Regulation S Registered Global Note, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants and Indirect Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the

Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial owners 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.

Subject to the preceding paragraph, payments of principal and interest in respect of a Global Note will be made to DTC, Clearstream, Luxembourg, Euroclear or their respective nominee, as the case may be, as the registered holder of such Note. The Issuer expects DTC, Clearstream, Luxembourg and Euroclear to credit accounts of their respective direct accountholders on the applicable payment date. The Issuer also expects that payments by direct DTC, Clearstream, Luxembourg or Euroclear accountholders to indirect participants in such Clearing Systems will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers of such Clearing System, and will be the responsibility of such direct participant and not the responsibility of such Clearing System, the Fiscal Agent, any Paying Agent, the Registrar or the Bank. Payments of principal and interest on the Notes to a Clearing System (or its nominee) are the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear or 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 in "Subscription and Sale and Transfer and Selling Restrictions," cross-market transfers between Participants in DTC, on the one hand, and directly and indirectly through Clearstream, Luxembourg or Euroclear participants, 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 participants in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Tranche between Participants in DTC will generally have a settlement date two business days after the trade date (T+2). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between participants in Clearstream, Luxembourg or Euroclear and Participants in DTC 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 participants 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.

Each Clearing System has published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants of the Clearing Systems; *however*, they are under no obligation to perform or continue to perform such procedures, and such procedures might be discontinued or changed at any time. None of the Issuer, the Agents or any Arranger or Dealer will be responsible for any performance by the Clearing Systems or their respective direct or indirect participants 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 U.S. federal and Turkish tax considerations in connection with an investment in the Notes. This summary does not address all aspects of U.S. federal and Turkish tax law or the laws of other jurisdictions (such as tax-related laws in the United Kingdom). While this summary is considered to be a correct interpretation of existing laws in force on the date of this Base Prospectus, there can be no assurance that those laws or the interpretation of those laws will not change. This summary does not discuss all of the tax consequences that might be relevant to an investor in light of such investor's particular circumstances or to investors subject to special rules, such as regulated investment companies, certain financial institutions or insurance companies.

Prospective investors in the Notes are advised to consult their tax advisers with respect to the tax consequences of the purchase, ownership or disposition of the Notes (or the purchase, ownership or disposition by an owner of beneficial interests therein) as well as any tax consequences that might arise under the laws of any state, municipality or other taxing jurisdiction of their respective citizenship, residence or domicile, including (but not limited to) the consequences of receipt of payments on the Notes and the disposal of investments in the Notes.

Certain U.S. Federal Income Tax Consequences

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note by a U.S. Holder (as defined below) whose functional currency is the U.S. dollar that acquires the Note from the Dealers at a price equal to the issue price of the Notes (as defined under “-Original Issue Discount - General”) and holds it as a capital asset. This summary does not address all aspects of U.S. federal income taxation that may be applicable to particular U.S. Holders subject to special U.S. federal income tax rules, including, among others, tax-exempt organisations, financial institutions, dealers and traders in securities or currencies, U.S. Holders that will hold a Note as part of a “straddle,” hedging transaction, “conversion transaction” or other integrated transaction for U.S. federal income tax purposes, U.S. Holders that enter into “constructive sale” transactions with respect to the Notes, U.S. Holders liable for alternative minimum tax and certain U.S. expatriates. In addition, this summary does not address consequences to U.S. Holders of the acquisition, ownership and disposition of a Note under any other U.S. federal tax laws (e.g., estate or gift tax laws) or the tax laws of any state, locality or other political subdivision of the United States or other countries or jurisdictions.

This summary does not discuss Notes that by their terms may be retired for an amount less than their principal amount and Notes subject to special rules. The tax treatment of certain Notes may be specified in the relevant supplement to this Base Prospectus. Moreover, this summary does not discuss Bearer Notes. In general, U.S. federal income tax law imposes significant limitations on U.S. Holders of Bearer Notes. U.S. Holders should consult their tax advisers regarding the restrictions and penalties imposed under U.S. federal income tax law with respect to Bearer Notes and any other tax consequences with respect to the acquisition, ownership and disposition of any of these Notes.

As used herein, the term “*U.S. Holder*” means an owner of a Note that is for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the U.S., (b) an entity taxable as a corporation created or organised in or under the laws of the U.S., any state thereof or the District of Columbia, (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (d) a trust whose administration is subject to the primary supervision of a United States court and that has one or more United States person(s) (as defined under the Code) who have the authority to control all substantial decisions of the trust or a valid election for such persons to be treated as United States person(s) (as defined under the Code) is in effect with respect to such trust. References herein to a U.S. Holder holding a Note shall also refer to the holding of a beneficial interest in a Global Note.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds a Note, then the U.S. federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Therefore, a partnership holding a Note and its partners should consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note.

The discussion below is based upon the Code, U.S. Treasury regulations promulgated thereunder, and judicial and administrative interpretations thereof, all as in effect as of the date of this Base Prospectus and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. federal income tax consequences different from those discussed below.

The summary of the U.S. federal income tax consequences set out below is for general information only. Investors in the Notes should consult their tax advisers as to the particular tax consequences to them of owning investments in the Notes, including the applicability and effect of state, local, foreign and other tax laws and possible changes in tax law.

Payments of Interest

Payments of interest on the Notes, including additional amounts, if any, other than interest on a Discount Note that is not “qualified stated interest” (each as defined under “-Original Issue Discount - General”), generally will be taxable to a U.S. Holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. Holder’s usual method of accounting for U.S. federal income tax purposes. Interest paid on a Note and OID, if any, accrued with respect to the Notes (as described under “-Original Issue Discount”), generally will constitute foreign source income for U.S. federal income tax purposes and generally will be considered “passive” income, which is treated separately from other types of income in computing the foreign tax credit that may be allowable to U.S. Holders under U.S. federal income tax laws. Subject to applicable restrictions and limitations, a U.S. Holder may be entitled to claim a U.S. foreign tax credit in respect of any Turkish withholding taxes imposed on interest received on the Notes. A U.S. Holder who does not elect to claim a credit for foreign tax may instead claim a deduction in respect of the Turkish withholding taxes provided the U.S. Holder elects to deduct rather than claim a credit for all foreign taxes for such taxable year. U.S. Holders that are eligible for benefits under the double tax treaty between the United States and Turkey (the “*Double Tax Treaty*”) or are otherwise entitled to a refund for the taxes withheld under Turkish tax law generally will not be entitled to a foreign tax credit or deduction for the amount of any Turkish taxes withheld in excess of the maximum rate under the Double Tax Treaty or for those taxes that have been otherwise refunded to them under Turkish tax law. The rules relating to foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their own tax advisers regarding the availability and advisability of claiming a foreign tax credit or a deduction with respect to any Turkish taxes withheld from payment.

Stated interest paid in a currency other than U.S. dollars will be included in a U.S. Holder’s gross income in an amount equal to the U.S. dollar value of such other currency, including the amount of any withholding tax, regardless of whether such other currency is converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. A cash method U.S. Holder generally will not realise foreign currency gain or loss on the receipt of the interest payment but may have foreign currency gain or loss attributable to the actual disposition of the other currency received. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within each taxable year). Alternatively, an accrual basis U.S. Holder may make an election (which must be applied consistently to all debt instruments from year-to-year and cannot be changed without the consent of the IRS) to translate accrued interest income at the spot rate of exchange on the last day of the accrual period (or the last day of the portion of the accrual period within each taxable year in the case of a partial accrual period). A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date payment is received differs from the rate used in translating the accrual of that interest. The amount of foreign currency gain or loss to be recognised by such U.S. Holder will be an amount equal to the difference between the U.S. dollar value of the interest payment in the other currency (determined on the basis of the spot rate on the date the interest income that has accrued during the accrual period (as determined above) regardless of whether the payment is in fact converted to U.S. dollars. This foreign currency gain or loss will be ordinary income or loss and generally will not be treated as an adjustment to interest income or expense, and generally will be U.S. source provided that the residence of the U.S. Holder is considered to be the United States for purposes of the rules governing foreign currency gain or loss.

Original Issue Discount

General. The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with original issue discount (“OID”).

A Note will be treated as issued with OID (a “*Discount Note*”) if the excess of the Note’s “stated redemption price at maturity” over its issue price is at least a *de minimis* amount (0.25% of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date). Generally, the “issue price” of a Note is the first price at which a substantial amount of such Notes included in the issue of which the Note is a part is sold to Persons other than bond houses, brokers or similar Persons acting in the capacity of underwriters, placement agents, or wholesalers. The “stated redemption price at maturity” of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest.” A “*qualified stated interest*” payment is generally any one of a series of stated interest payments on a security that are unconditionally payable at least annually at a single fixed rate

(with certain exceptions for lower rates paid during some periods), or a variable rate, applied to the outstanding principal amount of such security. If a Note has *de minimis* OID, a U.S. Holder must include the *de minimis* amount in income as stated principal payments are made on the Note, unless the holder makes the election described below under “-Election to Treat All Interest as Original Issue Discount.” A U.S. Holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Note’s *de minimis* OID by a fraction equal to the amount of the principal payment made divided by the stated principal amount of the Note.

U.S. Holders of Discount Notes must generally include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and will generally have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note (“*accrued OID*”). The daily portion is determined by allocating to each day in any accrual period a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Discount Note as long as: (a) no accrual period is longer than one year and (b) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of: (i) the product of the Discount Note’s adjusted issue price at the beginning of the accrual period and the Discount Note’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (ii) the sum of the payments of qualified stated interest on the Discount Note allocable to the accrual period. The “*adjusted issue price*” of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by: (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Variable Rate Debt Instruments. Interest payments on a “variable rate debt instrument” (“*VRDI*”) may be considered qualified stated interest. For this purpose, a Note is a VRDI if it is an instrument that: (a) has an issue price that does not exceed the total noncontingent principal payments by more than an amount equal to the lesser of: (i) 0.015 multiplied by the product of such total noncontingent principal payments and the number of complete years to maturity of the Note (or in the case of Notes providing for payment of principal in instalments, the weighted average maturity) and (ii) 15% of the total noncontingent principal payments, (b) provides for stated interest (compounded or paid at least annually) at the current value of: (i) one or more qualified floating rates (as defined below), (ii) a single fixed rate followed by one or more qualified floating rates, (iii) a single objective rate (as defined below) or (iv) a single fixed rate and a single objective rate (as defined below) that is a qualified inverse floating rate (as defined below) and (c) does not provide for any principal payments that are contingent.

If a Note that provides for a variable rate of interest does not qualify as a VRDI, then such Note would be a “contingent payment debt instrument” (“*CPDI*”) subject to rules set forth in the Treasury regulations that address the U.S. federal income tax treatment of such instruments. A description of any material U.S. federal income tax considerations relevant to U.S. Holders of such Notes will be set forth in the applicable supplement to this Base Prospectus.

A “qualified floating rate” is a floating rate under which variations in the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Note is denominated. A multiple of a qualified floating rate is not a qualified floating rate unless the relevant spread multiplier is: (a) fixed at a number that is greater than 0.65 but not more than 1.35 or (b) fixed at a number that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate. Notwithstanding the foregoing, stated interest on a Note that is subject to a maximum or minimum interest rate limitation (*i.e.*, a cap or floor), a restriction on the amount of increase or decrease in such rate (*i.e.*, a governor) or other similar restrictions generally will not be treated as a qualified floating rate. However, a restriction will not cause a variable rate to fail to be a qualified floating rate if it is a cap, floor or governor that is fixed throughout the term of the Note or is a cap, floor, governor or similar restriction that is not reasonably expected on the issue date to cause the yield on the Note to be significantly less than (in the case of a cap), significantly more than (in the case of a floor), or significantly different from (in the case of a governor), the expected yield determined without such cap, floor or governor, as the case may be. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the variable rate note (*e.g.*, two or more qualified floating rates with values within 25 basis points (*i.e.*, 0.25%) of each other as determined on the Note’s issue date) will be treated as a single qualified floating rate. An “objective rate” is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based upon objective financial or economic information; provided, however, that an objective rate does not include a rate based on information that is within the control of the Bank (or a related party within the meaning of the applicable statutory provisions) or that is unique to the circumstances of the Bank (or a related party within the meaning of the applicable statutory provisions), other than the Bank’s credit quality, such as dividends, profits or the value of the Bank’s stock. A

variable rate is not an objective rate; *however*, if it is reasonably expected that the average value of the rate during the first half of the Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Note's term. A "qualified inverse floating rate" is an objective rate: (i) that is equal to a fixed rate minus a qualified floating rate and (ii) the variations in which can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds. If a debt instrument provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate and if the variable rate on the debt instrument's issue date is intended to approximate the fixed rate (*e.g.*, the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points (*i.e.*, 0.25%)), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

Under the OID rules, if a Note qualifies as a VRDI that provides for interest at a single qualified floating rate or a single objective rate and that rate is payable unconditionally at least annually, then all of the interest is treated as qualified stated interest. Therefore, such a Note will not have original issue discount unless its stated principal amount exceeds the price at which it is issued by an amount that is greater than or equal to the *de minimis* amount. If a Note qualifying as a VRDI provides for interest at more than a single qualified floating rate or a single objective rate, the rules for determining the amount and accrual of original issue discount and qualified stated interest on such a VRDI provide for the conversion of such debt instrument into an equivalent fixed rate debt instrument and the application of the general rules regarding original issue discount to such debt instrument. The OID rules generally require that such a Note be converted into an equivalent fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the VRDI for a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Note's issue date. Under such rules, the qualified stated interest allocable to an accrual period based upon such assumed fixed rate is increased or decreased, as the case may be, if the interest actually paid during such accrual period exceeds, or is less than, the interest assumed to be paid during the accrual period based upon such assumed fixed rate. If a Note qualifying as a VRDI provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, then the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Note provides for a qualified inverse floating rate). Under such circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of an investment in the Note as of the Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. After converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Note is then converted into an equivalent fixed rate debt instrument and subject to the general rules regarding original issue discount, as described above.

Election to Treat All Interest as Original Issue Discount. A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under "Original Issue Discount - General" with certain modifications. For purposes of this election, interest includes stated interest, OID, and *de minimis* OID. If a U.S. Holder makes this election for the Note, then, when the constant-yield method is applied, the issue price of the Note will equal its cost, the issue date of the Note will be the date of acquisition, and no payments on the Note will be treated as payments of qualified stated interest. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS.

Sale, Exchange and Redemption of Notes

Upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised (*i.e.*, the amount of cash and the fair market value of any property received on the disposition (except to the extent the cash or property received is attributable to accrued and unpaid stated interest not previously included in income, which is treated like a payment of interest)) and the U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in a Note generally will equal the amount paid for the Note, increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID included in the U.S. Holder's income with respect to the Note. If a U.S. Holder purchases a Note with a currency other than U.S. dollars, then the U.S. dollar cost of such investment generally will be the U.S. dollar value of the purchase price on the date of purchase calculated at the spot rate of exchange on that date. The amount realised upon the disposition of a Note generally will be the U.S. dollar value of the amount received on the date of the disposition calculated at the spot rate of exchange on that date; *however*, if the Note is traded on an established securities market, a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder) should determine the U.S. dollar value of the cost of or amount received on the Note, as applicable, by translating the amount paid or received at the spot rate of exchange on the settlement date of the purchase or disposition, as applicable. The election available to accrual basis U.S. Holders in respect of the purchase and disposition of Notes traded on an established securities market must be applied consistently to all debt instruments from year-to-year and cannot be changed without the consent of the IRS. Subject to the foreign currency rules discussed

below, any gain or loss recognised by a U.S. Holder on the sale, exchange or other disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. The deductibility of capital losses is subject to significant limitations. U.S. Holders should consult their own advisers about the availability of U.S. foreign tax credits or deductions with respect to any Turkish taxes imposed upon a disposition of Notes.

Gain or loss recognised by a U.S. Holder on the sale, exchange, retirement or other disposition of a Note will generally be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in foreign currency exchange rates during the period in which the U.S. Holder held such Note. Such foreign currency gain or loss will equal the difference between: (a) the U.S. dollar value of the U.S. Holder's purchase price (in the other applicable currency) for the Note calculated at the spot rate of exchange on the date of the sale, exchange, retirement or other disposition and (b) the U.S. dollar value of the U.S. Holder's purchase price (in the other applicable currency) for the Note calculated at the spot rate of exchange on the date of purchase of the Note. If the Note is traded on an established securities market, with respect to a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder), such foreign currency gain or loss will equal the difference between: (i) the U.S. dollar value of the U.S. Holder's purchase price (in the other applicable currency) for the Note calculated at the spot rate of exchange on the settlement date of the disposition and (ii) the U.S. dollar value of the U.S. Holder's purchase price (in the other applicable currency) for the Note calculated at the spot rate of exchange on the settlement date of the purchase of the Note. The realisation of any foreign currency gain or loss, including foreign currency gain or loss with respect to amounts attributable to accrued and unpaid stated interest, will be limited to the amount of overall gain or loss realised on the disposition of the Notes.

Exchange of Amounts in other than U.S. dollars

If a U.S. Holder of a Note receives a currency other than U.S. dollars as interest on a Note or on the sale, exchange, retirement or other disposition of a Note, then such U.S. Holder's tax basis in such other currency will equal its U.S. dollar value when the interest is received or at the time of the sale, exchange, retirement or other disposition. If a U.S. Holder of a Note purchased such Note with previously owned non-U.S. currency, then gain or loss will be recognised in an amount equal to the difference, if any, between the U.S. Holder's tax basis in such currency and the spot rate on the date of purchase. Any such gain or loss generally will be treated as ordinary income or loss and will be treated as from sources within the United States provided that the residence of the U.S. Holder is considered to be the United States for purposes of the rule governing foreign currency transactions.

Potential Acceleration of Income

Accrual method taxpayers that prepare an "applicable financial statement" (as defined in Section 451 of the Code, which includes any General Accepted Accounting Principles (GAAP) financial statement, Form 10-K annual statement, audited financial statement or a financial statement filed with any federal agency for non-tax purposes) generally would be required to include certain items of income, such as OID and possibly *de minimis* OID and market discount in gross income no later than the time such amounts are reflected on such a financial statement (the application of this rule to income of a debt instrument with OID is effective for taxable years beginning after 31 December 2018.) This could result in an acceleration of income recognition for income items differing from the above description, although the precise application of this rule is unclear as of the date of this Base Prospectus.

Information Reporting and Backup Withholding

Information returns may be filed with the U.S. Internal Revenue Service (the "IRS") (unless the U.S. Holder establishes, if requested to do so, that it is an exempt recipient) in connection with payments on the Notes, and the proceeds from the sale, exchange or other disposition of Notes. If information reports are required to be made, then a U.S. Holder may be subject to U.S. backup withholding if it fails to provide its taxpayer identification number or to establish that it is exempt from backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding imposed on a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS.

U.S. Holders should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of Notes.

Reportable Transaction Reporting

Under certain U.S. Treasury regulations, U.S. Holders that participate in “reportable transactions” (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on IRS Form 8886. Under the relevant rules, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations. U.S. Holders should consult their own tax advisers as to the possible obligation to file IRS Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including (without limitation) any non-U.S. currency received as interest or as proceeds from the sale, exchange, retirement or other disposition of the Notes.

Medicare Tax

Certain U.S. Holders who are individuals, estates or non-exempt trusts must pay an additional 3.8% tax on, among other things, interest on and capital gains from the sale, retirement or other taxable disposition of Notes. U.S. Holders should consult their tax advisers regarding the effect, if any, of this tax on their investment in the Notes.

FATCA

Pursuant to FATCA, a “foreign financial institution” (as defined in FATCA) (a “*Foreign Financial Institution*”) may be required to withhold on certain payments it makes (“*Foreign Passthru Payments*”) to payees who fail to meet certain certification, reporting or related requirements. The Issuer is a Foreign Financial Institution for these purposes. A number of jurisdictions (including Turkey) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“*IGAs*”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as in effect as of the date of this Base Prospectus, a Foreign Financial Institution in an IGA jurisdiction would generally not be required to withhold under FATCA or such IGA from payments that it makes; *however*, there can be no assurance that it will not be required to do so in the future. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining Foreign Passthru Payments are published in the U.S. Federal Register, and Notes characterised as debt (or that are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining Foreign Passthru Payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date; *however*, if additional Notes (see Condition 17) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents might treat all Notes, including Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules might apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no Person will be required to pay additional amounts as a result of such withholding.

Certain Turkish Tax Considerations

The following discussion is a summary of certain Turkish tax considerations relating to an investment in the Notes by a Person who is a non-resident of Turkey. 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 the 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 is the final tax for such non-resident and no further declaration is required. Any other income of a non-resident 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, which tax would be paid by the Bank in Turkey. Through the Tax Decrees, the withholding tax rates are set according to the original maturity of notes issued abroad as follows:

- (a) 7% withholding tax for notes with an original maturity of less than one year,
- (b) 3% withholding tax for notes with an original maturity of at least one year and less than three years, and
- (c) 0% withholding tax for notes with an original maturity of three years and more.

Interest income derived by a resident corporation or individual is subject to further declaration and the withholding tax paid can be offset from the tax calculated on the tax return. For resident individuals, the entire gain is required to be declared if the interest income derived exceeds TL 40,000 for 2019 together with the gains from other marketable securities and income from immovable property that were subjected to withholding. For resident corporations, the total interest income is subject to declaration.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Notes may be subject to declaration; *however*, pursuant to Provisional Article 67 of the Turkish Income Tax Law, as amended by the law 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-residents 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.

Capital gains realised by a resident corporation or individual on the sale or redemption of the Notes (or beneficial interests therein) are subject to income tax or corporate tax declaration. Provisional Article 10 of the Corporate Tax Law (introduced with the amendment dated 28 November 2017) states that corporate tax will be levied at the rate of 22% for the accounting periods of 2018, 2019 and 2020. The current rate for individuals ranges from 15% to 35% at progressive rates. For resident individuals, the acquisition cost can be increased at the Producer Price Index' rate of increase for each month except for the month of discharge so long as such index increased by at least 10%.

Reduced Withholding Tax Rates

Under current Turkish laws, 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 7% and 0% (inclusive) 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

Bond issuances and interest payments on bonds are exempt from Turkey’s value added tax pursuant to Article 17/4(g) of the Value Added Tax Law (Law No. 3065), as amended pursuant to the Turkish Tax Bill Regarding Improvement of the Investment Environment (Law No. 6728) published in the Official Gazette dated 9 August 2016 and numbered 29796.

The Proposed Financial Transactions Tax

On 14 February 2013, the European Commission published a proposal (the “*Commission’s Proposal*”) for a Directive for a common financial transaction tax (“*FTT*”) that might apply in certain member states of the EU (the “*Participating Member States*”); *however*, Estonia has since stated that it will not participate. The Commission’s Proposal has very broad scope and might, 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 might decide to withdraw and additional member states of the EU 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.

CERTAIN CONSIDERATIONS FOR ERISA AND OTHER U.S. EMPLOYEE BENEFIT PLANS

Subject to the following discussion, the Notes (or beneficial interests therein) may be acquired with assets of an “employee benefit plan” (as defined in Section 3(3) of ERISA), that is subject to Title I of ERISA, a “plan” as defined in and subject to Section 4975 of the Code and any entity deemed to hold “plan assets” of the foregoing (each a “*Benefit Plan Investor*”), as well as by 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) (collectively, with Benefit Plan Investors, referred to as “*Plans*”). Section 406 of ERISA and Section 4975 of the Code prohibit a Benefit Plan Investor from engaging in certain transactions with Persons who 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 that are governmental plans, certain church plans and non-U.S. plans are not subject to the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of ERISA or Section 4975 of the Code; *however*, such Plans might be subject to any applicable state, local, other federal or non-U.S. law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code (“*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, the Arranger, a Dealer, an Agent or any of their respective affiliates is or becomes 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 the acquisition or holding of 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 or “disqualified person” 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 Persons who are parties in interest or “disqualified persons” solely by reason of providing services to the Benefit Plan Investor or being affiliated with such service providers; 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 should consult with their legal advisors regarding the applicability of any such exemption.

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 constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Law.

Prospective investors in the Notes are advised to consult their advisers with respect to the matters discussed above and other applicable legal requirements.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in an amended and restated programme agreement dated 26 April 2019 (as further amended, restated or supplemented from time to time, the “*Programme Agreement*”), 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 (or beneficial interests therein). Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes.” In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment, this update and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain 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. The Programme Agreement provides that the obligation of any Dealer to purchase Notes under any agreement for the issue and purchase of such Notes is subject to certain conditions. Unless otherwise specified in the relevant Final Terms or Pricing Supplement, any Notes sold to one or more Dealers as principal will be purchased by such Dealer(s) at a price as may be set forth in the relevant Final Terms or Pricing Supplement less a percentage of the principal amount equal to a commission as agreed upon by the Issuer and such Dealer(s). After the initial offering of a Tranche of Notes, the offering price may be changed.

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 may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such Persons may over allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such Persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such Persons may stabilise or maintain the market price of an investment in the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of an investment in 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 market price of an investment in the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under English law, stabilisation activities may only be carried on by the Stabilisation Manager(s) (or Persons acting on behalf of any Stabilisation Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

Investors in the Notes who wish to trade interests in Notes on their trade date or otherwise before the applicable Issue Date should consult their own adviser.

All or certain of the Dealers, the Arranger and their respective affiliates are full service financial institutions engaged in various activities, which might include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Dealers, the Arranger or their respective affiliates might have performed investment banking and advisory services for the Issuer and its affiliates from time to time for which they might have received fees, expenses, reimbursements and/or other compensation. The Dealers, the Arranger or their respective affiliates might, from time to time, engage in transactions with and perform advisory and other services for the Issuer and its affiliates in the ordinary course of their business. Certain of the Dealers, the Arranger and/or their respective affiliates have acted and expect in the future to act as a lender to the 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, the Arranger and their respective affiliates might make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and might at any time hold long and short positions in such securities and instruments. Such investment and securities activities might involve securities and instruments of the Issuer and/or other members of the Group. In addition, certain of the Dealers, the Arranger and/or their respective affiliates hedge their credit exposure to the Issuer and/or other members of the Group pursuant to their customary risk management policies. These hedging activities might have an adverse effect on the future trading prices of an investment in the Notes.

The Dealers, the Arranger and their respective affiliates might also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and might hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

Transfer Restrictions

As a result of the following restrictions, investors in the Notes are advised to consult legal counsel prior to making any purchase, offer, sale, resale, pledge or other transfer of the Notes.

Each purchaser and transferee (and if the purchaser or transferee is a Plan, then its fiduciary) of Registered Notes (or a beneficial interest therein) (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, warrant 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 (or beneficial interests therein) 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 upon Rule 144A, (ii) it is an Institutional Accredited Investor that has delivered a duly executed IAI Investment Letter from the relevant transferee to the Issuer or (iii) it is not a U.S. person and is purchasing or acquiring the Notes (or a beneficial interest therein) in a transaction pursuant to an exemption from registration under the Securities Act,

(b) that the Notes (or a beneficial interest therein) 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 (or a beneficial interest therein) 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 offer, resell, assign, transfer, pledge, encumber or otherwise dispose the Notes (or beneficial interests therein), it will do so, prior to the date that is one year after the later of the last Issue Date for such Notes and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes or beneficial interests, 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 transferee from it to, notify any transferee of the Notes (or a beneficial interest therein) from it of the resale restrictions, if then applicable,

(e) that Notes (or beneficial interests therein) initially offered to QIBs pursuant to Rule 144A will be represented by one or more Rule 144A Global Note(s), that Notes (or beneficial interests therein) offered to Institutional Accredited Investors pursuant to Section 4(a)(2) under the Securities Act will be in the form of IAI Definitive Notes or one or more IAI Global Note(s) and that Notes (or a beneficial interests therein) offered in offshore transactions to non-U.S. persons in reliance upon Regulation S will be represented by one or more Regulation S Note(s),

(f) that Each Note issued pursuant to Rule 144A will contain a legend substantially in the following form (with, if in definitive form, appropriate revisions) unless otherwise agreed by the Issuer:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OF THE UNITED STATES OF AMERICA, OR ANY OTHER APPLICABLE U.S. FEDERAL OR STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION OF THIS NOTE OR A BENEFICIAL INTEREST HEREIN, EACH HOLDER OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN): (a) REPRESENTS (OR SHALL BE DEEMED TO REPRESENT) THAT IT IS A

“QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYER(S), (b) AGREES (OR SHALL BE DEEMED TO AGREE) ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HOLDS THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) THAT IT WILL NOT OFFER, SELL, PLEDGE 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 (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN: (i) TO THE ISSUER OR ANY AFFILIATE THEREOF, (ii) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER 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, AND (c) AGREES (OR SHALL BE DEEMED TO AGREE) THAT IT WILL DELIVER TO EACH PERSON TO WHOM ANY INTEREST IN THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION IS MADE BY THE ISSUER AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THIS NOTE.

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, WARRANT AND AGREE 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: (i) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (ii) A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “**CODE**”), (iii) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING OR (iv) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN THAT IS SUBJECT TO ANY STATE, LOCAL, OTHER FEDERAL OR NON-U.S. 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 CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THIS NOTE 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 HOLDER OF THIS NOTE (OR BENEFICIAL INTERESTS HEREIN) SENT TO ITS REGISTERED ADDRESS (OR, FOR HOLDERS OF BENEFICIAL INTERESTS, TO THE EXTENT FORWARDED TO THEM BY THE APPLICABLE CLEARING SYSTEM), TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS NOTE (OR BENEFICIAL INTERESTS HEREIN) TO REFLECT ANY CHANGE IN APPLICABLE LAW (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN) SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF (OR OF A BENEFICIAL INTEREST HEREIN), TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING UPON THE HOLDER HEREOF (AND HOLDERS OF A BENEFICIAL INTEREST HEREIN) AND ALL

FUTURE HOLDERS OF THIS NOTE (AND HOLDERS OF A BENEFICIAL INTEREST HEREIN) AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION HEREOF, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”,

(g) that each IAI Note will bear a legend in the following form (with, if an IAI Definitive Note, appropriate revisions) unless otherwise agreed to by the Issuer:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OF THE UNITED STATES OF AMERICA, OR ANY OTHER APPLICABLE U.S. FEDERAL OR STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT) EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN), THE HOLDER THEREOF: (a) REPRESENTS (OR SHALL BE DEEMED TO REPRESENT) 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 (OR SHALL BE DEEMED TO AGREE) ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HOLDS THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) THAT IT WILL NOT OFFER, SELL, ASSIGN, PLEDGE, ENCUMBER OR OTHERWISE TRANSFER THIS NOTE (OR BENEFICIAL INTERESTS HEREIN) EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT, THE TERMS OF THE IAI INVESTMENT LETTER IT EXECUTED IN CONNECTION WITH ITS PURCHASE OF THIS NOTE (OR BENEFICIAL INTERESTS HEREIN) AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES OF WHICH THIS NOTE FORMS PART AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN: (i) TO THE ISSUER OR ANY AFFILIATE THEREOF, (ii) 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, (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; *PROVIDED* THAT THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO (iii) OR (iv) ABOVE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER, AND (c) AGREES (OR SHALL BE DEEMED TO AGREE) THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION IS MADE BY THE ISSUER AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THIS NOTE.

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, WARRANT AND AGREE 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: (i) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (ii) A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “**CODE**”), (iii) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF

ANY OF THE FOREGOING OR (iv) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN THAT IS SUBJECT TO ANY STATE, LOCAL, OTHER FEDERAL OR NON-U.S. 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 CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THIS NOTE 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 HOLDER OF THIS NOTE (OR BENEFICIAL INTERESTS HEREIN) SENT TO ITS REGISTERED ADDRESS (OR, FOR HOLDERS OF BENEFICIAL INTERESTS, TO THE EXTENT FORWARDED TO THEM BY THE APPLICABLE CLEARING SYSTEM), TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE (OR BENEFICIAL INTERESTS HEREIN) TO REFLECT ANY CHANGE IN APPLICABLE LAW (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN) SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF (OR OF A BENEFICIAL INTEREST HEREIN), TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING UPON THE HOLDER HEREOF (AND HOLDERS OF A BENEFICIAL INTEREST HEREIN) AND ALL FUTURE HOLDERS OF THIS NOTE (AND HOLDERS OF A BENEFICIAL INTEREST HEREIN) AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION HEREOF, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”,

(h) if such investor holds a Definitive Regulation S Registered Note or a beneficial interest in a Regulation S Registered Global Note, that if it should offer, resell, assign, transfer, pledge, encumber or otherwise dispose such Note (or beneficial interest) prior to the expiration of a 40-day period after the later of the commencement of the offering to Persons other than distributors and the applicable Issue Date (the “*Distribution Compliance Period*”), it will do so only: (i)(A) in an offshore transaction in compliance with Rule 903 or 904 under the Securities Act or (B) 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 such Notes (with appropriate revisions) will bear a legend in the following form unless otherwise agreed to by the Issuer:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OF THE UNITED STATES OF AMERICA, OR ANY OTHER APPLICABLE U.S. FEDERAL OR STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE HOLDER OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN) BY ITS ACCEPTANCE HEREOF (OR OF A BENEFICIAL INTEREST HEREIN) AGREES (OR SHALL BE DEEMED TO AGREE) ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT IS HOLDING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) THAT NO OFFER, SALE, ASSIGNMENT, TRANSFER, PLEDGE, ENCUMBRANCE OR OTHER DISPOSITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) SHALL BE MADE TO A U.S. PERSON PRIOR TO THE EXPIRATION 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, WARRANT AND AGREE 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: (i) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (ii) A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “**CODE**”), (iii) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” OF ANY OF THE FOREGOING OR (iv) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN THAT IS SUBJECT TO ANY STATE, LOCAL, OTHER FEDERAL OR NON-U.S. 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 CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THIS NOTE 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 HOLDER OF THIS NOTE (OR BENEFICIAL INTERESTS HEREIN) SENT TO ITS REGISTERED ADDRESS (OR, FOR HOLDERS OF BENEFICIAL INTERESTS, TO THE EXTENT FORWARDED TO THEM BY THE APPLICABLE CLEARING SYSTEM), TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS NOTE (OR BENEFICIAL INTERESTS HEREIN) TO REFLECT ANY CHANGE IN APPLICABLE LAW (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN) SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF (OR OF A BENEFICIAL INTEREST HEREIN), TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING UPON THE HOLDER HEREOF (AND HOLDERS OF A BENEFICIAL INTEREST HEREIN) AND ALL FUTURE HOLDERS OF THIS NOTE (AND HOLDERS OF A BENEFICIAL INTEREST HEREIN) AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION HEREOF, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”, and

(i) that the Issuer, the Dealers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees (or will be deemed to agree) that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer and the applicable Dealer(s); and if it is acquiring any Notes (or beneficial interests therein) 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, warrant and agree that either: (a) 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 beneficial interest) 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 such Note (or a beneficial interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Law.

Institutional Accredited Investors who invest in IAI Notes (or a beneficial interest therein) 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. An IAI Investment Letter will state, among other things, the following:

(a) 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,

(b) that such Institutional Accredited Investor understands that such Notes (or beneficial interests therein) 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 (or beneficial interests therein) 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 such Notes (or beneficial interests therein) except in compliance with, such restrictions and conditions and the Securities Act,

(c) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes,

(d) 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 in the Notes for an indefinite period of time,

(e) that such Institutional Accredited Investor is acquiring such Notes (or beneficial interests therein) 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 (or beneficial interests therein), subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control, and

(f) 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 or Pricing Supplement).

Unless set forth in the applicable Final Terms or Pricing Supplement otherwise, no sale of Legended Notes (or a beneficial interest therein) in the United States 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 Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, then each Person for whom it is acting must purchase at least US\$200,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors pursuant to Section 4(a)(2) of the Securities Act, US\$500,000 (or its foreign currency equivalent) principal amount of Registered Notes (in each case, or such other amount as may be set forth in the applicable Final Terms or Pricing Supplement).

Pursuant to the BRSA decisions dated 6 May 2010 (No. 3665) and 30 September 2010 (No. 3875) and in accordance with Decree 32, residents of Turkey: (a) in the secondary markets only, may purchase or sell Notes (or beneficial interests therein) denominated in a currency other than Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis, and (b) in both the primary and secondary markets, may purchase or sell Notes (or beneficial interests therein) denominated in Turkish Lira in offshore transactions on an unsolicited (reverse inquiry) basis; *provided* that, for each of clauses (a) and (b), such purchase or sale is made through licensed banks authorised by the BRSA or licensed brokerage institutions authorised pursuant to CMB regulations and the purchase price is transferred through such licensed banks. As such, Turkish residents should use such licensed banks or licensed brokerage institutions when purchasing Notes (or beneficial interests therein) and should transfer the purchase price through such licensed 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 Programme. Pursuant to the Programme Approvals, the offer, sale and issue of Notes under the Programme has been authorised and approved in accordance with Decree 32, the Banking Law and its related law, the Capital Markets Law and its related law and the Debt Instruments Communiqué. In addition, Notes (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the Programme Approvals. The Notes issued under the Programme prior to the date of the CMB Approval were issued under previously existing CMB approvals.

Under the Programme Approvals, the BRSA and CMB have authorised the offering, sale and issue of any Notes within the scope of the Programme Approvals on the condition that no transaction that qualifies as a sale or offering of Notes (or beneficial interests therein) in Turkey may be engaged in. Notwithstanding the foregoing, pursuant to the BRSA decision dated 6 May 2010 No. 3665, the BRSA decision dated 30 September 2010 No. 3875 and in

accordance with Decree 32, residents of Turkey may acquire Notes (or beneficial interests therein) so long as they comply with the restrictions described in the last paragraph of “-Transfer Restrictions” above.

To the extent (and in the form) required by applicable law, an approval from the CMB in respect of each Tranche of Notes is required to be obtained by the Issuer prior to the Issue Date of such Tranche of Notes.

Monies paid for investments in the Notes are not protected by the insurance coverage provided by the SDIF.

United States

The Notes have not been and will not be registered under the Securities Act or the securities laws of any State or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act and in accordance with all applicable local, state or federal laws. Terms used in this paragraph have the meanings given to them by Regulation S.

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 U.S. Treasury regulations promulgated thereunder.

In connection with any Regulation S Notes, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (or beneficial interests therein): (a) as part of their distribution at any time or (b) otherwise until the expiration of the applicable Distribution Compliance Period other than in an offshore transaction 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 Programme will be required to agree, that it will send to each distributor, dealer or other Person to whom it sells any Regulation S Notes (or beneficial interests therein) during the applicable Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes other than in offshore transactions to, or for the account or benefit of, Persons who are not U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

Until the expiration of the applicable Distribution Compliance Period, an offer or sale of such Notes (or beneficial interests therein) other than in an offshore transaction to a Person who 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 might arrange for the resale of Registered Notes (or beneficial interests therein) to QIBs pursuant to Rule 144A and each such purchaser of Notes (or beneficial interests therein) 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 Rule 144(a)(3) under the Securities Act, the Issuer has undertaken in the Deed Poll to furnish, upon the request of a holder of such Notes (or beneficial interests 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) under 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 and, where applicable, Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that if the Final Terms (or Pricing Supplement, as the case may be) in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as:

1. “Applicable,” then it has not offered, sold or otherwise made available (and will not offer, sell or otherwise make available) any of such Notes (or beneficial interests therein) to any EEA Retail Investor, and
2. “Not Applicable,” then, in relation to each Relevant Member State with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “*Relevant*

Implementation Date”), it (with respect to such Notes) has not made and will not make an offer of Notes 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 Notes to the public in that Relevant Member State at any time:

- (a) to any legal entity that is a qualified investor as defined in the Prospectus Directive,
- (b) 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) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Notes referred to in sub-paragraphs (a) to (c) shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of part 2, the expression “*an offer of Notes to the public*” in relation to any Notes (which shall also include beneficial interests therein where applicable) 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 (or beneficial interests therein) to be offered so as to enable an investor to decide to purchase or subscribe the Notes (or beneficial interests therein), as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer,

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer, and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Belgium

Other than in respect of Notes for which “Prohibition of Sales to Belgian Consumers” is specified as “Not Applicable” in the applicable Final Terms or Pricing Supplement, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Notes (or beneficial interests therein) may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a “*Belgian Consumer*”), and that: (a) it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes (or beneficial interests therein) to any Belgian Consumer, and (b) it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Notes, directly or indirectly, to any Belgian Consumer.

People’s Republic of China

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that neither it nor any of its affiliates has offered, sold or delivered or will offer, sell

or deliver any of the Notes (or beneficial interests therein) to any person for reoffering or resale, or redelivery, in any such case, directly or indirectly, in the PRC (excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan) in contravention of any applicable laws.

Hong Kong

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (or beneficial interests therein) other than: (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO 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 (the “C(WUMP)O”) or that do not constitute an offer to the public within the meaning of the C(WUMP)O, 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 SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been and will not be registered as a prospectus with the MAS. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes (or beneficial interests therein) or caused the Notes (or beneficial interests therein) to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes (or beneficial interests therein) or cause any Notes (or beneficial interest therein) to be made 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(2) of the SFA) pursuant to 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) 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 such trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(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 made 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) as specified in Section 276(7) of the SFA, or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

The Final Terms or Pricing Supplement in respect of any Notes may include a legend entitled “Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore” that will state the product classification of the applicable Notes pursuant to Section 309B(1) of the SFA; *however*, unless otherwise stated in the applicable Final Terms or Pricing Supplement, all Notes shall be prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products). This notification or any such legend included in the relevant Final Terms will constitute notice to “relevant persons” for purposes of Section 309B(1)(c) of the SFA.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “*FIEA*”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes (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.

Switzerland

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that, in Switzerland, this Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in any Notes (or beneficial interests therein). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes (and beneficial interests therein) have not been and will not be publicly offered, sold or advertised, directly or indirectly, by such Dealer in, into or from Switzerland and have not been and will not be listed by such Dealer on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations nor a simplified prospectus as such term is understood pursuant to Article 5 of the Swiss Collective Investment Scheme Act, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available by it in Switzerland.

Neither this Base Prospectus nor any other offering or marketing material relating to the offering of the Notes has been or will be filed by the Issuer or any Dealer 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.

General

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws 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 in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder,

or assumes any responsibility for facilitating any such sale.

LEGAL MATTERS

Certain matters relating to the issuance of Notes will be passed upon for the Bank by Mayer Brown LLP (or affiliates thereof) as to matters of English and United States law and by Paksoy Ortak Avukat Bürosu as to matters of Turkish law (which will also pass upon matters of Turkish tax law). Certain matters of English and United States law will be passed upon for the Dealers by Allen & Overy LLP and certain matters of Turkish law will be passed upon for the Dealers by Gedik Eraksoy Avukatlık Ortaklığı (which will also pass upon matters of Turkish tax law).

OTHER GENERAL INFORMATION

Authorisation

The update of the Programme and the issue of Notes have been duly authorised by a resolution of the Board dated 13 December 2018.

Legal Entity Identifier (LEI)

The Legal Entity Identifier (LEI) of the Issuer is 5493002XSS7K7RHN1V37.

Listing of Notes

This Base Prospectus has been approved by the Central Bank of Ireland as a base prospectus and by Euronext Dublin as listing particulars. Application has also been made to Euronext Dublin for Notes issued through the date that is one year after the date hereof to be admitted to the Official List and to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of MiFID II. It is expected that each Tranche of Notes that is to be admitted to the Official List and to trading on the Regulated Market will be admitted separately as and when issued, subject only to the issue of one or more Notes initially representing the Notes of such Tranche; *however*, no assurance can be given that any such admission will occur. If a Tranche of Notes is to be listed by the Issuer on Euronext Dublin or any other stock exchange, then any information required by such exchange to be in the applicable Final Terms or Pricing Supplement will be included therein.

Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Bank in connection with the Programme and is not itself seeking admission of the Notes to the Official List or to trading on the Regulated 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 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 unconsolidated BRSA Financial Statements of the Bank as of and for the years ended 31 December 2017 (including comparative information for 2016) and 2018,
- (c) the independent auditors' audit reports and audited consolidated BRSA Financial Statements of the Group as of and for the years ended 31 December 2017 (including comparative information for 2016) and 2018,
- (d) when published, 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 publishes: (i) audited consolidated and unconsolidated BRSA Financial Statements on an annual basis, (ii) unaudited consolidated and unconsolidated interim BRSA Financial Statements for each of the first three quarters of each fiscal year, (iii) audited consolidated IFRS Financial Statements on an annual basis and (iv) unaudited consolidated interim IFRS Financial Statements for each of the first three quarters of each fiscal year,
- (e) the Agency Agreement, the Deed of Covenant and the Deed Poll and the forms of the Global Notes and the Notes in definitive form,
- (f) a copy of this Base Prospectus, and
- (g) when published, any future base prospectus, prospectus, information memoranda, supplements, Final Terms and Pricing Supplements (save that a Final Terms or Pricing Supplement relating to a Note that is

neither admitted to trading on a regulated market in the EEA nor offered in the EEA in circumstances in which 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 each document (or portion thereof) incorporated by reference herein will also be available in electronic format on the Issuer's website at <https://www.garantiinvestorrelations.com/en> (such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Base Prospectus). Each Final Terms and Pricing Supplement relating to Notes that are admitted to trading on Euronext Dublin's regulated market will also be available on the Issuer's website. Such website is not, and should not be deemed to constitute, a part of (or be incorporated into) this Base Prospectus.

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 or Pricing Supplement. In addition, the Issuer may make an application for any Registered Notes to be accepted for trading in book-entry form by DTC. To the extent applicable, the ISIN, Common Code, CUSIP, CINS, CFI and/or FISN for each Tranche of Notes will be specified in the applicable Final Terms or Pricing Supplement. 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 or Pricing Supplement.

Scheduled payments of interest on each Registered Note will be paid only to the Person in whose name such Registered Note was registered at the close of business on the Record Date. Notwithstanding the Record Date established in the Conditions for any Series of Registered Notes, the Issuer has been advised by DTC that, 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*" for these purposes 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, Belgium. 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

For Notes (or beneficial interests therein) to be issued to one or more Dealer(s), the price and amount of such Notes (or beneficial interests therein) will be determined by the Issuer and such Dealer(s) at the time of issue in accordance with prevailing market conditions. For Notes (or beneficial interests therein) to be issued to one or more investor(s) purchasing such Notes (or beneficial interests therein) directly from the Issuer, the price and amount of such Notes (or beneficial interests therein) will be determined by the Issuer and such investor(s).

No Significant or Material Adverse Change

There has been: (a) no significant change in the financial or trading position of either the Bank or the Group since 31 December 2018 and (b) no material adverse change in the financial position or prospects of the Bank since such date.

Litigation

Neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Bank 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 Arranger and 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, that is material to the issue of the Notes. It should be noted that one of the Dealers (*i.e.*, BBVA) is the controlling Shareholder of the Bank (See “Ownership”).

Independent Auditors

The BRSA Financial Statements as of and for the year ended 31 December 2016 have been audited by Deloitte in accordance with the Turkish Auditor Regulation and the Independent Standards on Auditing, which is a component of the Turkish Auditing Standards published by the POA. Deloitte, independent certified public accountants in Turkey, is an audit firm authorised by the BRSA to conduct independent audits of banks in Turkey. Deloitte is located at Maslak Plaza, Eski Büyükdere Caddesi, Maslak Mahallesi No:1, Maslak, Sarıyer, 34398 İstanbul, Turkey.

The BRSA Financial Statements as of and for the year ended 31 December 2017 and 2018 have been audited by KPMG in accordance with the Turkish Auditor Regulation and the Independent Standards on Auditing, which is a component of the Turkish Auditing Standards published by the POA. KPMG, independent certified public accountants in Turkey, is an audit firm authorised by the BRSA to conduct independent audits of banks in Turkey. KPMG is located at İş Kuleleri Kule 3 Kat 2-9, Levent, Beşiktaş, 34330, İstanbul, Turkey.

Deloitte’s and KPMG’s audit reports included in the BRSA Financial Statements incorporated by reference herein contain a qualification (see “Risk Factors – Risks Relating to the Group’s Business – Audit Qualification”).

Material Contracts

The Bank has not entered into any material contract outside the ordinary course of its business that could result in the Bank being under an obligation or entitlement that is material to its ability to meet its obligations in respect of the Notes.

Dealers and Arranger transacting with the Issuer

Certain of the Dealers, the Arranger and/or their respective affiliates have engaged, and might in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and/or the Issuer’s affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Arranger, 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 its affiliates. The Arranger, 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 Arranger, the Dealers and their respective affiliates would hedge such exposure by entering into transactions that consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions might adversely affect future trading prices of an investment in the Notes. The Arranger, 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.

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APPENDIX A

OVERVIEW OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND THE BRSA ACCOUNTING AND REPORTING LEGISLATION

The financial statements and financial information included in this Base Prospectus have been prepared in accordance with BRSA Accounting and Reporting Legislation. The BRSA Accounting and Reporting Legislation, statements, communiqués and guidance differ from IFRS in some instances that might be material to the financial information herein. Such differences primarily relate to the format of presentation of financial statements, disclosure requirements (e.g., IFRS 7) and accounting policies. BRSA format and disclosure requirements are prescribed by relevant regulations and do not always conform to IFRS or IAS 34 standards. The following paragraphs summarise certain areas in which the BRSA Accounting and Reporting Legislation and IFRS differ from each other.

Similar differences with IFRS also exist in the accounting policies and disclosure requirements applied to consolidated subsidiaries, especially those providing life and non-life insurance services, which are subject to policies/requirements of the Turkish Treasury, and factoring and leasing services, which are subject to BRSA policies/requirements.

Presentation of Financial Statements

There are differences in presentation of financial statements other than measurement differences described above. These differences can be briefly explained by mandatory financial statement line items in accordance with IAS 1, disclosure requirements of IFRS 7 or, where applicable, the disclosure requirements of other standards. BRSA financial statements and related notes are presented under a special format determined by the BRSA. Similarly, statement of financial position, statement of profit or loss, statement of changes in equity and statement of cash flows are presented using this specified format. The BRSA also requires a statement for off balance sheet items. These presentation differences may vary based upon the sector that the related consolidated subsidiary operates in, especially those providing life and non-life insurance services, which are subject to the Turkish Treasury policies/requirements, and factoring or leasing services, which are subject to specific BRSA policies/requirements.

Basis for Consolidation

Consolidation principles under the BRSA Accounting and Reporting Legislation 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.

Only financial sector subsidiaries are consolidated under the BRSA Accounting and Reporting Legislation, whereas other associates are carried at cost. The BRSA Accounting and Reporting Legislation provides an exemption for consolidation based upon certain materiality criteria, whereas this is not applicable in the case of IFRS. Under IFRS, all subsidiaries are consolidated.

FOR 2016 AND 2017

Allowance for Loan Losses

Under the BRSA Accounting and Reporting Legislation, specific and general provisions for impaired loans are provided for in accordance with the Regulation on Provisions and Classification of Loans and Receivables issued by the BRSA (unlike impairment and measurement rules under IAS 39). Such BRSA rules for impairment only apply to loans and receivables, while other classes of financial assets (available-for-sale financial assets) are subject to IAS 39 rules. All loans are grouped into five categories mainly depending upon their past due status and creditworthiness of the borrower. The BRSA Accounting and Reporting Legislation have prescribed certain minimum provisioning rates for groups comprising non-performing loans after taking into account collateral obtained (specific provision) and a separate rate for groups comprising performing loans (general provision – the general provision rate is minimum specified by the BRSA and applied across the Turkish banking sector).

Under IAS 39, for loans that have been identified as impaired on the basis of objective evidence of impairment, 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 Taxation

In accordance with IFRS, deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. On the other hand, under the BRSA Accounting and Reporting Legislation, it is not permitted to recognise deferred tax on a general provision allocated based upon BRSA rules described above, although it constitutes a temporary difference based upon IAS 12 Income Taxes.

ISSUER

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