**BASE PROSPECTUS**

# TÜRKİYE GARANTİ BANKASI A.Ş.
## €5,000,000,000
## Global Covered Bond Programme

Under this €5,000,000,000 Global Covered Bond 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 Covered Bonds denominated in any currency agreed between the Issuer and the relevant Dealer(s) or Covered Bondholder(s) (each as defined in this Base Prospectus).

Covered Bonds may be issued in either bearer or registered (including dematerialised) form (respectively "**Bearer Covered Bonds**", "**Registered Covered Bonds**" and "**Turkish Dematerialised Covered Bonds**"). The maximum aggregate principal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €5,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Covered Bonds may be issued from time to time to: (a) one or more of the Dealers specified under "*General Description of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis, and/or (b) one or more investors purchasing Covered Bonds (or beneficial interests therein) directly from the Issuer by way of a private placement. References in this Base Prospectus to the "**relevant Dealer**" shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Covered Bonds.

**An investment in Covered Bonds issued under the Programme involves certain risks. For a discussion of these risks, see "*Risk Factors*".**

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

This Base Prospectus has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant member state of the European Economic Area) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Such approval relates only to Covered Bonds that are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC ("**MiFID**") and/or that are to be offered to the public in any member state of the European Economic Area (a "**Member State**"). Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Covered Bonds issued through the date that is one year after the date hereof to be admitted to the official list of the Irish Stock Exchange (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of MiFID.

The Covered Bonds to be issued under the Programme are mortgage covered bonds (in Turkish, *ipotek terminatlı menkul kıymet*) within the meaning of the Communiqué on Covered Bonds III-59.1 of the Capital Markets Board of Turkey (the "**CMB**"). Application has been made to the CMB, in its capacity as competent authority under Law No. 6362 (the "**Capital Markets Law**") of the Republic of Turkey ("**Turkey**") relating to capital markets, for the issuance and sale of Covered Bonds by the Bank outside of Turkey. No Covered Bonds may be sold before the necessary approvals and the issuance certificate are obtained from the CMB. The CMB approval relating to the issuance of Covered Bonds based upon which any offering of the Covered Bonds might be conducted was obtained on 18 December 2014, and an approved tranche issuance certificate (*tertip ihraç belgesi*) is required to be obtained from the CMB before any sale and issuance of each Tranche of Covered Bonds. The maximum mortgage covered bond amount that the Bank can issue under such approval is €1,000,000,000 (or its equivalent in other currencies) in aggregate. It should be noted that, regardless of the outstanding Covered Bond amount or the amount permitted to be issued under the Programme, unless the Bank obtains new approval(s) from the CMB, the aggregate mortgage covered bond amount to be issued under such approval cannot exceed €1,000,000,000 (or its equivalent in other currencies).

Under current Turkish tax law, withholding tax may apply to payments of interest on the Covered Bonds. See "*Taxation - Certain Turkish Tax Considerations*".

Notice of the aggregate principal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information that is applicable to each Tranche (as defined in this Base Prospectus) of Covered Bonds will be set out in a final terms document (the "**Final Terms**") (which, with respect to Covered Bonds to be listed on the Irish Stock Exchange, will be filed with the Central Bank of Ireland). Copies of such Final Terms for Series admitted to trading on the Main Series Market will also be published on the Issuer's website at https://www.garantiinvestorrelations.com/en/debt-information/Covered-Bond/Covered-Bond/806/0/0.

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant investor(s) (as set out in the applicable Final Terms). The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

Series of Covered Bonds issued under the Programme may either be rated (whether by Moody's Investors Service Ltd. ("**Moody's**") and/or any other Relevant Rating Agency (as defined in this Base Prospectus)) or unrated, with any Covered Bonds rated by Moody's being expected (assuming they provide for the required Required Overcollateralisation Percentage (defined herein)) initially to be rated "A3". Where a Tranche of Covered Bonds is rated (other than unsolicited ratings), such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Covered Bonds of other Series. The Bank has also been rated by Moody's, Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"), Fitch Ratings Limited ("**Fitch**") and JCR Eurasia Rating ("**JCR Eurasia**") as set out on pages 206 and 207 of this Base Prospectus. Each of Moody's, Standard & Poor's and Fitch is established in the EU and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of such rating agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) 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 the ESMA on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

***Arrangers***

**Barclays Bank PLC** **Natixis**

***Dealers***

**Barclays Bank PLC** **BNP PARIBAS** **Natixis**

The date of this Base Prospectus is 15 May 2015.

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

**The Issuer accepts responsibility for the information contained in this Base Prospectus and the applicable Final Terms for each Tranche of Covered Bonds issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus 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 incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated into, and form part of, this Base Prospectus.**

**To the fullest extent permitted by law, none of the Dealers, the Arrangers, the Agents, the Security Agent, the Calculation Agent, the Cover Monitor or the Offshore Account Bank accept any responsibility for the information contained in or incorporated by reference into this Base Prospectus or any other information provided by the Issuer in connection with the Programme or for any statement consistent with this Base Prospectus made, or purported to be made, by a Dealer or an Arranger or on its behalf in connection with the Programme. Each Dealer and 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.**

**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 in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Arrangers or Dealers.**

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

**Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds (or beneficial interests therein) shall in any circumstances imply that the information contained herein concerning the Issuer 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. The Arrangers 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 in the Covered Bonds of any information coming to their attention.**

**The distribution of this Base Prospectus and the offer or sale of Covered Bonds (or beneficial interests therein) might be restricted by law in certain jurisdictions. None of the Issuer, the Arrangers or the Dealers represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds (or beneficial interests therein) may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer that is intended to permit a public offering of any Covered Bonds (or beneficial interests therein) or distribution of this Base Prospectus in any jurisdiction in which action for that purpose is required. Accordingly: (a) no Covered Bonds (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 under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds (or beneficial interests therein) may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds (or beneficial interests therein). In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds (or beneficial interests therein) in the United States, the European Economic Area (including the United Kingdom), Turkey, 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 Covered Bonds (or beneficial interests therein) with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Covered Bonds (or beneficial interests therein) in any Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "Relevant Member State") must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds (or beneficial interests therein). Accordingly, any person making or intending to make an offer of Covered Bonds (or beneficial interests therein) in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds (or beneficial interests therein) in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.**

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

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

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

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

**(b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the applicable Covered Bonds and the impact its investment in such Covered Bonds 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 Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency,**

**(d) understands thoroughly the terms of the applicable Covered Bonds 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 Covered Bonds and its ability to bear the applicable risks.**

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

**Covered Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments but rather as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios.**

**The Issuer has obtained the CMB approval (dated 18 December 2014 No. 12233903.399-1111-12227 (the "CMB Approval")) required for the issuance of Covered Bonds under the Programme. The maximum mortgage covered bond amount that the Bank can issue under the CMB Approval is €1,000,000,000 (or its equivalent in other currencies) in aggregate. It should be noted that, regardless of the outstanding Covered Bond amount or the amount permitted to be issued under the Programme, unless the Bank obtains new approval(s) from the CMB, the aggregate mortgage covered bond amount to be issued under such approval cannot exceed €1,000,000,000 (or its equivalent in other currencies). In addition to the CMB Approval, a tranche issuance certificate (*tertip ihraç belgesi*) in respect of each Tranche of Covered Bonds is required to be obtained by the Issuer prior to the issue date (the "Issue Date") of such Tranche of Covered Bonds, which date will be as specified in the applicable Final Terms. The Issuer will maintain or obtain (as applicable) all authorisations and approvals of the CMB necessary for the offer, sale and issue of Covered Bonds under the Programme. Consequently, the scope of the CMB Approval might be amended and/or new approvals from the CMB might be obtained from time to time. Pursuant to the CMB Approval, the offer, sale**

**and issue of Covered Bonds under the Programme has been authorised and approved in accordance with Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, "Decree 32"), the Capital Markets Law, the Debt Instruments Communiqué No. II-31.1 issued by the CMB (the "Communiqué on Debt Instruments") and the Covered Bonds Communiqué or its related legislation.**

**In addition, the Covered Bonds (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the CMB Approval. Under the CMB Approval, the CMB has authorised the offering, sale and issue of any Covered Bonds outside of Turkey. Notwithstanding the foregoing, pursuant to the Banking Regulation and Supervision Agency of the Republic of Turkey (*Bankacılık Düzenleme ve Denetleme Kurumu*) (the "BRSA") decision dated 6 May 2010 No. 3665, the BRSA decision dated 30 September 2010 No. 3875 and in accordance with Decree 32, residents of Turkey: (a) may purchase or sell Covered Bonds (or beneficial interests therein) denominated in a currency other than Turkish Lira offshore on an unsolicited (reverse inquiry) basis in the secondary markets only and (b) may purchase or sell Covered Bonds (or beneficial interests therein) denominated in Turkish Lira offshore on an unsolicited (reverse inquiry) basis in both the primary and secondary markets; *provided* that such purchase or sale is made through licensed banks or licensed brokerage institutions authorised pursuant to BRSA and/or CMB regulations and the purchase price is transferred through licensed banks authorised under BRSA regulations. As such, Turkish residents should use such licensed banks or licensed brokerage institutions while purchasing Covered Bonds (or beneficial interests therein) and transfer the purchase price through licensed banks authorised under BRSA regulations. Monies paid for the purchases of Covered Bonds are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund (*Tasarruf Mevduatı Sigorta Fonu*) (the "SDIF").**

**In accordance with the Covered Bonds Communiqué (by reference to the Communiqué on Debt Instruments), the Covered Bonds are required under Turkish law to be issued in a dematerialised form and to be electronically registered with the Central Registry Agency of Turkey (*Merkezi Kayıt Kuruluşu A.Ş.*) (the "Central Registry Agency") and the interests therein recorded in the Central Registry Agency; *however*, upon the Issuer's request, the CMB may resolve to exempt the Covered Bonds from this registration requirement if the Covered Bonds are to be issued outside of Turkey. Further to the request of the Issuer, such exemption was granted by the CMB in the CMB Approval. As a result, this registration requirement will not be applicable to the Covered Bonds issued in reliance upon the CMB Approval. Notwithstanding such exemption, the Issuer is required to notify the Central Registry Agency within three Turkish business days from the applicable Issue Date of the amount, Issue Date, ISIN code, term commencement date, maturity date, interest rate, name of the custodian and currency of such Covered Bonds and the country of issuance.**

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

**Some statements in this Base Prospectus may be deemed to be forward-looking statements. Forward-looking statements include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this Base Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "might", "will", "should" and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*", "*The Group and its Business*" and other sections of this Base Prospectus and include, but are not limited to, statements regarding:**

- **strategy and objectives,**
- **trends affecting the Group's results of operations and financial condition,**

- **asset portfolios,**
- **loan loss reserves,**
- **capital spending,**
- **legal proceedings, and**
- **the Group's potential exposure to market risk and other risk factors.**

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

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

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

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

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

## U.S. INFORMATION

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

**The Covered Bonds (or beneficial interests therein) may be offered or sold within the United States or to, or for the account or benefit of, U.S. persons only to "qualified institutional buyers" ("QIBs") within the meaning of Rule 144A under the Securities Act ("Rule 144A") or to "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ("Institutional Accredited Investors"), in either case in registered form and in transactions exempt from registration under the Securities Act in reliance upon Rule 144A, Section 4(a)(2) of the Securities Act or any other applicable exemption. Each purchaser of Registered Covered Bonds (or beneficial interests therein) that is a U.S. person or is in the United States is hereby notified that the offer and sale of any Covered Bonds 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 and/or Section 4(a)(2) of the Securities Act.**

**Purchasers of Definitive IAI Registered Covered Bonds will be required to execute and deliver an IAI Investment Letter (as defined in "*Subscription and Sale and Transfer and Selling Restrictions*"). Each investor in IAI Registered Covered Bonds, Covered Bonds represented by a Rule 144A Global Covered Bond or any Covered Bonds issued in registered form in exchange or substitution therefor (together "Legended Covered Bonds") will be deemed, by its acceptance or purchase of any such Legended Covered Bonds (or beneficial interests therein), to have made certain representations and agreements intended to restrict the resale or other transfer of such Covered Bonds (or beneficial interests therein) as set out in "*Subscription and Sale and Transfer and Selling Restrictions*".**

## AVAILABLE INFORMATION

**To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds (or beneficial interests therein) that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in a deed poll dated the Programme Closing Date (the "Deed Poll") to furnish, upon the request of a holder of such Covered Bonds (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 Covered Bonds (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 U.S. Securities Exchange Act of 1934, as amended, (the "Exchange Act") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.**

## STABILISATION

**In connection with the issue of any Tranche of Covered Bonds, the Dealer(s) (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail; *however*, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules. Notwithstanding anything herein to the contrary, the Issuer may not (whether through over-allotment or otherwise) issue more Covered Bonds than have been approved by the CMB.**

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

***Presentation of Financial Information***

Though the Group is not required by Turkish law to prepare financial statements in accordance with International Financial Reporting Standards ("**IFRS**") as promulgated by the International Accounting Standards Board ("**IASB**"), as international investors are generally unfamiliar with the Standards Accounting Practice Regulations as promulgated by the BRSA and also the generally accepted accounting principles under the Turkish Commercial Code and Turkish tax legislation (collectively, "**Turkish GAAP**"), the Group publishes financial statements in Turkish Lira that have been prepared and presented in accordance with IFRS. The Group's IFRS financial statements ("**IFRS Financial Statements**") incorporated by reference herein: (a) as of and for the years ended 31 December 2012, 2013 and 2014 (the "**IFRS Annual Financial Statements**") were audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. ("**Deloitte**") (Deloitte is a member firm of Deloitte Touche Tohmatsu Ltd) and (b) as of and for the three months ended 31 March 2014 and 2015 (the "**IFRS Interim Financial Statements**") were reviewed by Deloitte. The Bank's Board of Directors, in accordance with the requirement for the mandatory rotation of auditors every seven years under Turkish regulations, selected Deloitte to be its external audit firm, effective as of 1 January 2010, and decided to maintain the same audit firm for the fiscal year 2015.

The IFRS Annual Financial Statements incorporated by reference herein have been audited by Deloitte in accordance with BRSA regulations and the International Standards on Auditing and the IFRS Interim Financial Statements incorporated by reference herein have been reviewed by Deloitte in accordance with the Regulation on Authorisation and Activities of Institutions to Perform External Audit in Banks and the International Standards on Auditing. With respect to the unaudited IFRS Interim Financial Statements as of and for the three month period ended 31 March 2015, Deloitte has reported that it applied limited procedures in accordance with professional standards for a review of such information; *however*, its report states that it did not audit and does not express an opinion on such interim financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied.

The Group's audit reports for the years ended 31 December 2012, 2013 and 2014 and review reports for the three months ended 31 March 2014 and 2015 were qualified with respect to general provisions 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. These general provisions amounted to TL 450,000 thousand, TL 335,000 thousand and TL 415,000 thousand recorded on the consolidated statements of financial position as of 31 December 2012, 2013 and 2014, respectively, resulting in TL 115,000 thousand being included in the 2013 income statement as income from the partial reversal of such provisions and TL 80,000 thousand being charged to the income statement as an expense in 2014 (there were no such provisions or reversals in 2012); the remaining amounts (all incurred before 2010) were charged as an expense during the applicable periods. As of 31 March 2015, the general provisions reached TL 450,000 thousand after a TL 35,000 thousand increase during the first quarter of 2015. Although these provisions did not impact the Group's level of tax or capitalisation ratios, if the Group had not established these provisions, then its net income might have been higher in such years (or, in 2013, lower). Deloitte has qualified its audit reports in respect of each such fiscal period because general provisions are not permitted under IFRS. See Deloitte's reports on the IFRS Financial Statements incorporated by reference into this Base Prospectus.

While the Group voluntarily prepares its IFRS Financial Statements, the Bank and its Turkish subsidiaries are required to maintain their books of account and prepare statutory financial statements in accordance with Turkish GAAP and to prepare regulatory financial statements in accordance with the requirements of the BRSA ("**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. The BRSA Financial Statements are

audited or reviewed, as applicable, by Deloitte. The unconsolidated BRSA Financial Statements for the years ended 31 December 2012, 2013 and 2014 and three months ended 31 March 2014 and 2015 have been incorporated by reference into this Base Prospectus. See "*Documents Incorporated by Reference*".

Except to the extent stated otherwise, the financial data for the Group included herein have been extracted from the Group's IFRS Financial Statements without material adjustment. Potential investors in the Covered Bonds should note that this Base Prospectus also includes certain financial information for the Bank only, which has been extracted from the Bank's unconsolidated BRSA Financial Statements without material adjustment. Such financial information is identified as being of "the Bank" in the description of the associated tables or information (rather than for the Group on a segmented basis). Such Bank-only financial information is (*inter alia*) presented in "*Risk Factors*" and "*The Group and its Business*".

Under IFRS, the Bank's financial statements are consolidated with the financial statements of its affiliates (except to the extent immaterial) that are companies controlled by the Bank (*i.e.*, the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee). The entities that were consolidated in the IFRS Financial Statements as of 31 December 2014 and 31 March 2015 were Garanti Bank International NV ("**GBI**"), Garanti Finansal Kiralama A.Ş. ("**Garanti Leasing**"), Garanti Bank Moscow ("**GBM"**), Garanti Faktoring Hizmetleri A.Ş. ("**Garanti Factoring**"), Garanti Emeklilik ve Hayat A.Ş. ("**Garanti Pension and Life**"), Garanti Holding BV(*) ("**GHBV**"), G Netherlands BV ("**G Netherlands**"), Garanti Bank SA ("**Garanti Romania**"), Motoractive IFN SA ("**Motoractive**"), Ralfi IFN SA ("**Ralfi**"), Garanti Yatırım Menkul Kıymetler A.Ş. ("**Garanti Securities**"), Garanti Yatırım Ortaklığı A.Ş. (" **Garanti Investment Trust**"), Garanti Portföy Yönetimi A.Ş. ("**Garanti Asset Management**"), Garanti Filo Yönetim Hizmetleri A.Ş. ("**Garanti Fleet**"), Garanti Bilişim Teknolojisi ve Ticaret T.A.Ş. ("**Garanti Technology**") and (while not legal affiliates, the following entities are special purpose entities established for the purpose of the Bank's "diversified payment rights" programme, and are thus required to be consolidated) Garanti Diversified Payment Rights Finance Company and RPV Company. The IFRS Financial Statements incorporated herein for previous periods included these same consolidated entities except Domenia Credit IFN SA ("**Domenia**"), which was acquired by Garanti Romania on 14 November 2014 through a merger process.

While Turkish GAAP and BRSA reporting standards have been converging with IFRS over recent years, they still differ in certain respects from IFRS, and the Group does not prepare, and the Bank is not providing in this Base Prospectus, any reconciliation between IFRS and Turkish GAAP or the BRSA Financial Statements.

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

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

For the Group, these non-GAAP measures include (without limitation): net interest margin, adjusted net interest margin, net yield, adjusted net interest income as a percentage of average interest-earning assets, cost-to-income ratio, cost-to-income ratio if income were calculated without deducting impairment losses, operating expenses as a percentage of total average assets, liquid assets as a percentage of total deposits, non-performing loans to total gross cash loans, free capital ratio, allowance for probable loan losses to non-performing loans, return on average total assets, return on

average shareholders' equity, average spread, the amount of net allowances charged to operating expenses, the increase of operating expenses if impairment losses and foreign exchange losses are excluded, average total assets, average shareholders' equity, average shareholders' equity as a percentage of average total assets, total interest income to gross operating income before deducting interest expenses and fee and commission expenses. See "*Summary Financial and Other Data*" and "*The Group and its Business*" for further information on certain such calculations.

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

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

***Currency Presentation and Exchange Rates***

In this Base Prospectus, all references to:

- "**U.S. Dollars**", "**US$**" and "**$**" refer to United States Dollars,
- "**Turkish Lira**" and "**TL**" refer to the lawful currency for the time being of Turkey,
- "**Sterling**" and "**£**" refer to English Pounds Sterling, and
- "**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.

No representation is made that the Turkish Lira or Dollar amounts in this Base Prospectus could have been or could be converted into U.S. Dollars or Turkish Lira, as the case may be, at any particular rate or at all. For a discussion of the effects on the Group of fluctuating exchange rates, see "*Risk Factors - Risks relating to the Group's Business - Foreign Exchange and Currency Risk*".

***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 Covered Bonds*" 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 consolidated into it).

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

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments; 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.

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

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

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

All data relating to the Turkish banking sector in this Base Prospectus have been obtained from the BRSA's website at www.bddk.org.tr, the Banks Association of Turkey's website at www.tbb.org.tr or the website of the Interbank Card Centre (*Bankalararası Kart Merkezi*), and all data relating to the Turkish economy, including statistical data, has been obtained from the website of the Turkish Statistical Institute (*Türkiye İstatistik Kurumu*) ("**TurkStat**") at www.turkstat.gov.tr, the website of the Central Bank of Turkey (*Türkiye Cumhuriyeti Merkez Bankası*) (the "**Central Bank**") at www.tcmb.gov.tr, the Turkish Treasury's website at www.hazine.gov.tr or the European Banking Federation's website at www.ebf.fbe.eu. Such data have been extracted from such websites without material adjustment, but may not appear in the exact same form on such websites or elsewhere. Such websites do not, and should not be deemed to constitute a part of, or be incorporated into, this Base Prospectus.

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

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

**TABLE OF CONTENTS**

**Page**

## RISK FACTORS

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

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

*Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision as these risk factors cannot be deemed complete. If potential investors are in doubt about the contents of this Base Prospectus, then they should consult with an appropriate professional adviser to make their own legal, tax, accounting and financial evaluation of the merits and risk of investment in such Covered Bonds.*

### Risks relating to the Cover Pool

The Covered Bonds will constitute direct, unconditional and unsubordinated obligations of the Issuer, backed by the Cover Pool as permitted under the Turkish Covered Bonds Legislation and the Non-Statutory Security. As such, an investment in the Covered Bonds represents exposure to the creditworthiness of the Issuer and the Cover Pool. The following discusses certain risks relating to the value of the Cover Pool.

#### *Insufficient Cover Pool - The value of the Cover Pool might be insufficient to ensure payment of all of the Issuer's obligations under the Transaction Documents*

The Issuer is required under the Covered Bonds Communiqué to comply with certain cover matching principles (*i.e.*, the Statutory Tests) as long as any Covered Bond is outstanding. Under the Covered Bonds Communiqué, if the Cover Pool does not fulfil any of the Statutory Tests, then the Issuer is required to rectify such non-compliance within one month of its detection of the occurrence of such breach (including, for a Statutory Test Date, within one month of such Statutory Test Date).

As part of the Statutory Tests, the Covered Bonds Communiqué requires that the Issuer ensure that the net present value of the Cover Pool Assets exceeds at all times, by at least 2%, the net present value of the liabilities of the Issuer under the Covered Bonds and the Hedging Agreements. See "*Summary of the Turkish Covered Bonds Legislation*". Furthermore, the Issuer has covenanted in the Security Agency Agreement to ensure that the Nominal Value of the Cover Pool is not less than the product of: (a) the Turkish Lira Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds outstanding and (b) the sum of one plus the decimal equivalent of the highest then-existing Required Overcollateralisation Percentage among all then-outstanding Series. While such percentage might differ for different Series depending upon their applicable ratings and Relevant Rating Agencies and other factors, the Issuer will (at any applicable time) be required to satisfy the highest Required Overcollateralisation Percentage then applicable among all the outstanding Series. In addition, the Required Overcollateralisation Percentage for a Series can change from time to time, including being reduced in the manner described in "*General Description of the Programme - Programme Description - Required Overcollateralisation Percentage*."

The ability of the Issuer to maintain the overcollateralised portion of the Cover Pool might be dependent upon factors that are beyond the control of the Issuer; for example, the performance of the Turkish housing market.

If an Administrator is appointed for the administration of the Cover Pool pursuant to Article 27 of the Covered Bonds Communiqué and the Administrator deems it necessary for the benefit of the Covered Bondholders, the Administrator may recommend to the CMB that the Covered Bonds be redeemed early and, if the CMB deems it appropriate, the Administrator will perform the liquidation of the Cover Pool Assets and the early redemption of the Covered Bonds. This could result in the Covered Bondholders (and Receiptholders and Couponholders) receiving payment according to a schedule that is different than that contemplated by the terms of the Covered Bonds (with accelerations as well as delays) or that the Covered Bondholders (and Receiptholders and Couponholders) are not paid in full.

In addition, in order for the payment of the Total Liabilities on their due dates, the Administrator is entitled to sell Cover Pool Assets, purchase new assets, utilise loans or conduct repurchase transactions without any early redemption decision. This could result in the Covered Bondholders (and Receiptholders and Couponholders) receiving payment according to a schedule that is different than that contemplated by the terms of the Covered Bonds or that the Covered Bondholders (and Receiptholders and Couponholders) are not paid in full.

"**Total Liabilities**" has the meaning given to such term in the Covered Bonds Communiqué (as of the date hereof, the aggregate of all liabilities owed by the Issuer in respect of the Covered Bonds (including Receipts and Coupons) and the Hedging Agreements).

***Changes in Value of Mortgage Assets - The collateral securing the Mortgage Assets might decline in value, which might result in the Cover Pool being insufficient to ensure payment of all of the Issuer's obligations under the Transaction Documents***

As loan-to-value ratio limits are imposed when a Mortgage Asset is originated, the value of the individual loan obligation is initially overcollateralised by the collateral security held by the Issuer in respect of such loan; *however*, the value of the collateral security might reduce over time as a result of various reasons, including falling property values and inadequate maintenance.

The Covered Bonds Communiqué requires the Issuer to monitor the general changes in the property prices securing its mortgage loans and determine the ratio of such change (the "**Property Price Change Ratio**") annually at the end of each calendar year based upon a generally accepted index, if available. As of the date of this Base Prospectus, the index used by the Issuer is the Property Price Index (*Konut Fiyat Endeksi*) (the "**KFE**") released by the Central Bank on a monthly basis. The calculation of the KFE is based upon the price data of all the properties sold in Turkey irrespective of the construction year of the properties. The price data is obtained from valuation reports prepared for the purpose of evaluating mortgage loan applications made to 10 Turkish banks (which might include the Issuer). lf the Issuer identifies a decline in the property prices within a specific geographical region or in Turkey in general, then it must decrease the value of the relevant property by applying the Property Price Change Ratio and re-calculate whether the Cover Pool Assets comply with the requirements of the Covered Bonds Communiqué. Correspondingly, though not mandated by the Covered Bonds Communiqué, the Issuer might apply a higher valuation at a future date if the selected index demonstrates an increase in property prices. Any such declines in the value of the mortgage collateral might result in the Cover Pool being insufficient to ensure payment of all of the Issuer's obligations under the Transaction Documents, and any such increases in the value of the mortgage collateral might enable the Issuer to include fewer assets in the Cover Pool and/or issue additional Covered Bonds against the value of the Cover Pool.

***Realisable Value of the Cover Pool - There are various factors that might negatively affect the realisable value of the Cover Pool or any part thereof***

If an Event of Default occurs and a Notice of Default is served on the Issuer, then the Security Agent will (upon instructions from the Covered Bondholder Representative) be entitled to enforce the

security interests granted by the Issuer in favour of the Security Agent under and pursuant to the terms of the Security Assignment (the "**Security Assignment Security**") and the Non-Statutory Security, and the proceeds from the realisation of the Transaction Security will be applied towards payment of the Issuer's obligations under the Transaction Documents in the manner provided in the Transaction Documents and the Covered Bonds Communiqué.

The realisable value of Mortgage Assets and their related security comprised in the Cover Pool might be reduced by: (a) default by Borrowers, (b) changes to the lending criteria of the Issuer and (c) possible regulatory changes by the regulatory authorities. Each of these factors is considered in more detail below. While the Statutory Tests, the Required Overcollateralisation Percentages and the Individual Asset Eligibility Criteria are intended to ensure that there will be an adequate amount of Mortgage Assets in the Cover Pool to enable the repayment of the Covered Bonds following service of a Notice of Default, there is no assurance that the Mortgage Assets or other Transaction Security could be realised for sufficient value to enable the Issuer's obligations under the Transaction Documents to be paid in full.

***Default by Borrowers - Default by Borrowers in paying amounts due on their Mortgage Assets might result in the value of the Cover Pool being insufficient to ensure payment of all of the Issuer's obligations under the Transaction Documents***

Borrowers might default on their obligations under the Mortgage Assets in the Cover Pool. Defaults might occur for a variety of reasons. The Mortgage Assets are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in the Borrowers' individual, personal or financial circumstances might affect the ability of the Borrowers to repay the Mortgage Assets. Loss of earnings, illness, divorce and other similar factors might lead to an increase in delinquencies by and bankruptcies of the Borrowers, and could ultimately have an adverse impact on the ability of the Borrowers to repay the Mortgage Assets. In addition, the ability of a Borrower to sell a property given as security for a Mortgage Asset at a price sufficient to repay the amounts outstanding under that Mortgage Asset will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time. Any of such circumstances could result in the value of the Cover Pool being insufficient to ensure repayment of the Issuer's obligations under the Transaction Documents.

***Insurance of Mortgage Assets - Insurance with respect to a mortgaged property might be insufficient to cover the remaining obligations of a Borrower under the related Mortgage Asset***

As a matter of Turkish law, each Borrower of a Mortgage Asset is required to maintain earthquake insurance for the related real property (subject to a maximum claim of TL 150,000) and they are also permitted to enter into life insurance policies that name the Issuer as the primary loss payee in order to secure their obligations under such Mortgage Asset. Any amounts received by the Issuer under such insurance might be insufficient to pay off such Mortgage Asset in full, particularly for damage caused by an earthquake on a property with respect to which the related Mortgage Asset exceeds TL 150,000. Such circumstances could result in the value of the Cover Pool being insufficient to ensure repayment of the Issuer's obligations under the Transaction Documents, particularly if such occurs as a result of an earthquake or other catastrophic event that affects a large number of such properties.

***Regulatory Changes - Possible regulatory changes (including in the Covered Bonds Communiqué) could negatively affect the value of the Cover Pool***

The Cover Pool (including the Mortgage Assets included therein) is subject to a number of requirements under Turkish law, including those set out in the Covered Bonds Communiqué. These requirements include (without limitation) consumer protection laws, lending criteria requirements and bankruptcy rules and (under the Covered Bonds Communiqué) the Statutory Tests, cover asset

eligibility criteria and other measures for the treatment of the Cover Pool. In the event that there are any regulatory changes in any of these requirements, including any changes in the Covered Bonds Communiqué that provide for a more lenient monitoring of the Cover Pool, the value of the Cover Pool might be insufficient to ensure repayment of the Issuer's obligations under the Transaction Documents.

***Secondary Mortgage Market - There is no substantial secondary mortgage loan market in Turkey, which might negatively affect the realisation on the Cover Pool***

The ability of the Cover Pool to cover repayment of the Issuer's obligations under the Transaction Documents might depend upon whether the Mortgage Assets and their related security can be sold, realised or refinanced by the Issuer or the Administrator, as applicable, so as to obtain a sufficient amount to cover such obligations. There is not yet an active and liquid secondary market for mortgage loans in Turkey and there is limited experience in Turkey of selling mortgage loans in distressed scenarios. Further, no assurance can be given that the CMB or any other regulatory authority will not take action (or that future adverse regulatory developments will not arise) with respect to the enforcement, sale or disposal of the Mortgage Assets. Any such action or developments might have a material adverse effect on the realisable value of the Mortgage Assets and ultimately adversely affect whether the value of the Cover Pool is sufficient to ensure repayment of the Issuer's obligations under the Transaction Documents.

***Reliance on Hedging Counterparties - The Hedging Counterparties might not make payments under the Hedging Agreements, which might result in the value of the Cover Pool being insufficient to ensure payment of all of the Issuer's obligations under the Transaction Documents***

To provide a hedge against possible variances in the rates of interest payable on or currency risks associated with the Mortgage Assets that form part of the Cover Pool and/or the Covered Bonds, the Issuer might enter into one or more Interest Rate Swap(s) with one or more Interest Rate Swap Provider(s) and/or one or more Currency Swap(s) with one or more Currency Swap Provider(s) under one or more Interest Rate Swap Agreement(s) and/or Currency Swap Agreement(s), respectively. The rights of the Issuer under such Hedging Agreements will form part of the Cover Pool.

If the Issuer fails to make timely payments of some or all of the amounts due under any Hedging Agreement, then the related Hedging Counterparty might not be obligated to make some or all of the corresponding payments to the Issuer under such Hedging Agreement. If a Hedging Counterparty is not obligated to make any of such payments, or if it defaults on its obligations to make such payments, then (unless an adequate replacement Hedging Agreement is entered into) the value of the Cover Pool might be insufficient to provide for full payment of the Issuer's obligations under the Transaction Documents.

In addition, the Issuer might have difficulty finding a new or replacement Hedging Counterparty, particularly one that will permit the maintenance of the credit rating of the Covered Bonds. Any inability to find a new or replacement Hedging Counterparty might have an adverse effect on the Covered Bonds, including their credit rating.

If a Hedging Agreement terminates (in whole or in part), then the Issuer might be obligated to make a termination payment under such Hedging Agreement to the relevant Hedging Counterparty. There can be no assurance that the Issuer will have sufficient funds available to make such a termination payment, nor can there be any assurance that the Issuer will be able to enter into a replacement Hedging Agreement. If the Issuer is obligated to pay a termination payment under any Hedging Agreement, then such termination payment will rank *pari passu* with amounts due on the Covered Bonds, and thus there might be insufficient Cover Pool Assets to make all relevant payments to Covered Bondholders.

If (to the extent applicable) any short-term or long-term debt rating of a Hedging Counterparty falls below any minimum short-term or long-term rating level (as the case may be) prescribed in the relevant Hedging Agreement, then such Hedging Counterparty might be obligated to take one or more

of the following actions: (a) provide collateral in support of its obligations under such Hedging Agreement, (b) procure a guarantee of its obligations under such Hedging Agreement from an appropriately rated entity, (c) procure a replacement counterparty, being another appropriately rated entity who takes a transfer of such Hedging Counterparty's obligations under such Hedging Agreement or enters into a replacement Hedging Agreement (*it being understood* that such replacement Hedging Agreement might not be as favourable to the Issuer as the previous Hedging Agreement), and/or (d) take such other actions as shall be agreed in such Hedging Agreement. Any costs in relation to such remedial action will, to the extent provided in the corresponding Hedging Agreement, be borne by the relevant Hedging Counterparty. The timing, extent and availability of such action required to be taken might vary based upon the individual requirements of the Relevant Rating Agency(ies) applicable at the time such Hedging Agreement was entered into and/or the level to which the rating of the relevant Hedging Counterparty has been downgraded.

***Reliance on Offshore Account Bank - The Offshore Account Bank might suffer a decline in credit quality, which could result in the value of the Cover Pool being insufficient to ensure payment of all of the Issuer's obligations under the Transaction Documents***

If there is a decline in the credit quality of the Offshore Account Bank, then the ability of the Secured Creditors to receive full payment of the applicable funds in the Offshore Bank Accounts might be negatively affected. In addition, the Issuer might have difficulty finding a new or replacement Offshore Account Bank if it is required to move the Offshore Bank Accounts, including as a result of an Offshore Account Bank Event. Any such circumstance might have an adverse effect on the Covered Bonds, including their credit rating.

***Set-off Risk - Borrowers might have set-off rights that reduce the value of the Mortgage Assets***

If the Issuer has entered into transactions (including deposit holding) with a Borrower of a Mortgage Asset, then such Borrower might, under certain conditions, have a right of set-off of its obligations under such Mortgage Asset against any amounts owed to it by the Issuer (either outside of the bankruptcy of the Issuer or in the event of the bankruptcy of the Issuer).

In accordance with the Turkish Code of Obligations ("**TCO**"), set-off between two obligations is possible provided that the obligations are: (a) mutual, (b) of the same kind and (c) due and payable. In addition, the right of set-off must not have been waived contractually by the debtor nor excluded by law.

Although the TCO states that the right of set-off may be waived contractually, the Issuer most likely cannot contractually eliminate the Borrowers' rights to set-off in the agreements or contracts in connection with its transactions (including deposit holding and transactions under credit and bank agreements on current or other accounts) with the Borrowers, including the loan agreements underlying the Mortgage Assets, as such a waiver of the set-off right likely would be deemed invalid pursuant to the scrutiny applicable to general terms and conditions introduced by the TCO and Turkey's consumer protection legislation. This scrutiny introduced by the TCO and the consumer protection law aims at protecting the weaker party from general terms and conditions that are imposed on it and that are "unusual", "unjust", "onerous" or "unfair". Any contractual waiver in respect of set-off rights under general terms and conditions, including under form mortgage loans with retail Borrowers, would most likely be judged invalid.

Consequently, this risk should be given consideration based upon its potential impact on the realisable value of the Mortgage Assets in the Cover Pool. While the Cover Pool envisages overcollateralisation ratios above statutory requirements, no assurance can be given that, if the right of set-off has been duly exercised by one or more Borrower(s) of the Mortgage Assets, the value of the Cover Pool will be sufficient to pay all amounts due and payable under the Covered Bonds.

***Ancillary Rights - A court might determine that some or all of the Ancillary Rights are not eligible to benefit from the Statutory Segregation***

The Covered Bonds Communiqué includes a "receivable" of a mortgage loan as eligible for Statutory Segregation; *however*, the precise scope of what constitutes a "receivable" for these purposes is unclear. While the Issuer has contractually agreed that the relevant proceeds of Ancillary Rights shall constitute part of the Cover Pool Assets, if it is subsequently judicially determined that all or part of the Ancillary Rights do not constitute receivables of Mortgage Assets for the purposes of Article 9 of the Covered Bonds Communiqué, then the obligation of the Issuer to apply the relevant proceeds of such Ancillary Rights in satisfaction of any indebtedness owed by the Issuer under the Transaction Documents to the Secured Creditors shall be an unsecured contractual obligation only and such Ancillary Rights shall not be Cover Pool Assets and thus not benefit from Statutory Segregation.

***Geographical Risks - The Mortgage Assets are all secured by real property in Turkey, with significant concentrations in certain locations, which might result in increased exposure to potential national or regional economic, catastrophic and other risks***

Mortgage Assets contained in the Cover Pool will be secured on real property located only in Turkey. The value of the Cover Pool might decline sharply and rapidly in the event of a general downturn in the value of real property in Turkey or other national risks. Any such downturn thus might result in the value of the Cover Pool being insufficient to ensure payment of all of the Issuer's obligations under the Transaction Documents.

The Mortgage Assets in the Cover Pool will likely be concentrated in certain regions of Turkey, principally in İstanbul and Ankara. Certain geographic regions of Turkey might experience weaker regional economic conditions (including on local employment levels and/or wages) and housing markets or be directly or indirectly affected by civil disturbances or natural disasters, including earthquakes. Such conditions could result in regional declines in the value of real property and/or (such as due to declining regional employment) the ability of Borrowers to make payments on their Mortgage Assets. Mortgage Assets in the Cover Pool in such areas might experience higher rates of loss and delinquency than other Mortgage Assets in the Cover Pool, which might result in the value of the Cover Pool being insufficient to ensure payment of all of the Issuer's obligations under the Transaction Documents.

***Due Diligence - None of the Arrangers, the Dealers or (other than the Cover Monitor in the limited manner described herein) any other persons have performed or will perform any due diligence in relation to the Cover Pool***

No investigations, searches, audits or other actions in respect of any assets contained or to be contained in the Cover Pool has been or will be performed by the Arrangers, the Dealers, the Agents, the Security Agent or (other than the Cover Monitor in the limited manner described herein) any other person. The Issuer is obliged to ensure that the Cover Pool fulfils the requirements of the Covered Bonds Communiqué (including the Statutory Tests), the Required Overcollateralisation Percentage and the Individual Asset Eligibility Criteria.

***Cover Pool Description - Covered Bondholders will receive limited information on the Cover Pool***

While the Security Agency Agreement provides that investors in the Covered Bonds will have access to the Investor Reports and the Cover Monitor Agreement provides that (for issuances made outside of Turkey and subject to the delivery by the Cover Monitor and Issuer of certain transmittal letters) Covered Bondholders might obtain copies of the Cover Monitor Reports from the Security Agent, they will not receive detailed statistics or information in relation to the Mortgage Assets, other assets in the Cover Pool or other Transaction Security. It is expected that the constitution of the Cover Pool will frequently change, including due to the Issuer:

(a) assigning additional Cover Pool Assets to the Cover Pool, and

(b) removing Cover Pool Assets from the Cover Pool or substituting existing Cover Pool Assets in the Cover Pool.

While each Mortgage Asset in the Cover Pool will be required to meet the Individual Asset Eligibility Criteria and the requirements of the Covered Bonds Communiqué, the constitution of the Cover Pool is dynamic and there are no assurances that the credit quality of the assets in the Cover Pool will remain the same as of the date of this Base Prospectus or on or after the Issue Date of any Covered Bonds. See "*General Description of the Programme - Creation and Administration of the Cover Pool - Changes to the Cover Pool*".

***Loan Origination Guidelines - The Issuer's guidelines for originating or acquiring mortgage loans do not ensure that a Borrower will be able to make payment on its mortgage loan, and such guidelines might be waived or become less rigorous***

The Mortgage Assets in the Cover Pool were (and will be) originated (or purchased) by the Issuer pursuant to certain established origination guidelines and, in certain cases, based upon exceptions to those guidelines. It is expected that the Issuer's lending criteria will generally consider, *inter alia*, the type of property, term of loan, age of applicant, loan-to-value ratio, status of applicant and credit history. The Issuer retains the right to revise its lending criteria from time to time. Although these guidelines have been designed to identify and appropriately assess the repayment risks associated with the origination of mortgage loans, it cannot be ensured that the interest and principal payments due on any Mortgage Asset will be paid when due, or at all, or whether the value of the property securing such Mortgage Asset will be sufficient to otherwise provide for recovery of such amounts.

To the extent exceptions were made to the underwriting guidelines in originating (or purchasing) a Mortgage Asset, those exceptions might increase the risk that principal and interest amounts might not be received or recovered relating to such Mortgage Asset. Compensating factors, if any, that might have formed the basis for making an exception to the underwriting guidelines might not in fact compensate for any additional risk. In addition, the Issuer's origination guidelines might change over time, including to become less rigorous, which might increase the risk of default by a Borrower under a Mortgage Asset in the Cover Pool.

Any increased risk that principal and interest amounts might not be received or recovered in respect of the Mortgage Assets in the Cover Pool could have a material adverse effect on the Issuer's financial condition, results of operations and/or ability to perform its obligations under the Covered Bonds and/or on whether the value of the Cover Pool is sufficient to ensure payment of all of the Issuer's obligations under the Transaction Documents.

**Risks relating to the Covered Bonds Communiqué**

Set out below is a description of material risks relating to the Covered Bonds Communiqué:

***Uncertainty of Legal Implementation - The Covered Bonds Communiqué is untested and thus there is uncertainty as to how its provisions will be implemented or interpreted in any legal or regulatory proceedings***

The Covered Bonds Communiqué is a new regulation in Turkey and has not yet been the subject of any legal proceedings. In addition, the concept of covered bonds issued under the Covered Bonds Communiqué and governed by foreign law was only quite recently introduced to the Turkish market and it is not certain how the Covered Bonds Communiqué and the relevant provisions of the Turkish insolvency law would be interpreted in judicial, administrative or other relevant practice. Furthermore, the Turkish Covered Bonds Legislation might be amended or supplemented in a manner that affects the Covered Bonds. The regulatory authorities and courts have significant discretion over enforcement and interpretation of the relevant legislation and such discretion might be used arbitrarily by the relevant authorities. As a result, no assurance can be given as to the impact of any possible judicial decision or change to Turkish law (including the Turkish Covered Bonds Legislation) or administrative or other relevant practice.

Additionally, there are uncertainties with regard to the enforcement of matters relating to a covered bond issuance and the Turkish courts' approach to such matters. For example, use of enforcement agents is not common in Turkey and whether Turkish courts will accept enforcement agents to act on behalf of investors is not certain. Another questionable matter is the approach enforcement courts would take with respect to possible claims relating to Covered Bonds, because there are no precedents of claims relating to covered bonds being brought to courts and the enforcement of covered bond-related claims by Turkish courts is untested.

Furthermore, the interpretation of certain provisions of Turkish law, in particular commercial, financial and insolvency laws, is not well established due to there being little precedent in respect of sophisticated commercial and financial transactions between private parties. Furthermore, these laws are subject to changes and interpretation in a manner that cannot currently be foreseen or anticipated, which changes might affect the rights and obligations of the Issuer and/or the Secured Creditors arising in connection with the Programme.

In addition, any change in legislation or in practice in Turkey, the United Kingdom or any other relevant jurisdiction could adversely impact: (a) the ability of the Issuer to make payments with respect to the Covered Bonds and/or (b) the price of the Covered Bonds.

See also "*Risks relating to Covered Bonds generally - Enforcement of Judgments*".

***No Direct Security Interest in Favour of Covered Bondholders in the Cover Pool - Covered Bondholders will not have direct remedies against the Cover Pool***

While the Security Assignment covers the Offshore Bank Accounts and certain other assets, the Covered Bonds Communiqué does not confer a direct security interest in favour of the Covered Bondholders over the Cover Pool. As a result, the Covered Bondholders are not entitled to any direct remedy against the Cover Pool, such as selling the Cover Pool Assets, if the Issuer defaults in its payment obligations under the Covered Bonds. In case the management or administration of the Issuer is transferred to public authorities, its operating permit is cancelled or the Issuer declares bankruptcy, the CMB may, but is not obligated to, appoint an Administrator to take the necessary actions pursuant to the Covered Bonds Communiqué for the benefit of the Covered Bondholders. Such an Administrator would have wide powers, including the ability to redeem the Covered Bonds early if it determines, in its discretion, that early redemption is in the interests of the Covered Bondholders. See "*Summary of the Turkish Covered Bonds Legislation*".

***Common Collateral - Covered Bondholders share the Cover Pool with Hedging Counterparties and other Secured Creditors, the claims of which might negatively affect the ability of the Cover Pool to cover all of the amounts payable under the Covered Bonds***

As a result of the Covered Bonds Communiqué, the Covered Bondholders, Receiptholders, Couponholders and Hedging Counterparties have the benefit of priority to the Cover Pool upon liquidation or bankruptcy of the Issuer. The fees of the Administrator might also rank *pari passu* with, or even senior to, such claims and (as described in "*General Description of the Programme - Programme Description - Ranking of the Covered Bonds*") the Other Secured Creditors might also have a claim on the Additional Cover. Given the *pari passu* ranking of claims under the Covered Bonds (including Receipts and Coupons) and Hedging Agreements against the Cover Pool under the Covered Bonds Communiqué, and the potential claims of other Secured Creditors against some of the Cover Pool, in the event of the Issuer's liquidation or bankruptcy, the amount available to be paid to Covered Bondholders, Receiptholders and Couponholders out of the Cover Pool on a prioritised basis might be affected by the amounts payable at the relevant time to Hedging Counterparties under Hedging Agreements and such other claimants. To the extent that claims in relation to the Covered Bonds are not met out of the assets in the Cover Pool, the residual claims will rank *pari passu* with the unsecured and unsubordinated obligations of the Issuer.

Any such residual claims 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 benefitting from collateral provided by the Bank will have preferential rights with respect to such collateral 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 Covered Bondholders on any dissolution, winding up or liquidation of the Bank and might result in an investor in the Covered Bonds losing all or some of its investment.

***Administrator Expenses - The ranking of the Administrator's expenses is unclear***

Article 27 of the Covered Bonds Communiqué does not specify whether any liabilities, costs or expenses incurred by the Administrator rank *pari passu* with or senior to the Total Liabilities, including against the Cover Pool. Further, there is no statutory limit specified as to the quantum of any such amounts. If such amounts rank senior to the Total Liabilities or are excessive in amount, then Covered Bondholders might be adversely affected.

***Cover Pool Liquidity - The Administrator might raise liquidity to cover some or all of the Total Liabilities, the claims under which liquidity might rank at least pari passu with the claims of the Covered Bondholders***

Under the Covered Bonds Communiqué, the Administrator may raise liquidity through the sale of Mortgage Assets and other assets in the Cover Pool to fulfil some or all of the Total Liabilities. In addition, to fulfil some or all of the Total Liabilities on their due dates, the Administrator may utilise loans or conduct repo transactions. Although the Covered Bonds Communiqué does not include any provision specifically in relation to the ranking of the counterparties of such transactions, the claims of the counterparties of those transactions might rank *pari passu* with or senior to the claims of the Covered Bondholders and existing Hedging Counterparties with respect to the Cover Pool Assets, which might have an adverse effect on the ability of the Covered Bondholders to receive payments due to them under the Transaction Documents.

In addition, there can be no assurance as to the actual ability of the Administrator to raise liquidity, whether from the sale of assets or incurrence of obligations, which might result in a failure of Covered Bondholders to receive full and timely payments. There is no assurance as to whether there will be a market for the Cover Pool Assets after the bankruptcy of the Issuer.

**Risks relating to the Transaction Documents**

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

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

As permitted by Condition 16 (*Further Issues*), the Bank may from time to time without the consent of the Covered Bondholders of a Series create and issue further Covered Bonds of that Series; *provided* that (among other conditions): (a) such further Covered Bonds will be required to be fungible with the existing Covered Bonds 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) and (b) unless such Series is denominated and payable in Turkish Lira, a Rating Agency Confirmation from the applicable Relevant Rating Agency(ies) is obtained. To the extent that the Bank issues further Covered Bonds of a Series, the interest of an existing Covered Bondholder of such Series (*e.g.*, in respect of any meeting of holders of the Covered Bonds of that Series (see "*Majority Decisions*" below)) will be diluted.

***Additional Series – The Bank may from time to time issue additional Series of Covered Bonds, which might dilute the interests of existing Covered Bondholders in the Cover Pool and would dilute their share of Programme-wide voting rights***

The Bank may from time to time without the consent of the Covered Bondholders or any other Secured Creditors create and issue additional Series of Covered Bonds; *provided* that (among other conditions), unless such Series is denominated in Turkish Lira, a Rating Agency Confirmation from the Relevant Rating Agency(ies) of all outstanding Series is obtained. To the extent that the Bank issues further Series, the Programme-wide voting rights of the existing Covered Bondholders will be diluted (see "*Programme-level Decisions*" below). While the Issuer would continue to be required to comply with the Statutory Tests and the Required Overcollateralisation Percentage for each Series, any such additional issuance might reduce the ability of the Cover Pool to cover repayment of the Issuer's obligations under the Transaction Documents. See Condition 16 (*Further Issues*).

***Limited Rights of Acceleration - Covered Bonds can be accelerated only in limited circumstances***

The Conditions of the Covered Bonds include a very limited list of Events of Default, the occurrence of which would permit the Covered Bonds to be accelerated. The ability of Covered Bondholders to accelerate the Covered Bonds will thus be very limited. See "*General Description of the Programme – Events of Default*".

***Amendments without Secured Creditor Consent - The Issuer may make modifications to the Transaction Documents without the consent of the Secured Creditors***

The Agency Agreement provides that the Issuer may (without the consent of the Security Agent and the other Secured Creditors; *it being understood* that each other party to the applicable Transaction Document(s) shall, and (as applicable) shall be deemed to be instructed to, acknowledge such amendments) make amendments to the Conditions or any of the other Transaction Document under certain circumstances, as more particularly set out in "*General Description of the Programme – Programme Description – Amendments*". Such amendments might negatively affect one or more of the Covered Bondholders or other Secured Creditors.

***Majority Decisions – The conditions of the Covered Bonds contain provisions that may permit their modification without the consent of all investors in the applicable Series***

The conditions of the Covered Bonds will contain provisions for calling meetings of Covered Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Covered Bondholders of a Series, including Covered Bondholders who did not attend and vote at the relevant meeting and Covered Bondholders who voted in a manner contrary to the deciding group. As a result, decisions might be taken by the Covered Bondholders of a Series that are contrary to the preferences of any particular Covered Bondholder.

***Programme-level Decisions - Certain decisions of Covered Bondholders may be taken at the Programme level, which decisions might negatively affect one or more Series and/or Covered Bondholders who do not consent to such decisions***

Any Extraordinary Resolution passed by the Covered Bondholders will be binding on all the Covered Bondholders, whether or not they are present at any meeting and whether or not they vote on the resolution, and on all Couponholders and Receiptholders. Any such decision might negatively affect one or more Series and/or Secured Creditors.

***Possible Delay in Identifying a Breach - The Cover Monitor calculates the Statutory Tests periodically and might not immediately identify a breach of the Covered Bonds Communiqué***

Under the Covered Bonds Communiqué, the Issuer is required to comply with certain criteria in respect of the assets included in the Cover Pool from time to time. While the Covered Bonds Communiqué requires the Issuer to provide the Cover Monitor with certain information about the assets included in the Cover Pool from time to time and the calculations performed (and source of the

information used in such calculations), the Cover Monitor is only required to monitor certain aspects of the Issuer's compliance with the Covered Bonds Communiqué (see "*Summary of the Turkish Covered Bonds Legislation*"). The Cover Monitor is required to notify the Issuer if it becomes aware of the Issuer's breach of any such monitored aspects; *however*, the ability of the Cover Monitor to monitor the Issuer's compliance with the Covered Bonds Communiqué is dependent upon the Issuer providing such information to the Cover Monitor on a timely basis and the Cover Monitor adequately performing its role. If the Cover Monitor encounters any obstruction in its access to any such information and documents that it has requested, then it shall promptly so notify the CMB.

If the Issuer is unable to meet its payment obligations under the Covered Bonds fully or partially, then it is required to disclose such situation on its website. Other than the Issuer and (to a limited extent) the Cover Monitor, no person will be appointed to monitor the performance of the Issuer, the Cover Pool or the Issuer's compliance with the Covered Bonds Communiqué and the Transaction Documents. Accordingly, time might pass between the actual occurrence of a breach of the Covered Bonds Communiqué and/or the Transaction Documents and the Cover Monitor, the CMB and/or the Covered Bondholders becoming aware of such breach. In addition, any delay in the appointment of an Administrator might result in further delays in the maintenance of the Cover Pool and monitoring compliance with the Statutory Tests.

***Extended Final Maturity Dates - The Issuer's obligation to redeem a Series of Soft Bullet Covered Bonds on its Final Maturity Date might be extended***

Unless previously redeemed as provided in the Conditions, the Covered Bonds of each Series will be redeemed at their Principal Amount Outstanding on the relevant Final Maturity Date. If the Covered Bonds are not redeemed in full on the relevant Final Maturity Date (or, where Soft Bullet Covered Bonds are subject to an Extended Final Maturity Date, on the relevant Extended Final Maturity Date), then (if such default is not remedied within a period of seven İstanbul Business Days from the due date thereof) the Security Agent may serve a Notice of Default on the Issuer pursuant to the Conditions. Upon the Issuer's receipt of a Notice of Default, the Covered Bonds of each Series shall become immediately due and payable and the Security Agent will be entitled to enforce the security created pursuant to the Security Assignment.

The applicable Final Terms may provide that the Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past the relevant Final Maturity Date until a later date specified in the applicable Final Terms (*i.e.*, the Extended Final Maturity Date for such Series). In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount on the relevant Final Maturity Date for such Series as set out in the applicable Final Terms and any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date of such Series may be paid by the Issuer on any Extended Series Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date or as otherwise provided for in the applicable Final Terms.

Interest will continue to accrue and be payable on any unpaid amounts on each Extended Series Payment Date up to the Extended Final Maturity Date in accordance with the Conditions.

Notwithstanding anything in the Transaction Documents to the contrary, in the case of Covered Bonds where the applicable Final Terms provide that the Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past the Final Maturity Date until the Extended Final Maturity Date, the failure by the Issuer to pay the Principal Amount Outstanding on such Covered Bond on the Final Maturity Date shall (if not cured by the end of the applicable cure period) constitute an Issuer Event and shall not constitute an Event of Default. As a result, the extension of the maturity of the Principal Amount Outstanding of the relevant Series of Soft Bullet Covered Bonds to its Extended Final Maturity Date will not result in the right of Covered Bondholders to accelerate payments or take action against the Issuer or the Cover Pool, and no payment will be payable to the Covered Bondholders in that event other than as set out in the Final Terms of the applicable Series of Covered Bonds. In addition, the extension of a Final

Maturity Date for a Series to its Extended Final Maturity Date will not result in enforcement action being taken against any Cover Pool Assets.

If repayment of a particular Series of Soft Bullet Covered Bonds is extended to its Extended Final Maturity Date, then it is possible that other Series of Covered Bonds without an Extended Final Maturity Date might be fully or partially paid before such Series of Soft Bullet Covered Bonds.

***Rating Agency Confirmation - Certain actions can be taken by the Issuer upon obtaining a Rating Agency Confirmation, which might result in changes to the Transaction Documents or other actions being made without the consent of the Covered Bondholders***

The terms of certain of the Transaction Documents provide that, in certain circumstances, the Issuer or the Security Agent, as applicable: (a) can make certain revisions to the Transaction Documents so long as a Rating Agency Confirmation is obtained and (b) must obtain a Rating Agency Confirmation before taking certain actions proposed to be taken. By acquiring the Covered Bonds (or beneficial interests therein), investors will be deemed to have acknowledged and agreed that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that might be of relevance to Covered Bondholders, including, without limitation, whether any action proposed to be taken by the Issuer, the Security Agent or any other party to a Transaction Document is either: (a) permitted by the terms of the relevant Transaction Document or (b) in the best interests of, or not prejudicial to, some or all of the Covered Bondholders. As a result, such revisions or actions might be taken without the consent of any of the Covered Bondholders and might adversely affect one or more of the Covered Bondholders.

Any Rating Agency Confirmation might or might not be given at the sole discretion of each Relevant Rating Agency. It also should be noted that, depending upon the timing of delivery of the request and any information needed to be provided as part of any such request, it might be the case that a Relevant Rating Agency cannot provide a Rating Agency Confirmation in the time available or at all, and the Relevant Rating Agency will not be responsible for the consequences thereof. Such confirmation, if given, will be given on the basis of the Relevant Rating Agency's understanding of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes to the Programme. A Rating Agency Confirmation represents only a restatement of the opinions given, and is given on the basis that it will not be construed as advice for the benefit of any parties to the transaction.

***Security and Insolvency Considerations - The assignment under the Security Assignment might be negatively affected by a bankruptcy of the Issuer***

Pursuant to the Security Assignment in respect of its obligations to the Secured Creditors, including its obligations under the Covered Bonds, the Issuer has assigned its rights, title, interest and benefit, both present and future, in, to and under: (a) each of the Offshore Bank Accounts, (b) the English Law Transaction Documents (other than the Security Assignment and any deed expressed to be supplemental to the Security Assignment, the Programme Agreement and any Subscription Agreement) and (c) all payments of any amounts which may become payable to the Issuer thereunder, all payments received by the Issuer thereunder, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof; *provided* that, notwithstanding such assignment, the Issuer is entitled to exercise its rights in respect of such English Law Transaction Documents, but subject to the provisions thereof and certain payment allocations under the Security Assignment.

In certain circumstances, including the occurrence of certain insolvency events in respect of the Issuer, the ability to realise any such security might be delayed and/or the value of the security impaired. There can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including Turkish insolvency laws) with respect to an insolvency of the Issuer.

***New Issuer - The Covered Bonds and Cover Pool Assets might be transferred to another entity, which would assume the Issuer's obligations under the Covered Bonds***

After its appointment pursuant to the Covered Bonds Communiqué, an Administrator may, with the consent of the CMB, transfer all or part of the Cover Pool Assets and the Total Liabilities and any other obligations which benefit from the Cover Pool to another bank or mortgage financial institution within the meaning of the Covered Bonds Communiqué (such mortgage financial institution, an "**MFI**") that is able to issue covered bonds under the Covered Bonds Communiqué. Upon such transfer, the ownership of the relevant Cover Pool Assets would be deemed to have passed to such bank or MFI ("**New Issuer**") and the Issuer shall be discharged from the Total Liabilities (or relevant part thereof in the case of a partial transfer) that are assumed by the New Issuer. Any such transfer is not subject to the consent of the Security Agent, Covered Bondholders, Hedging Counterparties, Agents or other Secured Creditors. Any such transfer will not constitute an Event of Default. There is no assurance as to whether there will be an eligible transferee to take over the Total Liabilities and the corresponding Cover Pool Assets after the appointment of an Administrator. See Condition 10.3 (*Transfer to Another Institution*).

***Redemption for Taxation Reasons – Unless provided otherwise in the applicable Final Terms, the Bank will have the right to redeem a Series of Covered Bonds upon the occurrence of certain changes requiring it to pay withholding taxes in excess of levels, if any, applicable to interest or other payments on such Covered Bonds, which changes become effective on or after the date on which agreement is reached to issue the first Tranche of the Covered Bonds of such Series***

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

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

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

The Final Terms for a Series of Covered Bonds may provide that the Issuer may call all or some portion of such Series for redemption prior to its Final Maturity Date. The Issuer may be expected to call Covered Bonds when its cost of borrowing is lower than the interest rate on such Covered Bonds. 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 Covered Bonds 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 Covered Bonds with a redemption feature. In addition, in the case of any Floating Rate Covered Bonds, the redemption could take place on any day during an Interest Period. See Condition 6.3 (*Redemption at the Option of the Issuer (Issuer Call)*).

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

***Definitive Covered Bonds might need to be Issued - Investors who invest in Global Covered Bonds in denominations that are not a Specified Denomination might be adversely affected if definitive Covered Bonds are subsequently required to be issued***

In relation to any issue of Covered Bonds in global form that have denominations consisting of a minimum specified denomination *plus* one or more higher integral multiples of another smaller amount (a "**Specified Denomination**"), it is possible that interests in such Covered Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a Covered Bondholder who, as a result of trading such amounts, holds an amount that is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds replace the applicable Global Covered Bond) and would need to purchase or sell a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination.

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

**Risks relating to Turkey**

Most of the Bank's and its Turkish subsidiaries' operations are conducted, and substantially all of their 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.

***Turkish Economy - The Turkish economy is subject to significant macro-economic 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 macro-economic imbalances, including significant current account deficits and a considerable level of unemployment. While the Turkish economy has been significantly stabilised due, in part, to support from the International Monetary Fund, Turkey might experience a further significant economic crisis in the future, which

could have a material adverse effect on the Group's business, financial condition and/or results of operations.

The Group's banking and other businesses are significantly dependent upon its customers' ability to make payments on their loans and meet their other obligations to the Group. If the Turkish economy suffers because of, among other factors, a reduction in the level of economic activity, devaluation of the Turkish Lira, inflation or an increase in domestic interest rates, then a greater portion of the Group's customers might not be able to repay loans when due or meet their other debt service requirements to the Group, which would increase the Group's past due loan portfolio and could materially reduce its net income 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 products. The occurrence of any or all of the above could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

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

Starting in mid-2007, the global financial crisis significantly affected global economic conditions. The crisis resulted in significant declines in the value of a broad range of real and financial assets, increased volatility in financial markets and reduced availability of funding. Internationally, many financial institutions sought to raise additional capital and a number failed or merged with larger institutions. As a result of concern about the stability of the financial markets generally and the strength of counterparties in particular, many lenders and institutional investors reduced lending and, in some cases, ceased providing funding to borrowers, including other financial institutions, which significantly reduced liquidity and the availability of credit in the global financial system. Certain of these conditions persist.

The global financial crisis and related economic slowdown also significantly impacted the Turkish economy and the principal external markets for Turkish goods and services. During the global financial crisis, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which led to an increase in unemployment. Turkey's GDP contracted by 7.0% in the fourth quarter of 2008 and declined 4.8% in 2009 but, following the implementation of fiscal and monetary measures during 2009, began to recover in the fourth quarter of 2009 and has since continued to expand (source: Turkstat). While unemployment levels have also improved since the depth of the financial crisis, they remain elevated. There can be no assurance that the unemployment rate will continue to improve, or even that it will not increase in the future. Continuing high levels of unemployment might affect the Group's retail customers and business confidence, which could impair its business strategies and have a material adverse effect on its business, financial condition and/or results of operations.

Concerns about a sovereign debt crisis in certain European countries, including Cyprus, Greece, Ireland, Italy, Portugal and Spain, also 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. Any deterioration in the condition of the global or Turkish economies, or continued uncertainty around the potential for such deterioration, could have a material adverse effect on the Group's business and customers in a number of ways, including, among others, the income, wealth, employment, liquidity, business, prospects and/or financial condition of the Group's customers, which, in turn, could further reduce the Group's asset quality and/or demand for the Group's products and services and negatively impact the Group's growth plans. The Group's business, financial condition and/or results of operations might also continue to be adversely affected by conditions in the

global and Turkish financial markets as long as they remain volatile and subject to disruption and uncertainty.

In addition, the Group operates in countries outside of Turkey (such as the Netherlands, Romania and Russia). Such jurisdictions also have been adversely impacted by the global financial crisis. The Group's intention is to continue expanding its operations in such jurisdictions (particularly in Romania), and in the event there are further financial crises affecting such jurisdictions or any other financial shock (such as the recent sharp decline in oil prices, which negatively affects the Russian economy and certain other Eastern European countries), this might result in the Group's foreign operations not growing or performing at the same rate or levels as they had prior to the recent global crisis. 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 could be materially adversely affected.

Although there have been indications that the global economy has begun to recover from the economic deterioration of recent years, the recovery might also be weak in the upcoming years. A relapse in the global economy or continued uncertainty around the potential for such a relapse could 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 European Monetary Union, any significant changes to the structure of the European Monetary Union or any uncertainty as to whether such a withdrawal or change might occur might have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

In 2010, Turkey's current account deficit was US$45.4 billion, which increased to US$75.1 billion in 2011 before decreasing to US$48.5 billion in 2012, according to the Central Bank. The decline in the current account deficit in 2012 was largely the result of coordinated measures initiated by the Central Bank, the BRSA and the Turkish Ministry of Finance to lengthen the maturity of deposits, reduce short-term capital inflows and curb domestic demand. The main aim of these measures was to slow growth in the current account deficit by controlling the rate of loan growth.

The decline in the current account deficit experienced in 2012 came to an end in early 2013 as a result of the recovery in domestic demand, with the deficit in 2013 rising to US$65.0 billion. 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$45.8 billion in 2014 as a result of their negative effect on domestic demand and GDP.

If the value of the Turkish Lira relative to the U.S. Dollar and other relevant trading currencies changes, then the cost of importing oil and other goods and services and the value of exports might both change in a corresponding fashion, resulting in potential increases or decreases in the current account deficit. As an increase in the current account deficit might erode financial stability in Turkey, the Central Bank has taken certain actions to maintain price and financial stability. For example, through a series of interest rate decreases beginning in May 2014, the overnight borrowing rate was reduced from 8.0% to 7.5%, the one-week repo rate was reduced from 10.0% to 8.25% and the overnight lending rate was reduced from 12.0% to 11.25%. On 20 January 2015, the Central Bank reduced further the one-week repo rate to 7.75%, and, in February 2015, the Central Bank reduced its borrowing rate from 7.50% to 7.25%, its lending rate from 11.25% to 10.75% and its one-week repo rate from 7.75% to 7.50%. Such actions by the Central Bank and similar or other actions that it might take in the future might not be successful in reducing the current account deficit. See "*Turkish Regulatory Environment*".

Although Turkey's economic growth dynamics depend to some extent upon domestic demand, Turkey is also dependent upon trade with Europe. A significant decline in the economic growth of any of Turkey's major trading partners, such as the EU, could have an adverse impact on Turkey's balance

of trade and adversely affect Turkey's economic growth. Regional conflicts and sanctions implemented against Russia, which also suffers from declining oil prices, have negatively affected Turkey's exports to these markets. While diversification in the export markets towards the Middle East and other regional countries has partially offset the negative impact of declines in demand from certain countries, the EU remains Turkey's largest export market. A decline in demand for imports from the EU could have a material adverse effect on Turkish exports and Turkey's economic growth and result in an increase in Turkey's current account deficit.

Turkey is an energy import-dependent country and recorded US$49.9 billion of net energy imports in 2014. It should be noted that Turkey's current account deficit reached US$45.8 billion in 2014 and, as such, energy imports exceeded the country's current account deficit during the year. The recent declines in the price of oil might be reversed. 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 could have a material impact on Turkey's current account balance.

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

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

Negative changes in the government and political environment, including the failure of the government to devise or implement appropriate economic programmes, might adversely affect the stability of the Turkish economy and, in turn, the Group's business, financial condition and/or results of operations. Turkey has been a parliamentary democracy since 1923. Unstable coalition governments have been common, and in the over 90 years since its formation Turkey has had numerous short-lived governments, with political disagreements frequently resulting in early elections. Furthermore, though its role has diminished in recent years, the Turkish military establishment has historically played a significant role in Turkish government and politics, intervening in the political process.

Beginning in 2013, Turkish politics have been particularly volatile. Protests starting in May 2013 in İstanbul, and spreading to Ankara and other major cities in Turkey, against plans to replace Gezi Park, an urban park in İstanbul's central Taksim Square, with a commercial development, and resulting confrontations among protestors and security forces, contributed to a significant increase in the volatility of Turkish financial markets. Later in 2013, Turkish politics entered a second phase of uncertainty commencing with a series of arrests of prominent businessmen and family members of some cabinet ministers (who then resigned) on suspicions of corruption. While the causes of these events are uncertain, there is speculation that it reflects a division among important elements of the Turkish government, police and judiciary. The government's responses to these events have included the removal of certain prosecutors and police from their offices and proposals to change the manner in which the police and judicial authorities are supervised by the national government, which has led to concerns about the separation of powers.

These events, which coincided with the U.S. Federal Reserve's decision to reduce monthly asset purchases, contributed to significant declines in the value of the Turkish stock market and the Turkish Lira. While these circumstances have receded and the Bank's management does not believe that these events have had a material long-term negative impact on Turkey's economy or the Group's business, financial condition and/or results of operation, it is possible that these or other political circumstances

could have such an impact and/or a negative impact on investors' perception of Turkey, the strength of the Turkish economy and/or the value and/or price of an investment in the Covered Bonds.

These events are particularly noteworthy as municipal elections were held in Turkey on 30 March 2014 and Presidential elections were held on 10 August 2014. In the March 2014 municipal elections, the governing party received approximately 43% of the total votes cast. The governing party also won the mayoral contest in İstanbul and Ankara, while the primary opposition party won the mayoral contest in İzmir, Turkey's third largest city. Following the local elections, the former Prime Minister Recep Tayyip Erdoğan announced his candidacy to run for the presidency, which he won with approximately 52% of the vote. The former minister of foreign affairs, Ahmet Davutoğlu, was thereafter appointed to serve as the new Prime Minister until the next parliamentary elections in 2015 and formed a new cabinet. As of the date of this Base Prospectus, it is not possible to predict whether the Turkish Presidency will remain primarily a representative office, as is currently the case, or will be granted increased executive powers pursuant to a proposed constitutional amendment. Further, the events surrounding future elections and/or the results of such elections, which could lead to political instability, conflict among certain government and business figures and/or government intervention in the economy, could contribute to the volatility of Turkish financial markets, have a material adverse effect on the macroeconomic environment in Turkey and/or have an adverse effect on investors' perception of Turkey, including the independence of Turkey's institutions. Actual or perceived political instability in Turkey and/or other political circumstances (and related actions, rumors and/or uncertainties) could have a material adverse effect on the Group's business, financial condition and/or results of operations and on the price of the Covered Bonds.

***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 of being perceived negatively by investors based upon external events than are more-developed markets, and financial turmoil in any emerging market (or global markets generally) could 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 could dampen capital flows to Turkey and adversely affect the Turkish economy. As a result, investors' interest in the Covered Bonds (and thus their 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 could 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 rates as high as 69.7% in the early 2000s; *however*, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year consumer price index to decrease to 6.5% at the end of 2009, the lowest level in many years. Consumer price inflation was 10.4%, 6.2% and 7.4% in 2011, 2012 and 2013, respectively, with producer price inflation during those years of 13.3%, 2.5% and 7.0%, respectively. The volatility of global prices of major commodities such as oil, cotton, corn and wheat might increase supply-side inflation pressures throughout the world and might result in Turkish inflation exceeding the Central Bank's inflation target. The annual consumer price inflation reached 9.5% as of August 2014, which increase in inflation was principally due to an increase in the prices of core goods driven by the pass through to consumers of exchange rates and an increase in food prices caused by adverse weather conditions, but (partially due to declining oil prices) the annual consumer price inflation decreased to 8.2% by the end

of 2014. Consumer price inflation exceeded the Central Bank's inflation target of 5.0% in 2014, though the Central Bank has again set the inflation target at 5.0% for 2015. Inflation-related measures that may be taken by the Turkish government in response to increases in inflation could have an adverse effect on the Turkish economy. If the level of inflation in Turkey were to continue to fluctuate or increase significantly, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

Turkey is located in a region that has been subject to ongoing political and security concerns. Political uncertainty within Turkey and in certain neighbouring countries, such as Iran, Iraq, Georgia, Armenia and Syria, has historically been one of the risks associated with an investment in Turkish securities. Regional instability has also resulted in an influx of displaced persons in Turkey, which might increase. In recent years, political instability has at times increased markedly in a number of countries in the Middle East, North Africa and Eastern Europe, such as Ukraine, Syria, Iraq, Libya, Tunisia, Egypt, Jordan, Bahrain and Yemen. Unrest in those countries might have political implications in Turkey or otherwise have a negative impact on the Turkish economy, including through both financial markets and the real economy.

The 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 was extended for a further year on each of 3 October 2013 and 2 October 2014. More recently, elevated levels of conflict have arisen in Iraq and Syria as militants of the Islamic State of Iraq and Syria ("**ISIS**") seized control of key Iraqi cities, which has caused a significant displacement of people. In August and September 2014, a U.S.-led coalition began an anti-ISIS aerial campaign in northern Iraq and Syria. Recent developments in Iraq also raise concerns as Iraq is one of Turkey's largest export markets, ranking second in 2014 according to TurkStat.

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

Turkey has also experienced problems with domestic terrorist and ethnic separatist groups as well as other political unrest within its territory. In particular, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly known as the PKK (an organisation that is listed as a terrorist organisation by various states and organisations, including Turkey, the EU and the United States). Turkey has from time to time been the subject of terrorist bomb attacks, including bombings in recent years in its tourist and commercial centres in İstanbul, Ankara and various coastal towns and (especially in the southeast of Turkey) attacks against its armed forces.

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

***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 Türkiye Halk Bankası ("**Halkbank**"), Türkiye Vakıflar Bankası T.A.O. ("**Vakıfbank**") and T.C. Ziraat Bankası ("**Ziraat**") (which remain three of the top 10 banks in the Turkish market based upon total assets as of 31 December 2014 according to the Banks Association of Turkey). Notwithstanding such changes, the Turkish banking sector remains subject to volatility. If the general macro-economic conditions in Turkey, and the Turkish banking sector in particular, were to suffer another period of volatility, this might result in further bank failures, reduced liquidity and weaker public confidence in the Turkish banking sector, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

The Group has a significant exposure to Turkish governmental and state-controlled entities. As of 31 December 2014, 80.5% of the Group's total securities portfolio (14.9% of its total assets and equal to 133.8% of its shareholders' equity) was invested in securities issued by the Turkish government. 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. Similarly, enforcing rights against governmental entities might be subject to structural, political or practical limitations.

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

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

***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 and 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 could be taken by the government (such as the imposition of taxes), could 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**

Though backed by the Cover Pool as permitted under the Turkish Covered Bonds Legislation, the Covered Bonds will constitute direct, unconditional and unsubordinated obligations of the Issuer. As such, an investment in the Covered Bonds represents exposure to the creditworthiness of the Issuer.

***Credit risk of the Issuer - The Issuer is the sole obligor of the Covered Bonds***

The Covered Bonds will be solely obligations of the Issuer and will not be obligations of or guaranteed by the Security Agent, the Cover Monitor, the Offshore Account Bank, the Agents, the Hedging Counterparties, the Arrangers, the Dealers, the Listing Agent or any other person. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Covered Bonds is accepted by any of such entities, any company in the same group of companies as such entities or any other party to the transaction documents relating to the Programme. A Covered Bondholder's ability to receive payment under the Covered Bonds is dependent upon the Issuer's ability to fulfil its payment obligations, which in turn is dependent upon the strength of the Issuer'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, lack of liquidity, economic downturns, operational failures or other reasons, as a result of which the Group could suffer material credit losses. See "*Risk Management*".

As of 31 December 2014, 9.6% and 12.4% of the Group's performing cash loans excluding financial leases and factoring receivables were credit card and general purpose consumer loans, respectively, which historically have had among the highest rate of payment default and are uncollateralised. The percentage of non-performing loans ("**NPLs**") slightly increased from 2.8% as of 31 December 2012 to 2.9% as of 31 December 2013 and then increased further to 3.1% as of 31 December 2014. Changes in NPL ratios can occur for various reasons, including changes in the levels of new NPLs, collection performance and the amount and nature of the Group's cash loans. For example, the level of NPLs might rise as the Group focuses its lending growth toward higher-yielding consumer and SME loans. Furthermore, the Group's exposures to certain borrowers (particularly for loans for infrastructure and energy projects) are large and the Group is likely to continue making such large loans where such an investment is determined by the Group to be a credit-worthy transaction. The Group's exposure to credit risk could lead to 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 could suffer material credit losses. While the Group seeks to mitigate credit risk, including through diversification of its assets and requiring collateral 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 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 any 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, and 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 and other reserves 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 significant additional provisions for probable credit losses in future periods.

The Group has a significant position in the still-developing mortgage market in Turkey and continues to seek to increase its lending activities, including in the expanding energy sector. The growth in these or other business lines, or in the Group's credit portfolio generally, could have a negative impact on the quality of the Group's assets. Failure to maintain the Group's asset quality could result in higher loan loss provisioning and higher levels of write-offs or defaults, which could 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 could 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. According to the BRSA sector data, as of 31 December 2014, there was a total of 51 banks (including domestic and foreign banks, including participation banks, but excluding the Central Bank) licensed to operate in Turkey, with the top seven banking groups (including the Group), three of which were state-controlled, holding approximately 78.8% of the banking sector's total loan portfolio in Turkey (excluding participation banks), 77.8% of the total bank assets (excluding participation banks) in Turkey and approximately 77.6% of the total customer deposits in Turkey. State-controlled banks in Turkey have historically had access to very inexpensive funding in the form of very significant Turkish government deposits, which has provided 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.

Foreign financial institutions have shown a strong interest in competing in the banking sector in Turkey. HSBC Bank plc, UniCredito Italiano, BNP Paribas, Sberbank, National Bank of Greece, Citigroup, ING, Bank Hapoalim, Bank Audi sal, Burgan Bank, Rabobank, Intesa Sanpaolo and Bank of Tokyo-Mitsubishi UFJ are among the many non-Turkish financial institutions that have purchased or made investments in Turkish banks or opened their own Turkish offices; *however*, some of such institutions (such as National Bank of Greece) have (or might) put some or all of their investments in Turkish banks up for sale as a result of their own financial circumstances. The Bank's management believes that further entries into the sector by foreign competitors, either directly or in collaboration with existing Turkish banks, could increase competition in the market. Similarly, the expansion of foreign banks' presence in Turkey, in addition to direct investment, might lead to further competitive pressures.

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. Competitors might direct greater resources and be more effective in the development and/or marketing of technologically-advanced products and services that might compete directly with the Group's products and services, adversely affecting the acceptance of the Group's products and/or leading to adverse changes in the spending and saving habits of the Group's customer base. 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 regulatory requirements, competition and other factors impacting the Turkish banking sector***

The Group's profitability might be negatively affected in the short-term and possibly in future periods as a result of a number of factors that generally impact the Turkish banking sector, including a slowdown of economic growth in Turkey and volatility in interest rates (see "*Reduction in Earnings on Securities Portfolio*" and "*Interest Rate Risk*" elsewhere in this section), increased competition (particularly as it impacts net interest margins (see " *Competition in the Turkish Banking Sector*" above)) and Central Bank and 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 general provisioning requirements, increased capital requirements and higher risk-weighting for general purpose loans, or (b) to impose limits or prohibitions on fees and commissions charged to customers or otherwise affect payments received by the Group from its customers (see "*Banking Regulatory Matters*" below and "*Risks relating to Turkey High Current Account Deficit*" above).

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

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

Turkish banks' capital adequacy requirements will be further affected by Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are being phased in through 2019. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the Regulation on the Equities of Banks (the "**2013 Equity Regulation**") and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, both of which entered into effect on 1 January 2014. The 2013 Equity Regulation introduced core Tier I capital and additional Tier I capital as components of Tier I capital, whereas the amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks: (a) introduced a minimum core capital adequacy standard ratio (4.5%) and a minimum Tier I capital adequacy standard ratio (6.0%) to be calculated on a consolidated and non-consolidated basis (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 2013 Equity Regulation also introduced new Tier II rules and determined new criteria for debt instruments to be included in a bank's Tier II capital. See "*Capital Adequacy*".

In addition: (a) the Regulation on the Capital Conservation and Cyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, and (b) the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), were published in the Official Gazette dated 5 November 2013 and numbered 28812 and entered into effect on 1 January 2014 (with the exception of certain provisions of the Regulation on the Measurement and Evaluation of Leverage

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

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

Such measures could also limit or reduce growth of the Turkish economy and consequently the demand for the Group's products and services. Furthermore, as a consequence of certain of these changes, the Group might be required to increase its capital reserves and might need to access more expensive sources of financing to meet its funding requirements. Any failure by the Group to adopt adequate responses to these or future changes in the regulatory framework could have an adverse effect on the Group's business, financial condition and/or results of operations. Finally, non-compliance with regulatory requirements or laws could 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 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 Payment Systems ("**GPS**") and 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 proceedings in the administrative courts, which proceedings are still pending as of the date of this Base Prospectus. 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, might face claims from

individual customers on the grounds that such customers have suffered damages and could sue the Bank. Through the date of this Base Prospectus, there are two legal proceedings initiated against 12 banks (including the Bank) in this respect. The first lawsuit was dismissed by the court for lack of jurisdiction. The second lawsuit was filed on 7 January 2014 and the annulment action filed by the Bank before the 2nd Administration Court of Ankara was rejected. The Bank appealed the court's decision of rejection on 17 April 2015. There is no precedent Turkish court decision approving the legal validity of any such claims by customers and there are no resolved cases opened by any customers against the Bank. While the burden of proof lies with the customers and the Bank's management is of the view that no actionable damage was caused, there can be no assurance that the Turkish courts would agree with such analysis and the number of such claims might increase depending upon the outcome of the initial lawsuits. 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 could further increase the credit risk faced by the Group. Negative developments in the Turkish economy could 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 could 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. Sudden changes in interest rates or significant volatility in interest rates could result in a decrease in the Group's net interest income and net interest margin. As a result of declining market interest rates, a globalisation of markets and increased competition, the Group's net interest margin has declined in recent years 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 could cause interest expense on deposits (which are typically short-term and reset interest rates frequently) to increase more significantly and/or quickly than interest income from loans (which are short-, medium- and long-term), resulting in a potential reduction in net interest income. See "*Risk Management*".

An increase in interest rates (such as the large increases in January 2014 described in "*Risks relating to Turkey – High Current Account Deficit*" above) 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 income 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.

If the Group is unable for any reason to re-price 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 could 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 could 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, which could have a material adverse effect on the Group***

The Group is exposed to the effects of fluctuation in foreign currency exchange rates, principally the U.S. Dollar and euro, which can have an impact on its financial position and/or results of operations. These risks are both systemic (*i.e.*, the impact of exchange rate volatility on the markets generally, including on the Group's borrowers) and unique to the Group (*i.e.*, due to the Group's own net currency positions). For example, 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. As of 31 December 2014, 47.0% of the Group's total loans and advances to customers and banks, of which 67.3% was in U.S. Dollars and 30.3% was in euro, as well as a significant portion of its off-balance sheet commitments such as letters of credit, were foreign currency-risk-bearing. Similarly, any actions taken by the Central Bank or Turkish government to protect the value of the Turkish Lira (such as increased interest rates or capital controls) might adversely affect the financial condition of Turkey as a whole, including its inflation rate, and might have a negative effect on the Group's business, financial condition and/or results of operations.

In 2013, in nominal terms, the Turkish Lira depreciated against the U.S. Dollar by 19.73% compared to year-end 2012; *however*, on a real basis, based upon the CPI-based real effective exchange rate, there was only a 9.5% real depreciation compared to year-end 2012. In particular, from June 2013 until the end of 2013, the value of the Turkish Lira depreciated against major currencies largely due to the increased risk perception in global markets regarding the market's expectation of U.S. Federal Reserve reductions in its quantitative easing programme (and its ultimate decision to do so) and the Gezi Park protests and other political events described above. Against these developments, the Central Bank first implemented additional monetary tightening and held intra-day foreign exchange selling auctions, and raised the upper limit of the interest rate corridor, in order to reduce the volatility of the Turkish Lira. The Turkish Lira continued to decline in value, falling 9.8% in nominal terms against the U.S. Dollar year-to-date through 28 January 2014. In response, the Central Bank significantly increased interest rates on 28 January 2014 and, from 28 January 2014 until 30 April 2014, the Turkish Lira then appreciated against the U.S. Dollar by 9.6%. Due to such improvement, on 22 May 2014, the Central Bank reduced its one-week repo rate by 50 basis points to 9.5% and, in the following months, further reduced the one-week repo rate from 9.5% on 24 June 2014 to 7.5% on 25 February 2015. In nominal terms, between 22 May 2014 and 18 March 2015, the Turkish Lira depreciated against the U.S. Dollar by 25.1%. These and other domestic and international circumstances might result in continued or increasing volatility in the value of the Turkish Lira.

A significant portion of the Group's assets and liabilities (including off-balance sheet commitments such as letters of credit) are 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 could 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 could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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 could lead to operating losses, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

***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 funding), changes in credit ratings or market-wide dislocation. Perceptions of counterparty risk between banks also increased significantly, which led to further 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 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 could be materially and adversely impacted by substantial customer withdrawals of deposits.

The Group's customer deposits are its primary source of funding, although the Group also obtains funding through loans from other banks and through the sale of securities in the capital markets. 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, consumer 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 rate of growth of loans and advances 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. Accordingly, the Group has funded this growth in loans through the sale of securities and the use of borrowing facilities 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 be increasingly dependent upon other sources of financing, including long-term funding via syndicated loans, "future flow" transactions and eurobonds. If any member of the Group were to seek to raise long-term financing but is unable to 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 between the Group's 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 could 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 (that is, a mismatch between the maturities of the Group's assets and liabilities) 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 what the Group believes to be their intrinsic values.

A rising interest rate environment could compound the risk of the Group not being able to access funds at favourable rates or at all. As central banks unwind the expansive liquidity that has been provided during the recent global crisis, competition among banks and other borrowers for the reduced global liquidity might result in increased costs of funding. This and other factors could lead creditors to form a negative view of the Group's liquidity, which could result in lower credit ratings, higher borrowing costs and/or less access to funds. In addition, the Group's ability to raise or access funds might be impaired by factors that are not specific to its operations, such as general market conditions, 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) could adversely affect the Group's business, financial condition and/or results of operations. For example, in case of a liquidity crisis, wholesale funding would likely become more difficult to obtain, which might adversely affect borrowing using certain capital market instruments (such as "future flow" transactions and eurobonds). See also "*Foreign Currency Borrowing and Refinancing Risk*" below.

Similarly, if the credit rating of Turkey 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 could 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 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 income 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 value 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 could have a material adverse effect on the Group's business, financial condition and/or results of operations.

While securities issued by the Turkish government represent a large majority of the Group's securities portfolio, and the Group thus does not have significant direct exposure to the credit risk of foreign governments, the on-going disruptions to the capital markets caused by investors' concerns over the fiscal deficits in certain countries such as Cyprus, Greece, Ireland, Italy, Portugal and Spain have had and might continue to have a material negative impact on the valuation of securities and thus on the market value of the Group's securities portfolio.

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

While the 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 loans, "future flow" transactions, bond issuances, bilateral loans and other transactions, many of which are denominated in foreign currencies. As of 31 December 2014, the Group's total foreign currency-denominated loans and advances from banks and subordinated liabilities constituted 15.0% of its consolidated liabilities and equaled 59.0% of its foreign currency-denominated assets with maturities of one year or more (14.3% and 58.2%, respectively, as of 31 December 2013), and approximately 97.0% of the Group's foreign currency-denominated borrowing (including subordinated liabilities) was sourced from international banks, multilateral institutions and "future flow" transactions. To date, the Bank has been successful in extending, at a relatively low cost, the maturity profile of its funding base, even during times of volatility in international markets, although this might not continue in the future. Particularly in light of the historical volatility of emerging market financings, the Group: (a) might have difficulty extending and/or refinancing its existing foreign currency-denominated indebtedness, hindering its ability to avoid the interest rate risk inherent in maturity mismatches of assets and liabilities, and (b) is susceptible to devaluations of the Turkish Lira (which would thus increase the amount of Turkish Lira that it would need to make payments on its foreign currency-denominated obligations). Should these risks materialise, these circumstances could have a material adverse effect on the Group's business, financial condition and/or results of operations.

A downward change in the ratings published by rating agencies of either Turkey or members of the Group 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.

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 could 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 significant portion of interest and similar income from its securities portfolio, with interest and similar income derived from the Group's securities portfolio in 2012, 2013 and 2014 accounting for 29.0%, 25.4% and 23.1%, respectively, of its total interest income (and 26.5%, 21.0% and 17.4%, respectively, of its gross operating income before deducting interest expense and fee and commission expense). The Group also has obtained large realised gains from the sale of securities in the available-for-sale portfolio. The CPI-linked securities in the Bank's investment portfolio have been providing high real yields compared to other government securities, which also have been generating high nominal yields in a high inflation environment, but their impact on the Bank's earnings will vary as inflation rates change.

While the contribution of income from the Group's securities portfolio has been significant over recent years, such income 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 could have a material adverse effect on its business, financial condition

and/or results of operations. In addition, as the Group's investment portfolio is heavily concentrated in Turkish government securities, see also "*Risks relating to Turkey – Government Default*" above.

***Trading Activities Risk - Members of the Group engage in market trading activities, including hedging, that could 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 value of those positions and exchange rates. The Group could incur significant losses from its trading activities, which could have a material adverse effect on the Group's 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 "*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 could be greater than expected, which could 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 could 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 could 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 Licenses – Group members might be unable to maintain or secure the necessary licenses for carrying on their business***

All banks established in Turkey require licensing by the BRSA. The Bank and, to the extent applicable, each of its subsidiaries has a current Turkish and/or other applicable license for all of its banking and other operations. The Bank's management believes that the Bank and each of its subsidiaries is currently in compliance with its existing material license and reporting obligations;

*nevertheless*, if it is incorrect, or if any member of the Group were to suffer a future loss of a license, breach the terms of a license or fail to obtain any further required licenses, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

***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 improving economic conditions 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) and, as a result, there will be a continuing increase in the Group's risk-weighted assets.

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

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

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

***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 interruption to services to the Group's branches and/or impact customer service. Given the Group's high volume of transactions, fraud or errors might be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which might further increase the risk that human error or employee tampering will result in losses that might be difficult for the Group to detect quickly or at all. If the Group is unable to successfully monitor and control operational risk, then the Group might suffer losses that could 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 regulations 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 similar criminal activities, then its reputation could suffer and/or it could 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 could 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, and strained, in other countries during the recent global financial crisis), this might not be the case for Turkey in general or the Group in particular. Investors in the Covered Bonds 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 SDIF*" for information on the limited government-provided insurance for the Bank's deposit obligations.

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

One of the principal causes of the recent global financial crisis was the excessive level of debt prevalent in various sectors of the global economy, including the financial sectors of many countries. While there were many reasons for this over-leverage, important factors included the low cost of funding, the over-reliance by creditors (particularly investors in structured transactions) on the analysis provided by rating agencies (which reliance was often encouraged by regulatory and other requirements that permitted capital to be applied based upon the debtor's rating) and the failure of risk management systems to identify adequately the correlation of risks and price risk accordingly. If the Group becomes over-leveraged as a result of these or any other reasons, then it might be unable to satisfy its obligations in times of financial stress, and such failure could 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 continually re-assess its compensation and employment policies. If members of the Group's senior management were to leave, particularly if they were to join competitors, then those employees' relationships that have benefited the Group might not continue with the Group. In addition, the Group's success depends, in part, upon its ability to attract, retain and motivate qualified and experienced banking and management personnel. The Group's failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

The Group's business, 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 could 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 could be unable to serve some or all of its customers' needs on a timely basis and could thus lose business. Likewise, a temporary shutdown of the Group's IT systems could result in costs that are required for information retrieval and verification. In addition, the Group's failure to update and develop its existing 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 could have a material adverse effect on the Group's business, financial condition and/or results of operations.

A disruption to the Issuer's IT systems could result in an inability of the Issuer to monitor compliance with the Statutory Tests, comply with its obligations under the Transaction Documents or the Turkish Covered Bonds Legislation or service its Mortgage Assets, including those in the Cover Pool.

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

While a substantial majority of the Group's operations are in Turkey, it also maintains operations in countries such as Romania, the Netherlands and Russia. 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 Russian Ruble. Adverse changes in the regulatory environments, tax and/or other laws, economic conditions, relevant exchange rates and/or other circumstances in Turkey or the other jurisdictions in which the Group operates could 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 Shareholders - The Group intends to continue its dealings with the Doğuş Group, the BBVA Group and other shareholders although these might give rise to apparent or actual conflicts of interest***

The Turkish Banking Law No. 5411 of 2005, as amended (the "**Banking Law**") places limits on a Turkish bank's exposure to related parties. The Group 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**") and the Doğuş Group). With respect to the Bank, all credits with respect to, and services provided to, its related parties (including members of the Doğuş Group (such as Garanti Technology's provision of IT services to the Doğuş Group) and 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 Bank's Board of Directors (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 Doğuş Group companies and 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 the market values 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 could result in, conflicting interests. See "*Related Party Transactions*".

Furthermore, the Bank's shareholders might disagree on material matters of policy relating to the Group, which disagreements might result in disputes between the shareholders, negatively impact the ability of the Group to take actions and/or result in negative publicity regarding the Group. The occurrence of these or similar circumstances could have a material adverse effect on the Group's business, financial condition and/or results of operations.

***Independent Directors – Independent directors constitute a minority of the Bank's directors***

As a majority of the members of the Bank's Board of Directors are associated with the Doğuş Group or 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 or in other similar economies. There is less publicly available information on businesses in Turkey than is regularly published by similar businesses in the EU, the United States or in other similar markets and any information that is published might only be presented in Turkish.

The BRSA's rules require Turkish banks to publish their annual financial reports on their websites. Annual financial reports comprise audited financial statements and activity reports, and quarterly financial reports comprise reviewed financial statements, interim management reports and corporate governance compliance reports. In recent years, many Turkish banks (including the Bank) have also prepared financial statements using IFRS for certain reporting periods, with their financial statements being available first under BRSA principles and only subsequently made available in IFRS financial statements. Most Turkish banks, including the Bank, have English versions of their financial statements available on their websites. In addition, banks that are listed on the Borsa İstanbul, such as the Bank, are also required to publish their financial statements on a quarterly basis and to disclose any significant development that is likely to have an impact on investors' decisions and/or that would be likely to have a significant effect on the price of the issuer's securities (both through the Turkish government's Public Disclosure Platform's website and the bank's own website). Nonetheless,

investors might not have access to the same depth of disclosure relating to the Bank as they would for investments in banks in the EU, the United States and certain other markets.

***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 years ended 31 December 2012, 2013 and 2014 and review reports for the three month periods ended 31 March 2014 and 2015 were qualified with respect to general provisions that were allocated by the Group. In 2009, the Group's management elected to take an additional TL 330,000 thousand general provision 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 provision in 2010 and 2011, and elected to take a further TL 90,000 thousand provision in 2011. This general provision remained outstanding in the Group's financial statements during 2012; *however*, in 2013 the Bank's management determined that certain related risks had diminished and reversed TL 115,000 thousand of these provisions. In 2014, the Bank's management decided to increase the level of general provisions by TL 80,000 thousand to TL 415,000 thousand in total. As of 31 March 2015, the general provisions reached TL 450,000 thousand after a TL 35,000 thousand increase during the first quarter of 2015.

The Bank's auditor has qualified its audit and review reports for such periods as general provisions are not permitted under IFRS. Although these provisions do not impact the Group's level of tax or capitalisation ratios, the Group's net income might otherwise be higher in the periods in which such provisions are established and lower in the periods in which such provisions are reversed. Such provisions might be increased or reversed by the Group in future periods, which might cause the Group's net income to be higher or lower in future periods than it otherwise would be. The auditor's statements on such qualification can be found in its opinion attached to each of the applicable financial statements incorporated by reference herein.

**Market Risks associated with Investments in the Covered Bonds**

***New Market - There has historically been no market for covered bonds from Turkish issuers, the potential future liquidity and market for which is thus uncertain and for which market practices are likely to develop over time***

Covered bonds issued under the Covered Bonds Communiqué are new to the market, and to date there have only been a limited number of issuances of covered bonds by Turkish issuers. The Covered Bonds Communiqué thus remains largely untested and the market for covered bonds issued under the Covered Bonds Communiqué is subject to frequent change arising from the development of the market based upon the needs of the issuers and investors in Turkish covered bonds. The entities that will play key roles in the issuance of Covered Bonds, such as the Cover Monitor or the Administrator, if any, will be carrying out their duties with respect to the issuance of Covered Bonds for the first time or have little experience in acting in their respective roles.

This uncertainty could possibly cause changes with respect to certain aspects of the Issuer's Covered Bonds issuance in order to comply with changing regulations, including changes in new Series of Covered Bonds that have more investor-friendly terms than those of then-outstanding Series. The untested market for Turkish covered bonds, and such variations among Series (or among covered bonds issued by different Turkish issuers), might negatively affect the price at which investments in the Covered Bonds could be sold.

***No Secondary Market - An active secondary market in respect of the Covered Bonds might never be established or might be illiquid and this would adversely affect the price at which an investor could sell an investment in the Covered Bonds***

The Covered Bonds will have no established trading market when issued and one might never develop. If a market does develop, it might not be very liquid. Therefore, investors might not be able

to sell their investments in Covered Bonds 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 Covered Bonds 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 Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity might have a severely adverse effect on the market value of investments in the Covered Bonds.

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

Fixed/Floating Rate Covered Bonds are Covered Bonds that may bear interest at a rate that converts from a fixed rate to a floating rate or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion with respect to a Series of Covered Bonds, this might affect the secondary market and the market value of such Covered Bonds since the Issuer might be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts such Covered Bonds from a fixed rate to a floating rate in such circumstances, then the spread on such Covered Bonds 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 may be lower than the rates on other Covered Bonds. If the Issuer so converts a Series from a floating rate to a fixed rate in such circumstances, then the fixed rate might be lower than then-prevailing market rates.

***Interest Rate Risk - The value of Covered Bonds might be adversely affected by movements in market interest rates***

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

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

In the case of Turkish Lira-denominated Covered Bonds held other than through DTC, unless an election to receive payments in U.S. Dollars as provided in Condition 5.9 (*U.S. Dollar Exchange and Payments on Turkish Lira Denominated Covered Bonds held other than through DTC*) is made, holders of such Covered Bonds might need to open and maintain a Turkish Lira-denominated bank account, and no assurance can be given that Covered Bondholders will be able to do so either in or outside of Turkey. For so long as such Covered Bonds are in global form, any Covered Bondholder 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 Covered Bonds) from its account at a clearing system to which any such payment is made.

Under Condition 5.9 (*U.S. Dollar Exchange and Payments on Turkish Lira Denominated Covered Bonds held other than through DTC*), if the Fiscal Agent receives cleared funds from the Bank in respect of Turkish Lira-denominated Covered Bonds 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 that Covered Bondholders 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 such Covered Bonds will be made in Turkish Lira.

As any currency election in respect of any payment to be made under such Turkish Lira-denominated Covered Bonds for the purposes of Condition 5.9 (*U.S. Dollar Exchange and Payments on Turkish Lira Denominated Covered Bonds held other than through DTC*) is irrevocable: (a) its exercise might (at least temporarily) affect the liquidity of the applicable Covered Bonds, (b) a Covered Bondholder 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 Covered Bondholders will receive the relevant amount in Turkish Lira.

For Covered Bonds denominated in a Specified Currency other than U.S. Dollars that are held through DTC, if a Covered Bondholder wishes to receive payment in that Specified Currency, then it would need to open and maintain a bank account in the Specified Currency. Any Covered Bondholder who does not maintain such a bank account will be unable to receive payments on such Covered Bonds 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 Covered Bonds will receive payment in U.S. Dollars through DTC's normal procedures. See Condition 5.10 (*Payments on Covered Bonds Held through DTC in a Specified Currency other than U.S. Dollars*).

Covered Bondholders will have no recourse to the Bank, any Agent or any other person for any reduction in value to the holder of any relevant Covered Bonds or any payment made in respect of such Covered Bonds 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 Covered Bondholder receiving an amount that is less than the amount that such Covered Bondholder 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.

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

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

The market values of securities issued at a substantial discount 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.

The market price of an investment in the Covered Bonds 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 could adversely affect the market price of an investment in the Covered Bonds.

**Risks relating to Covered Bonds generally**

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

***Transfer Restrictions - Transfers of investments in the Covered Bonds will be subject to certain restrictions and interests in Global Covered Bonds can only be held through a clearing system***

Although the CMB has issued the CMB Approval authorising the issuance of a limited amount of Covered Bonds pursuant to the Turkish Covered Bonds Legislation and other related legislation as debt securities to be offered outside of Turkey, and this Base Prospectus has been approved by the Central Bank of Ireland as described herein, the Covered Bonds have not been and are not expected to be registered: (a) under the Securities Act or any applicable state's or other jurisdiction's securities laws or (b) with the SEC or any other applicable state's or other jurisdiction's regulatory authorities. The offering of the Covered Bonds (or beneficial interests therein) will be made pursuant to exemptions from the registration requirements of the Securities Act and from other securities laws. Accordingly, reoffers, resales, pledges and other transfers of investments in the Covered Bonds 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 Bearer Global Covered Bonds and Registered Global Covered Bonds (each a "**Global Covered Bond**") can be effected only through book entries at DTC, Clearstream, Luxembourg and/or Euroclear (as applicable) for the accounts of their respective participants and accountholders, the liquidity of any secondary market for investments in the Global Covered Bonds might be reduced to the extent that some investors are unwilling or unable to invest in Covered Bonds held in book-entry form in the name of a participant or accountholder in Euroclear, Clearstream, Luxembourg or DTC, as applicable. The ability to pledge interests in the Covered Bonds (or beneficial interests therein) might be limited due to the lack of a physical certificate. In the event of the insolvency of Euroclear, Clearstream, Luxembourg, DTC or any of their respective participants and accountholders in whose name interests in the Covered Bonds are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on the Covered Bonds might be impaired.

***Change in Law - The value of the Covered Bonds could be adversely affected by a change in English law, Turkish law or administrative practice***

The structure of the issue of the Covered Bonds and the ratings that are to be assigned to them are based upon English and Turkish law 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 law and practice. No assurance can be given as to the impact of any possible judicial decision or change to English or Turkish law (or the laws of any other jurisdiction) (including any change in regulation that might occur without a change in the primary legislation) or administrative practice in the U.K. or Turkey after the date of this Base Prospectus or can any assurance be given as to whether any such change could materially adversely affect the ability of the Issuer to make payments under the Covered Bonds or the value of the Covered Bonds affected by such change.

In particular, the Covered Bonds Communiqué is new legislation in Turkey and for this reason there is no available case law. It is unclear how the Covered Bonds Communiqué will be interpreted and what changes or amendments (if any) will be made to it in the future that might affect the Covered Bonds issued under the Programme.

***Conflicts of Interest - The Dealers and other parties to the Programme might have multiple interests, which could affect the actions they take with respect to the Programme***

Certain parties to the Transaction Documents act in more than one capacity under the Transaction Documents and also might have other credit and/or other relationships (as principal and/or fiduciary) with the Issuer. The fact that these entities fulfil more than one role could lead to a conflict between the rights and obligations of these entities in one capacity and the rights and obligations of these entities in another capacity. In addition, this could also lead to a conflict between the interests of these entities and the interests of the Covered Bondholders. Any such conflict might adversely affect the ability of the Issuer to make payments of principal and/or interest in respect of the Covered Bonds.

In particular, in the ordinary course of their business activities, 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 Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their 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 Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Dealers and their 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 the Covered Bonds.

***Clearing Systems – Reliance upon DTC, Euroclear and Clearstream, Luxembourg procedures***

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

Except in the case of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. Dollars and registered in the name of DTC or its nominee and in respect of which a participant in DTC has elected to receive any part of such payment in that Specified Currency, for so long as the Covered Bonds are represented by Global Covered Bonds, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Covered Bond must rely upon the procedures of the relevant clearing system and its participants to receive payments under their interests in the related Covered Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Covered Bond. Holders of beneficial interests in a Global Covered Bond will not have a direct right to vote in respect of the Covered Bonds so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Holders of beneficial interests in a Global Covered Bond will not have a direct right to vote in respect of the Covered Bonds 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.

***Investors in Turkish Dematerialised Covered Bonds will have to rely upon the Central Registry System's procedures for transfer, payment and communication with the Issuer***

Investors in Turkish Dematerialised Covered Bonds will have to rely upon the relevant clearing system's procedures for transfer, payment and communication with the Issuer. Turkish Dematerialised Covered Bonds issued under the Programme will not be evidenced by any global note, physical note or document of title other than statements of account made by the Central Registry System. Ownership of Turkish Dematerialised Covered Bonds will be recorded and transfers effected only through the book-entry system and register maintained by the Central Registry Agency.

***Sanction Targets - Persons investing in the Covered Bonds might have indirect contact with Sanction Targets as a result of the Bank's investments in and business with countries on sanctions lists***

The Office of Foreign Assets Control of the U.S. Department of Treasury ("**OFAC**") administers regulations that restrict the ability of U.S. persons to invest in, or otherwise engage in business with, certain countries, including Iran and Sudan, and specially designated nationals ("**SDNs**"), and other United States, United Kingdom, EU and United Nations rules impose similar restrictions (the SDNs and other targets of these restrictions being together the "**Sanction Targets**"). As the Bank is not a Sanction Target, these rules do not prohibit United States 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 Group 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 Market generally**

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

***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 Covered Bonds 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 may not be enforced in Turkish courts in certain circumstances. There is no treaty between the United Kingdom and Turkey providing for reciprocal enforcement of judgments; *however*, Turkish courts have rendered at least one judgment confirming *de facto* reciprocity between 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*".

***EU Savings Directive – The Covered Bonds might be subject to withholding taxes in circumstances in which the Issuer is not obliged to make gross up payments, which would result in investors receiving less interest than expected and could significantly adversely affect their return on the Covered Bonds***

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

On 24 March 2014, the European Council adopted an EU Council Directive (the "**Amending Directive**") amending and broadening the scope of the requirements described above. The Amending Directive requires Member States to apply these new requirements from 1 January 2017, and if they were to take effect, the changes would expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. The Amending Directive would also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, any may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU; *however*, on 18 March 2015, the European Commission proposed the repeal of the EU Savings Directive from 1 January 2017 in case of Austria and from 1 January 2016 in case of all other Member States (subject to on-going requirements to fulfil administrative obligations, such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates and to certain other transitional provisions in case of Austria). This is to prevent overlap between the EU Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

If a payment were to be made or collected through a Member State that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, then none of the Issuer, any Paying Agent (as defined in the Conditions of the Covered Bonds) or any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a paying agent that is not located in a Member State that will oblige such Paying Agent to withhold or deduct tax pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, the EU Savings Directive.

***U.S. Foreign Account Tax Compliance Withholding – FATCA withholding might affect payments on the Covered Bonds***

The U.S. Foreign Account Tax Compliance Act (sections 1471 through 1474 of the Code; with any regulations thereunder or official interpretations thereof, intergovernmental agreements between the United States and other jurisdictions facilitating the implementation thereof and any law implementing any such intergovernmental agreement, "**FATCA**") imposes a reporting regime and, potentially, a 30% withholding tax with respect to: (a) certain payments from sources within the United States, (b) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime and (c) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. The Bank would likely be classified as a financial institution for these purposes. If an

amount in respect of such withholding tax were to be deducted or withheld from interest, principal or other payments made in respect of the Covered Bonds, then neither the Bank nor any paying agent nor any other person would, pursuant to the conditions of the Covered Bonds, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors might receive less interest or principal than expected. Prospective investors should refer to the section "*Taxation – U.S. Foreign Account Tax Compliance Act*".

***Tax Sharing Laws – Covered Bondholders may be required to provide tax information to the Issuer and/or one or more of the Paying Agents***

The Conditions provide that each Covered Bondholder, by its acquisition of a Covered Bond, will be deemed to agree, and each Paying Agent (with the consent of each Covered Bondholder, which consent is deemed to have been irrevocably provided) agrees: (a) to provide to the Issuer and each Paying Agent (or any agent acting on any of their respective behalf) all information reasonably available to it that is reasonably requested by the Issuer and/or such Paying Agent (or any agent acting on any of their respective behalf) in connection with the Tax Sharing Laws and (b) that each of the Issuer and the Paying Agents (or any agent acting on any of their respective behalf) may: (i) provide such information, any related documentation and any other information concerning such Covered Bondholder's investment in the Covered Bonds to any relevant tax authority and (ii) take such other steps as it may deem necessary or helpful to comply with the Tax Sharing Laws; *provided* that the requirements of this paragraph shall not apply to any Covered Bondholder that is an Exempt Government Entity. For the purpose of clarification, this is applicable only to the registered Covered Bondholders (or holders of Bearer Covered Bonds) and not to holders of beneficial interests in the Covered Bonds through Clearing Systems.

"**Tax Sharing Laws**" means any tax-related applicable laws or regulations requiring the Issuer to provide to any governmental authorities any information relating to an investor in the Covered Bonds or any other payee, including so as to give effect to any intergovernmental agreements or tax information exchange agreements entered into by Turkey with the United States (including relating to FATCA), the United Kingdom or any other country.

"**Exempt Government Entity**" means any of: (a) a government, (b) a political subdivision of any government (which, for the avoidance of doubt, includes a state, territory, province, county or municipality), (c) a public body performing a function of any government, (d) a political subdivision of any such public body, (e) an international organization (*e.g.*, the European Bank for Reconstruction and Development, the European Investment Bank or the International Finance Corporation), (f) a central bank or (g) an entity wholly owned by one or more of the foregoing.

***Financial Transaction 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***") in certain Member States (the "***Participating Member States***"). The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Covered Bonds (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 Covered Bonds 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.

Joint statements issued by Participating Member States indicate an intention to implement the FTT by 1 January 2016; *however*, the FTT proposal remains subject to negotiation among the Participating Member States and thus the scope of any such tax is uncertain. Additional EU Member States might

decide to participate. Prospective investors in Covered Bonds are advised to seek their own professional advice in relation to the FTT and its potential impact on the Covered Bonds.

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

Except as described otherwise herein, the Issuer will pay principal and interest on the Covered Bonds 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 Covered Bonds, (b) the Investor's Currency-equivalent value of the interest and principal payable on the Covered Bonds and (c) the Investor's Currency-equivalent market value of investments in the Covered Bonds.

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

***Credit Ratings - Credit ratings assigned to the Issuer or any Covered Bonds might not reflect all risks associated with an investment in those Covered Bonds and might be lowered or withdrawn***

The expected initial credit rating(s) of a Tranche of Covered Bonds will be set out in the relevant Final Terms for such Tranche. Any Relevant Rating Agency may lower its rating or withdraw its rating if, in the sole judgment of the Relevant Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any credit rating assigned to the Covered Bonds is lowered or withdrawn, then the market price of the Covered Bonds might decline. 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 the Covered Bonds.

A 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.

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

information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

***EMIR***

On 16 August 2012, the European Market Infrastructure Regulation (EU No. 648/2012) came into force ("**EMIR**"). Under EMIR over-the-counter ("**OTC**") derivatives that are entered into by financial counterparties, such as investment firms, credit institutions, insurance companies, amongst others, and non-financial counterparties that have positions in OTC derivative contracts exceeding specified "clearing thresholds" ("**NFC+**") have to be cleared (the "**Clearing Obligation**") via an authorised central counterparty (a "**CCP**"). In addition, EMIR requires the reporting of derivative contracts to a trade repository (the "**Reporting Obligation**") and introduces certain risk mitigation requirements in relation to OTC derivative contracts that are not cleared by a CCP.

Prospective investors should be aware that the regulatory changes arising from EMIR might in due course significantly raise the costs of entering into derivative contracts and might adversely affect the Issuer's ability to enter into derivative contracts. In addition, as some of the provisions of EMIR and the technical standards under EMIR are not yet finalised and actual date of application of these provisions is still uncertain, prospective investors should be aware that the Hedging Agreements and other relevant Transaction Documents could be amended during the course of the transaction, without the consent of any Covered Bondholder, to ensure that the terms thereof, and the parties' obligations thereunder, are in compliance with the EMIR and/or the then subsisting technical standards under EMIR.

***Other Risks***

The past performance of Covered Bond issued by the Issuer might not be a reliable guide to future performance of Covered Bonds.

The Covered Bonds might fall as well as rise in value.

Income or gains from Covered Bonds might fluctuate in accordance with market conditions and taxation arrangements.

It might be difficult for investors in Covered Bonds to sell or realise their investments in the Covered Bonds and/or obtain reliable information about their value or the extent of the risks to which they are exposed (other than as set out in this Base Prospectus).

The implementation of the capital adequacy framework adopted by the Basel Committee on Banking Supervision might affect the risk-weighting of the Covered Bonds for investors who are or might become subject to capital adequacy requirements that follow the framework. Prospective investors in the Covered Bonds should consult their own advisors as to the consequences for them of the potential application to them of the Basel framework.

## ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

The Bank is a public joint stock company organised under the laws of Turkey. 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 may 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 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. Turkish courts have rendered at least one judgment confirming *de facto* reciprocity between Turkey and the United Kingdom; *however*, since *de facto* reciprocity is decided by the relevant court on a case-by-case basis, there is uncertainty as to the enforceability of court judgments obtained in the United States or the United Kingdom by Turkish courts. Moreover, there is uncertainty as to the ability of an investor to bring an original action in Turkey based upon the U.S. federal or any other non-Turkish securities laws.

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

(a) the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed,

(b) the judgment in question was rendered with respect to a matter within the exclusive jurisdiction of the courts of Turkey,

(c) the judgment is incompatible with a judgment of a court in Turkey between the same parties and relating to the same issues or, as the case may be, with an earlier foreign judgment on the same issue and enforceable in Turkey,

(d) the judgment is not of a civil nature,

(e) the judgment is clearly against public policy rules of Turkey,

(f) the judgment is not final and binding with no further recourse for appeal or similar revision process under the laws of the country where the judgment has been rendered, or

(g) the judgment was rendered by a foreign court that has deemed itself competent even though it has no actual relationship with the parties or the subject matter at hand.

In connection with the Programme, service of process may be made upon the Bank at its representative office at 192 Sloane Street, Fifth Floor, London SW1X 9QX United Kingdom with respect to any proceedings in England.

## DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the independent auditors' audit reports and audited consolidated IFRS Financial Statements of the Group for the years ended 31 December 2012, 2013 and 2014,

(b) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Bank for the years ended 31 December 2012, 2013 and 2014,

(c) the independent auditors' review report and unaudited interim consolidated IFRS Financial Statements of the Group for the three month periods ended 31 March 2014 and 2015, and

(d) the independent auditors' review report and unaudited interim unconsolidated BRSA Financial Statements of the Bank for the three month periods ended 31 March 2014 and 2015.

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

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

Copies of documents incorporated by reference into this Base Prospectus are available on the Bank's website at: https://www.garantiinvestorrelations.com/en/financial-information/IFRS-Financial-Statements-full-report/IFRS-Financial-Reports/68/0/0 (with respect to the Group's IFRS Financial Statements) and https://www.garantiinvestorrelations.com/en/financial-information/Bank-Only-Financial-Statements-full-report/BRSA-Unconsolidated-Financials/67/0/0 (with respect to the Bank's BRSA Financial Statements) (such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Base Prospectus).

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

The contents of any 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.

## SUPPLEMENTS TO THE BASE PROSPECTUS

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus that is capable of affecting the assessment of any Tranche of Covered Bonds at the time of its issuance, prepare a supplement to this Base Prospectus or publish a new Base Prospectus or other prospectus for use in connection with any subsequent issue of Covered Bonds in accordance with Article 16 of the Prospectus Directive.

## OVERVIEW OF THE GROUP

### The Group

The following text should be read in conjunction with, and is qualified in its entirety by, the detailed information and the IFRS 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 2014) the second largest private banking group in Turkey in terms of total assets. The Group's customers are comprised mainly of large, midsize and small Turkish corporations, foreign multinational corporations with operations in Turkey and customers from across the Turkish consumer market.

The Group served approximately 13 million customers as of 31 December 2014 (11.8 million retail customers, 1.2 million small and medium enterprise ("**SME**") customers, 49,500 commercial customers and 2,000 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 2014, the Bank's services in Turkey were provided through a nationwide network of 994 domestic branches and offices as well as through sophisticated digital channels ("**DCs**"), such as automated teller machines ("**ATMs**"), call centres, internet banking and mobile banking. Internationally, the Bank has eight foreign branches (one in Malta, one in the Grand Duchy of Luxembourg and six 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 three representative offices (one each in London, Düsseldorf and Shanghai), together with bank subsidiaries in the Netherlands (Garanti Bank International N.V.), Russia (Garanti Bank Moscow) and Romania (Garanti Bank SA).

Based upon the 31 December 2014 IFRS Financial Statements, the Group had total assets of TL 243.9 billion, total loans and advances to customers (which includes leasing and factoring receivables and income accruals, in each case for both performing and non-performing loans and advances to customers) (as used herein, "**cash loans**") of TL 148.1 billion and shareholders' equity (including non-controlling interests) of TL 27.3 billion. The Group's return on average equity was 15.2% during 2014. The Bank's shares have been listed on the Borsa İstanbul (or its predecessor the İstanbul Stock Exchange) since 1990 and it listed global depositary receipts on the London Stock Exchange in 1993. In 2012, the Bank joined the top tier of the U.S. Over-the-Counter (OTC) market, OTCQX International Premier, which was followed in 2014 by the Bank becoming the only Turkish entity included in the OTCQX ADR 30 Index (which is a market capitalization-weighted index representing the 30 largest and most liquid companies on the OTCQX marketplace).

### 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 treasury. 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 Shareholders**

The principal shareholders of the Bank are: (a) Doğuş Holding A.Ş. ("**Doğuş Holding**"), the holding company of the Doğuş Group of companies (the "**Doğuş Group**"), with the Doğuş Group holding a 24.23% interest in the Bank, and (b) BBVA, which holds a 25.01% interest in the Bank (including the additional 0.12% of the shares of the Bank that BBVA acquired in a mandatory tender offer shortly following its acquisition of a 24.89% interest in the Bank from Doğuş Holding and a subsidiary of the General Electric Company (such subsidiary, "**GEAM**") without changing the joint control and management principles agreed to between Doğuş Holding and BBVA). Doğuş Holding, Doğuş Nakliyat ve Ticaret A.Ş. and Doğuş Araştırma Geliştirme ve Müşavirlik Hizmetleri A.Ş. (together, the "**Doğuş Shareholders**") and BBVA are parties to a shareholders' agreement dated 1 November 2010 (the "**2010 Shareholders' Agreement**"), pursuant to which they have agreed to act in concert, thereby enabling them to establish a significant voting block to jointly control and manage the Bank. The Bank is not a party to the shareholders' agreement between the Doğuş Shareholders and BBVA.

*2014 Share Purchase Agreement.* On 19 November 2014, Doğuş Holding, Ferit Faik Şahenk, Dianne Şahenk and Defne Şahenk (the "**Sellers**") entered into a share purchase agreement with BBVA (the "**2014 Share Purchase Agreement**") under which BBVA agreed to purchase from the Sellers 62,538,000,000 shares of the Bank (representing 14.89% of the Bank's issued share capital) for an aggregate purchase price of TL 5,497,090,200. This transfer of shares is subject to the approval of regulatory authorities in Turkey (including the BRSA, the CMB and the Turkish Competition Board), Spain, the European Union and other jurisdictions, which approvals might not be obtained for some time (if at all). Upon receipt of the all necessary approvals and finalisation of the share transfer, the Doğuş Shareholders and BBVA's shares in the Bank are expected to be 10.00% and 39.90%, respectively. See "*Ownership – 2014 Share Purchase Agreement*" and "*Management – Board of Directors*".

*The Amended Shareholders' Agreement.* Concurrently with the 2014 Share Purchase Agreement, the Doğuş Shareholders and BBVA entered into an agreement to amend and restate their 2010 Shareholders' Agreement (such shareholders' agreement as so amended and restated, the "**Amended Shareholders' Agreement**"). This amending agreement provides for the revision of certain provisions relating to the governance and management of the Bank, which amendments will become effective simultaneously with the consummation of the share transfer; *it being understood* that such will not apply if the share transfer is not consummated within a period of seven months after 19 November 2014, unless extended for a further three months upon the request of either BBVA or Doğuş Holding or further upon mutual agreement of both BBVA and Doğuş Holding. See "*Ownership – 2014 Shareholders' Agreement*".

**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 balance sheet and favourable capital adequacy ratios,
- strong liquidity ratios and proven access to funding, particularly deposits,
- a strong brand and market position as well as a reputation as a product and service innovator,
- a customer-centric and innovation-driven approach that focuses on customer satisfaction and retention rates and allows for greater cross-selling through the use of sophisticated customer 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 Turkish bank to establish such centralised operations),

- a high-quality and dynamic employee base with an experienced management team,
- a history of significant growth while maintaining sound asset quality due to its focus on risk management and a disciplined credit approval process,
- conservative loan loss provisions with a sophisticated and efficient collection procedure,
- a strong operating platform, including a sophisticated proprietary IT platform that drives efficiency and is well-integrated with the Group's businesses, and
- broad geographic coverage through extensive branch network and omni-channel convenience with an integrated experience across the Bank's channels.

**Strategy**

The Group's overall strategic goal is to maintain and build upon its position as a leading Turkish banking group. It intends to achieve this goal by continuing to implement the following key strategies:

- identifying opportunities for growth in the Group's lending portfolio while maintaining strong credit quality,
- continuing efforts to preserve solid and diversified funding mix,
- focusing on sustainable and diverse sources of non-interest revenue,
- further refining its customer-centric approach, and
- maintaining disciplined control over expenses.

Prospective investors in the Covered Bonds should refer to "*The Group and its Business - Overview of the Group - Strategy*" for more detail on the key strategies outlined above.

**Risk Factors**

Investing in the Covered Bonds entails certain risks. Before investing in the Covered Bonds, investors should carefully review "*Risk Factors*" above, which sets out certain risks relating to political, economic and legal circumstances, the Turkish banking industry, the Group and its business, the Group's relationship with the Bank's principal shareholders and the Covered Bonds 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 Covered Bonds.

## GENERAL DESCRIPTION OF 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 terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms. This overview only relates to the terms and conditions of the Covered Bonds as set out in this Base Prospectus in accordance with Commission Regulation 809/2004. Covered Bonds can be issued under the Programme in a form other than that contemplated in such conditions, and where any such Covered Bonds are to be: (a) admitted to trading on the Main Securities Market or another regulated market for the purposes of Directive 2004/39/EC or (b) offered to the public in the European Economic Area in circumstances that require the publication of a prospectus under the Prospectus Directive, a supplement to this Base Prospectus or a drawdown prospectus will be prepared and published by the Issuer.***

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

Words and expressions defined in "*Terms and Conditions of the Covered Bonds*" below or elsewhere in this Base Prospectus shall have the same meanings in this overview.

### PRINCIPAL PARTIES

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|---|---|
| **Issuer** ..... | Türkiye Garanti Bankası A.Ş. (*i.e.*, the Issuer or the Bank). |
| **Arrangers** ..... | Barclays Bank PLC ("**Barclays**"), Natixis ("**Natixis**") and/or any other arrangers appointed from time to time in accordance with the Programme Agreement (together the "**Arrangers**" and, each of them, an "**Arranger**"). |
| **Dealer(s)** ..... | Barclays, Natixis, BNP Paribas and/or any other dealers appointed from time to time in accordance with the Programme Agreement. Notwithstanding the appointment of Dealer(s) to the Programme, Covered Bonds may be privately placed by the Issuer as indicated in the applicable Final Terms and all descriptions of the Programme in this Base Prospectus shall be interpreted accordingly. |
| **Cover Monitor** ..... | A reputable institution (the "**Cover Monitor**") appointed from time to time pursuant to the Cover Monitor Agreement as an independent monitor to perform certain tests and recalculations in respect of the Statutory Tests when required in accordance with the requirements of the Turkish Covered Bonds Legislation.<br><br>The initial Cover Monitor is Güney Bağımsız ve SMMM A.Ş. (Ernst & Young Türkiye). |
| **Offshore Account Bank** ..... | The Bank of New York Mellon, London branch acts as the offshore account bank pursuant to the Offshore Bank Account Agreement (with its successors in such capacity, the "**Offshore Account Bank**").<br><br>The Non-TL Designated Account(s), the Hedge Collateral Account(s), the Non-TL Hedge Collection Account(s) and the Agency Account (together with any additional or replacement accounts opened in the name of the Issuer or the Security Agent, as applicable, and/or for the benefit of the Secured Parties under the Offshore Bank Account Agreement, the |

"**Offshore Bank Accounts**") will be established and maintained with the Offshore Account Bank.

The Offshore Account Bank will notify the Issuer of its applicable ratings promptly after the end of each calendar month; *it being understood* that the Issuer is independently responsible for monitoring the Offshore Account Bank's ratings for purposes of determining whether an Offshore Account Bank Event occurs. In the event that an Offshore Account Bank Event occurs, the Issuer and the Security Agent will use their respective commercially reasonable endeavours to procure that the Offshore Bank Accounts are transferred to another financial institution which has the Offshore Account Bank Required Rating pursuant to an agreement with such institution in substantially the form of the Offshore Bank Account Agreement within a period not exceeding 30 calendar days from the date on which such Offshore Account Bank Event occurs, and the Offshore Account Bank will, at the request and cost of the Issuer, use its commercially reasonable endeavours to assist with the same.

In addition, at any time the Bank may, and upon the occurrence of certain events described in the Offshore Bank Account Agreement will (if so instructed by the Security Agent) be obliged to, terminate the then-existing Offshore Bank Account Agreement. In the event of any notice of termination of the Offshore Bank Account Agreement, the Offshore Bank Account Agreement provides that: (a) the Offshore Account Bank shall assist the other parties thereto to effect an orderly transition of the banking arrangements documented thereby and (b) the Offshore Bank Account Agreement shall not terminate until a replacement agreement therefore becomes effective with a replacement financial institution which meets the Offshore Account Bank Required Rating and the amount standing to the credit of the Offshore Bank Accounts are transferred to new accounts at such replacement financial institution (which new accounts shall thereafter be the Non-TL Designated Account(s), the Non-TL Hedge Collection Account(s), the Agency Account and the Hedge Collateral Account(s), as applicable).

"**Offshore Account Bank Event**" means the local currency long-term rating of the Offshore Account Bank is no longer at least the Offshore Account Bank Required Rating.

"**Offshore Account Bank Required Rating**" means if the Relevant Rating Agency is: (a) Moody's, a "Baa1" long–term bank deposit rating (local), or (b) another rating agency, the rating applicable to the Offshore Account Bank specified in the Master Definitions and Construction Schedule. Should there be more than one Relevant Rating Agency, then the Offshore Account Bank must satisfy each of the applicable above minimum rating requirements.

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| **Transfer Agent** ..... | The Bank of New York Mellon (Luxembourg) S.A. has been appointed pursuant to the Agency Agreement as transfer agent (with its successors in such capacity, the "**Transfer Agent**"). |
| **Registrar**..... | The Bank of New York Mellon (Luxembourg) S.A. has been appointed pursuant to the Agency Agreement as registrar (with its successors in such capacity, the "**Registrar**"). |
| **Exchange Agent**..... | The Bank of New York Mellon, London branch has been appointed pursuant to the Agency Agreement as exchange agent (with its successors in such capacity, the "**Exchange Agent**"). |
| **Covered Bond Calculation Agent** | "**Covered Bond Calculation Agent**" means each person appointed in respect of a Series of Covered Bonds to act as calculation agent under a calculation agency agreement or, if applicable, any successor covered bond calculation agent appointed in accordance with such calculation agency agreement. As of the Programme Closing Date, no Covered Bond Calculation Agent has been appointed. |
| **Calculation Agent**..... | The Bank of New York Mellon, London branch has been appointed pursuant to the Calculation Agency Agreement as calculation agent (with its successors in such capacity, the "**Calculation Agent**"). |
| **Fiscal Agent**..... | The Bank of New York Mellon, London branch has been appointed to act as fiscal agent and principal paying agent (with its successors in such capacity, the "**Fiscal Agent**") in respect of the Covered Bonds (together with any other paying agent appointed from time to time pursuant to the Agency Agreement, the "**Paying Agents**"). |
| **Security Agent** ..... | The Bank of New York Mellon, London branch has been appointed as security agent (with its successors in such capacity, the "**Security Agent**") to hold the benefit of all of the Non-Statutory Security for the Covered Bondholders and the other Secured Creditors under the Transaction Security Documents. Such appointment has been made pursuant to the Security Agency Agreement dated the Programme Closing Date and made between the Issuer and the Security Agent (the "**Security Agency Agreement**"). See "*Security for the Covered Bonds*" below.<br><br>"**Covered Bond**" means each covered bond issued pursuant to the Programme Agreement, which covered bond may be represented by a Global Covered Bond or a Covered Bond in definitive form (a "**Definitive Covered Bond**"; "**Registered Definitive Covered Bond**" if in registered form and "**Bearer Definitive Covered Bond**" if in bearer form) (in each case, including any Turkish Dematerialised Covered Bond) and includes any replacements for a Covered Bond issued pursuant to Condition 11 (*Replacement of Covered Bonds, Receipts, Coupons and Talons*).<br><br>"**Covered Bondholders**" means the several persons who are for the time being holders of outstanding Covered Bonds |

(which expression shall mean, in the case of a Bearer Covered Bond, the bearer thereof, and, in the case of a Registered Covered Bond, the person whose name is entered in the register of holders of the Registered Covered Bonds as the registered holder thereof), save that, in respect of the Covered Bonds of any Series, for so long as any of such Covered Bonds is represented by a Global Covered Bond deposited with and, (subject to the following paragraph) in the case of a Registered Global Covered Bond, registered in the name of a clearing system (or a nominee thereof or of a common depositary or a common safekeeper thereof), each person (other than a clearing system) who is for the time being shown in the records of such clearing system as the holder of a particular principal amount of such Global Covered Bond (in which regard any certificate or other document issued by such clearing system as to the principal amount of such Global Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall upon their receipt of such certificate or other document be treated by the Issuer and the Agents as the holder of such principal amount of such Covered Bond (and the bearer or registered holder of such Global Covered Bond shall be deemed not to be the holder) for all purposes other than with respect to the payment on such principal amount of such Covered Bonds, for which purposes the bearer of the relevant Bearer Covered Bonds or, as applicable, the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer and the Agents as the holder of such principal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond.

For so long as DTC or its nominee is the registered owner or holder of a Registered Global Covered Bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Covered Bonds represented by such Registered Global Covered Bond for all purposes under the Transaction Documents and the applicable Covered Bondholder except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Unless the CMB agrees otherwise, Covered Bonds issued outside of Turkey must be issued in dematerialised form ("**Turkish Dematerialised Covered Bonds**") and registered with the Central Registry Agency. An exemption may be sought from the CMB from this requirement. In connection with its request to the CMB for approval for issuances of Covered Bonds with an initial issuance value of up to €1,000,000,000, the Issuer has sought an exemption from this requirement. Under the CMB Approval, the CMB has both approved such issuances and granted such an exemption. As a result of the granting of this exemption, the requirement to use Turkish Dematerialised Covered Bonds will not be applicable

to Covered Bonds issued pursuant to the above-mentioned CMB approval; *however*, the Issuer must inform the Central Registry Agency of the terms of each issuance of Covered Bonds (other than Turkish Dematerialised Covered Bonds) within three İstanbul Business Days in accordance with the Debt Instruments Communiqué No. II-31.1 issued by the CMB (the "**Debt Instruments Communiqué**").

Covered Bonds which are represented by a Global Covered Bond 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 admits, be deemed to include reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Fiscal Agent.

In the case of Turkish Dematerialised Covered Bonds, such Covered Bonds will be held by the relevant Turkish Custodian with the Central Registry System on behalf of each relevant account holder with such Turkish Custodian (a "**Turkish Custodian Account Holder**"). Each Turkish Custodian will act as custodian for the applicable Turkish Custodian Account Holder(s). Title to Turkish Dematerialised Covered Bonds will be evidenced by the book-entry system maintained by the Central Registry Agency and the account records with the relevant Turkish Custodian and in accordance with the provisions of the Capital Markets Law and the other Turkish Covered Bonds Legislation. No global note, certificate or physical document of title will be issued in respect of any Turkish Dematerialised Covered Bonds.

Except as otherwise permitted in the Conditions or as ordered by a court of competent jurisdiction or as required by law or applicable regulation, for so long as Covered Bonds or any part of them are represented by Turkish Dematerialised Covered Bonds, those persons whose title is evidenced by the book-entry system maintained by the Central Registry Agency and the account records with the relevant Turkish Custodian will be considered the sole holder of the Covered Bonds represented by such Turkish Dematerialised Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bonds.

Turkish Dematerialised Covered Bonds will be transferable by means of book-entries in accordance with the procedures for the time being of the Central Registry Agency and the applicable Turkish Custodian and the provisions of the Turkish Covered Bonds Legislation and the Debt Instruments Communiqué.

"**İstanbul Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in İstanbul.

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| **Hedging Counterparties** ..... | The Issuer may, from time to time, enter into Hedging Agreements (as defined herein) with one or more hedge provider(s) to hedge certain interest rate risks (each an "**Interest Rate Hedge Provider**") and/or currency risks (each a "**Currency Hedge Provider**" and, together with the Interest Rate Hedge Providers, the "**Hedging Counterparties**" and each a "**Hedging Counterparty**") associated with the Cover Pool and/or the Covered Bonds. The rights of the Issuer under any such Hedging Agreement shall form part of the Cover Pool.<br><br>Hedging agreements that do not satisfy the requirements of Article 11 of the Covered Bonds Communiqué will not form part of the Cover Pool and hedging counterparties to such hedging agreements will not benefit from the Transaction Security (including the Statutory Segregation over the Cover Pool Assets). |
| **Listing Agent**..... | Arthur Cox Listing Services Limited (the "**Listing Agent**"). |
| **Relevant Rating Agencies** ..... | "**Relevant Rating Agencies**" means, in respect of each Series of Covered Bonds, Moody's and/or such other rating agency(ies) indicated in the relevant Final Terms in respect of such Series; *it being understood* that a Series need not be rated. "**Relevant Rating Agency**" means any one of such rating agencies. |
| **PROGRAMME DESCRIPTION** | |
| **Description**..... | €5,000,000,000 Global Covered Bond Programme. |
| **Programme Limit** ..... | Up to €5,000,000,000 (or its equivalent in other currencies determined as described in the Programme Agreement) outstanding at any time as described herein (the "**Programme Limit**"). The Issuer may increase the Programme Limit in accordance with the terms of the Programme Agreement. |
| **Certain Restrictions**..... | Each issue of Covered Bonds 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 with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*"), including the following restriction applicable at the date of this Base Prospectus:<br><br>**Covered Bonds having an original maturity of less than one year**<br><br>Covered Bonds having an original maturity of less than one year from their Issue Date will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See "*Subscription and Sale and Transfer and Selling Restrictions*". |

**Issuance in Series** ..... Covered Bonds will be issued in Series and may be on the same or different terms from each other or fungible with an existing Series of Covered Bonds, subject to the terms set out in the relevant Final Terms in respect of such Series. The Issuer may issue Covered Bonds without the prior consent of the Covered Bondholders or any other Secured Creditors, including pursuant to Condition 16 (*Further Issues*); *provided* that (among other conditions), unless such new issuance is denominated and payable in Turkish Lira, a Rating Agency Confirmation from the applicable Relevant Rating Agency(ies) is obtained. Before the issuance of each Tranche, the Issuer shall (to the extent then required by applicable law) apply to the CMB for the approval of the tranche issuance certificate.

"**Tranche**" means an issue of Covered Bonds using the same Conditions and Final Terms and which are identical in all respects (including as to listing and admission to trading) other than the amount, holder and (if applicable) number. "**Series**" means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds:

(a) which are expressed in the applicable Final Terms to be consolidated and form a single series with certain previous Tranches (if any); and

(b) the Conditions and Final Terms of which are identical in all respects (including as to listing and admission to trading) except for their respective amounts, Issue Dates, Interest Commencement Dates and/or Issue Prices; *it being understood* that each Tranche of a Series also may have different transfer restriction periods and related mechanics, such as different ISIN or other securities numbers.

"**Interest Commencement Date**" means, with respect to a Series of Covered Bonds, the date specified in the applicable Final Terms from (and including) which the relevant Covered Bonds will accrue interest, which may or may not be their Issue Date.

**Final Terms** ..... Final terms (*i.e.*, the Final Terms) for a Tranche will be issued and published in accordance with the terms and conditions of the Covered Bonds (the "**Conditions**") concurrent with the issue of such Tranche detailing certain relevant terms thereof which, for the purposes of that Tranche only, must be read in conjunction with the Conditions. The terms and conditions applicable to any particular Tranche are the Conditions as amended and/or replaced by the relevant Final Terms.

**Conditions Precedent to the Issuance of a new Series or Tranche of Covered Bonds**..... Pursuant to the Programme Agreement, it is a condition precedent to a Dealer's purchase of Covered Bonds that (*inter alia*):

(a) no Potential Breach of Statutory Test, Issuer Event or Event of Default has occurred which is continuing and the proposed issue and purchase of Covered Bonds

will not cause a Potential Breach of Statutory Test, Issuer Event or Event of Default to occur;

(b) to the extent required by Condition 16 (*Further Issues*), each Relevant Rating Agency has provided a Rating Agency Confirmation in respect of each Series of Covered Bonds then outstanding for which it is a Relevant Rating Agency, and (if so provided) no Relevant Rating Agency, between the date of such Rating Agency Confirmation and the applicable Issue Date, having downgraded (or given notice or made any public announcement of any intended or potential downgrading, review or surveillance with negative implications of) the rating accorded by such Relevant Rating Agency to the Covered Bonds of any Series or any other debt securities of the Issuer; and

(c) the relevant final CMB approved issuance certificate (*ihraç belgesi*) and the final CMB tranche issuance certificate for the particular Tranche of Covered Bonds (*tertip ihraç belgesi*) having been obtained by the Issuer on or prior to the proposed Issue Date for such Covered Bonds, in each case to the extent then required by applicable law.

See Condition 16 (*Further Issues*).

**Proceeds of the Issue of Covered Bonds**..... The proceeds from each issue of Covered Bonds will be used by the Issuer to fund its general corporate purposes; *provided* that, to the extent so agreed with a Covered Bondholder, such proceeds may be used for specified purposes.

**Forms of Covered Bonds**..... The Covered Bonds may be issued in either bearer or registered (including dematerialised) form; *it being understood* that Turkish Dematerialised Covered Bonds will be issued in uncertificated and dematerialised book-entry form and Global Covered Bonds may be in registered or (other than those held by or on behalf of DTC) bearer form. A Registered Covered Bond may not be exchanged for a Bearer Covered Bond or *vice versa*, and Turkish Dematerialised Covered Bonds may not be exchanged for Bearer Covered Bonds or other Registered Covered Bonds and *vice versa*.

**Turkish Dematerialised Covered Bonds** ..... Turkish Dematerialised Covered Bonds (which are Registered Covered Bonds) are issued in uncertificated and dematerialised (in Turkish: *kaydileştirilmiş*) book-entry form registered with the Central Registry System and will be wholly and exclusively deposited with authorised intermediary institutions or banks having accounts and entitled to hold accounts on behalf of their customers with the Central Registry System in accordance with the Turkish Covered Bonds Legislation (including Article 13 of the Capital Markets Law) (each a "**Turkish Custodian**").

Turkish Dematerialised Covered Bonds may be issued in the name of the relevant accountholder(s).

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| | "**Central Registry System**" means the system held in and by the Central Registry Agency on which all rights, payments, title and interest of the Turkish Dematerialised Covered Bonds shall be kept and monitored. |
| **Specified Currency** ..... | "**Specified Currency**" with respect to any Series means, subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s) (as set out in the applicable Final Terms). If no currency is specified in the applicable Final Terms, the Specified Currency for a Series shall be the currency in which the relevant Covered Bonds are denominated.<br><br>All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than U.S. Dollars shall be paid by transfer by the Fiscal Agent to an account of the Exchange Agent in the relevant Specified Currency for: (a) payment in such Specified Currency or (b) conversion into U.S. Dollars for payment through DTC, in each case in accordance with the provisions of the Agency Agreement.<br><br>Except with respect to Covered Bonds held through DTC, payment in respect of Covered Bonds denominated in Turkish Lira may be made in U.S. Dollars under Condition 5.9 if an irrevocable election to receive such payment in U.S. Dollars is made. See "*Terms and Conditions of the Covered Bonds – Condition 5.9*". |
| **Denominations**..... | The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s) and set out in the applicable Final Terms, save that, in certain limited circumstances, the minimum denomination of each Covered Bond will be at least €100,000 (or its equivalent in any other currency at the time of issuance) or such other amount as is required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency and Covered Bonds.<br><br>Notwithstanding the above, and unless set forth in the applicable Final Terms otherwise, the minimum denomination of each Definitive IAI Registered Covered Bond, and of Covered Bonds sold to Institutional Accredited Investors in the form of a Global IAI Covered Bond, will be US$500,000 or its approximate equivalent in other Specified Currencies at the time of issuance. |
| **Redenomination** ..... | The applicable Final Terms may provide that certain Covered Bonds issued in a Specified Currency other than euro may be redenominated in euro on a Redenomination Date. If so, the redenomination provisions will be set out in the applicable |

Final Terms. See Condition 5.11 (*Redenomination*).

"**Redenomination Date**" means any date for payment of interest under a Series of such Covered Bonds specified by the Issuer in the notice given to the applicable Covered Bondholders pursuant to Condition 5.11 (*Redenomination*) and which falls on or after the date on which the country of the relevant Specified Currency first participates in the third stage of the European economic and monetary union.

**Fixed Rate Covered Bonds**..... A Final Terms may provide that the corresponding Covered Bonds will bear interest at a fixed rate ("**Fixed Rate Covered Bonds**") which will be payable in arrear on one or more Interest Payment Date(s) in each year as may be agreed between the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s) and on redemption and will be calculated on the basis of such Day Count Fraction (as set out in the applicable Final Terms) as may be agreed between the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s).

**Floating Rate Covered Bond**s ..... A Final Terms may provide that the corresponding Covered Bonds bear interest at a floating rate ("**Floating Rate Covered Bonds**"). Floating Rate Covered Bonds 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 ISDA Definitions;

(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 (in the case of a private placement) the relevant Covered Bondholder(s),

as set out in the applicable Final Terms.

The margin (if any) relating to any Floating Rate Covered Bonds (the "**Margin**"), including, if applicable, any rate multiplier and any change in margin (together with any pre-conditions thereto) will be agreed between the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s) for each issue of Floating Rate Covered Bonds, as set out in the applicable Final Terms.

"**ISDA Definitions**" means, with respect to any Series, the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as of the Issue Date of the first Tranche of the Covered Bonds of the relevant Series.

**Other provisions in relation to Floating Rate Covered Bonds** .....

Floating Rate Covered Bonds may have a Maximum Rate of Interest, a Minimum Rate of Interest or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s), will be payable in arrear on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s) as reflected in the applicable Final Terms.

"**Interest Period**" for a Series means the period from (and including) an Interest Payment Date for such Series (or, for the first Interest Period for such Series, the Interest Commencement Date for such Series) to (but excluding) the next (or first) Interest Payment Date for such Series.

"**Maximum Rate of Interest**" means, in respect of Floating Rate Covered Bonds, the percentage rate *per annum* (if any) specified in the applicable Final Terms. If such rate is so specified, then the interest rate of such Floating Rate Covered Bonds will not exceed such rate even if it might otherwise do so pursuant to the method of calculating the interest rate for such Floating Rate Covered Bonds.

"**Minimum Rate of Interest**" means, in respect of Floating Rate Covered Bonds, the percentage rate *per annum* (if any) specified in the applicable Final Terms. If such rate is so specified, then the interest rate of such Floating Rate Covered Bonds will not be less than such rate even if it might otherwise be pursuant to the method of calculating the interest rate for such Floating Rate Covered Bonds. Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

**Instalment Covered Bonds** .....

A Final Terms may provide that the corresponding Series of Covered Bonds is redeemable in instalments ("**Instalment Covered Bonds**"); *it being understood* that an instalment may only be scheduled to be payable on an Interest Payment Date for the applicable Series.

**Ranking of the Covered Bonds** ...

All Covered Bonds and any Receipts and Coupons will rank *pari passu*, without any preference or priority amongst themselves, irrespective of their Series and Issue Date, for all purposes; *it being understood* that each Series may have different timing for the repayment of principal and the timing and amount of interest payable.

Under the Covered Bonds Communiqué and by virtue of the priority established thereunder, the Covered Bondholders, Receiptholders, Couponholders and Hedging Counterparties will (subject to the following paragraph) have an exclusive, equal and *pro rata* preferential legal claim over the Cover Pool; *it being understood* that any payments under the

Transaction Documents made by the Issuer shall, except to the extent provided otherwise in the Covered Bonds Communiqué and in the Transaction Security Documents, be applied in the manner determined by the Issuer.

The claims of the Other Secured Creditors against the Cover Pool are permitted only to the extent that the Issuer has provided Additional Cover in the manner described in Article 29 of the Covered Bonds Communiqué. To the extent that the Issuer has not so provided Additional Cover, the Other Secured Creditors will not be permitted to have recourse to the Cover Pool and their claims will rank *pari passu* with the other unsecured creditor of the Issuer; *however*, if Additional Cover has been provided, then the CMB may determine that the Other Secured Creditors have a *pari passu* claim over such Additional Cover, in which case the Other Secured Creditors would be able to claim alongside Covered Bondholders, Receiptholders, Couponholders and Hedging Counterparties in respect of such Additional Cover.

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

(a) presented for payment by or on behalf of a holder who is liable for Taxes in respect of the Covered Bond, Receipt or Coupon by reason of such holder having some connection with any Relevant Jurisdiction other than the mere holding of the Covered Bond, Receipt or Coupon;

(b) presented for payment in the Republic of Turkey;

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to Council Directive 2003/48/EC (as amended from time to time, including by Council Directive 2014/48/EU of 24 March 2014) or any law implementing or complying with, or introduced in order to conform to, such Directive;

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or

(e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder of the relevant Covered Bond, Receipt or 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 Day).

Notwithstanding anything to the contrary stated herein, in no event will the Issuer, any Paying Agent or any other person be required to pay any Additional Amounts in respect of the Covered Bonds (including on Receipts and Coupons) for, or on account of, any withholding or deduction imposed on or in respect of any Covered Bond or Coupon required pursuant to FATCA (including pursuant to any agreement described in Section 1471(b) of the Code, the laws of any jurisdiction implementing FATCA or any agreement between the Issuer and/or Turkey and the United States or any authority thereof entered into for FATCA purposes). See Condition 7 (*Taxation*).

"**Relevant Date**" means, with respect to any payment, the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which the full amount of the money having been so received, notice to that effect has been duly given to the applicable Covered Bondholders, Receiptholders or Couponholders, as the case may be, by the Issuer in accordance with the Conditions.

"**Relevant Jurisdiction**" means the Republic of Turkey or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of the Covered Bonds, Receipts or Coupons.

**Status of the Covered Bonds**..... The Covered Bonds are issued on an unconditional basis and in accordance with Articles 4 and 5 of the Covered Bonds Communiqué. The Covered Bonds are backed by the assets forming the Cover Pool of the Issuer. In accordance with the Turkish Covered Bonds Legislation, by virtue of the Transaction Documents, registration in the Cover Register and any registrations required to update the Cover Register (each a "**Security Update Registration**"), the Covered Bonds shall be secured by the Cover Pool and the other Transaction Security (which includes all cashflows derived from the Cover Pool). See also "*Summary of the Turkish Covered Bonds Legislation*" below.

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| **Cover Register**..... | "**Cover Register**" means the security book (*teminat defteri*) related to the assets in the Cover Pool maintained by the Issuer pursuant to the Turkish Covered Bonds Legislation; *it being understood* that a copy of such security book may also be retained at another institution as may be required by the CMB. |
| **Payments on the Covered Bonds**..... | Payments on the Covered Bonds will be direct, unconditional and unsubordinated obligations of the Issuer. |
| **Security for the Covered Bonds**.. | In accordance with the Turkish Covered Bonds Legislation, by virtue of the Transaction Documents and pursuant to the Cover Register and any Security Update Registration, the Cover Pool and the other Transaction Security (including any amounts standing to the credit of the Collection Account, the Designated Accounts, the Hedge Collateral Accounts (other than Excess Hedge Collateral) and the Non-TL Hedge Collection Account(s)) will be available to satisfy the obligations of the Issuer under the Total Liabilities (and the claims of Other Secured Creditors to the extent described in "*-Ranking of the Covered Bonds*") following the occurrence of a Potential Breach of Statutory Test (which is continuing), an Issuer Event (which is continuing) or the service of a Notice of Default (which has not been revoked (such revocation to be provided in the same manner as the service of a Notice of Default)), in priority to the Issuer's obligations to any other creditors, until the repayment in full of the Covered Bonds and payment of the Issuer's other Secured Obligations under the Transaction Documents to the applicable Secured Creditors.<br><br>Pursuant to the Security Assignment, the Issuer has assigned to the Security Agent for the benefit of the Secured Creditors all of the Issuer's rights, title, interest and benefit, present and future in, to and under:<br><br>(a) each of the Offshore Bank Accounts,<br><br>(b) the English Law Transaction Documents (other than the Security Assignment and any deed expressed to be supplemental to the Security Assignment, the Programme Agreement and any Subscription Agreement), including, without limitation, any guarantee, credit support document or credit support annex entered into pursuant to the Hedging Agreements governed by the laws of England and any eligible credit support (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Deed or the 1995 English Law Credit Support Deed, each as defined by the International Swaps and Derivatives Association, Inc.) delivered or transferred to the Issuer thereunder, including, without limitation, all moneys received in respect thereof, all dividends paid or payable thereon, all property paid, distributed, accruing or offered at any time or, to in respect of or in substitution thereof and the proceeds of sale, repayment and redemption thereof, and |

(c) all payments of any amounts which may become payable to the Issuer thereunder, all payments received by the Issuer thereunder, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof,

which is held unto the Security Agent absolutely for the Security Agent itself and on trust, subject to the terms of the Security Assignment, for: (i) other than Excess Hedge Collateral and the Agency Account, the Secured Creditors to whom the Secured Obligations from time become due, owing or payable; (ii) in the case of Excess Hedge Collateral, for the relevant Hedging Counterparty as security for the Issuer's obligations to repay or redeliver such Excess Hedge Collateral pursuant to the terms of the relevant Hedging Agreement to the relevant Hedging Counterparty; and (iii) in the case of the Agency Account, the Reserve Fund Secured Creditors.

From time to time, additional security may be created for the benefit of the Security Agent on behalf of some or all of the Secured Creditors in respect of certain assets or certain accounts which are not otherwise subject to a perfected security interest for the benefit of the Security Agent on behalf of the Secured Creditors. If any such security document is designated as a Transaction Security Document by the Issuer and the Security Agent, such security document shall be a Transaction Security Document for the purposes of the Programme.

"**Other Secured Creditors**" means the Agents, the Security Agent, the Calculation Agent, any Receiver, the Cover Monitor, the Offshore Account Bank, the Covered Bond Calculation Agents and (other than the Covered Bondholders, the Receiptholders, the Couponholders and the Hedging Counterparties) any other creditor of the Issuer having the benefit of the Transaction Security in accordance with the Turkish Covered Bonds Legislation or pursuant to any Transaction Document entered into by the Issuer in the course of the Programme.

"**Secured Creditors**" means the Covered Bondholders, the Receiptholders, the Couponholders, the Other Secured Creditors and the Hedging Counterparties.

"**Receiver**" means any person or persons appointed (and any additional person or persons appointed or substituted) as an administrative receiver, receiver, manager, or receiver and manager of the applicable secured property by the Security Agent pursuant to a Transaction Security Document.

"**Agents**" mean the Paying Agents, the Fiscal Agent, the Exchange Agent, the Registrar and the Transfer Agents.

"**Transaction Security**" means: (a) the property, assets and undertakings included in the Cover Pool (including, as applicable, the Mortgage Rights) and, subject to the provisions of the Covered Bonds Communiqué, for the benefit of the applicable Secured Creditors, and (b) the Non-Statutory Security.

"**Transaction Security Documents**" means the Security Assignment and any other document entered into from time to time and designated by the Issuer and the Security Agent as a Transaction Security Document.

"**Additional Cover**" means the overcollateralisation of the Cover Pool by the Issuer from Substitute Assets or Mortgage Assets (as determined by the Issuer in its sole discretion) to meet the expenses of the Agents, the Security Agent, the Calculation Agent, the Cover Monitor, the Offshore Account Bank, the Covered Bond Calculation Agents and any other Other Secured Creditor permitted by Article 29 of the Covered Bonds Communiqué to benefit from such overcollateralisation; *it being understood* that the Issuer is not required by the Covered Bonds Communiqué to provide any Additional Cover. Each such asset shall be an "**Additional Cover Cover Pool Asset**". Any such assets shall be specifically identified by the Issuer in the Cover Register. For the avoidance of doubt, the Additional Cover Cover Pool Assets do not include the Mandatory Excess Cover.

"**Excess Hedge Collateral**" means: (a) the remaining Hedge Collateral due to be returned to a Hedging Counterparty after termination payments payable by such Hedging Counterparty to the Issuer in respect of the relevant Hedging Agreement have been satisfied, (b) if no termination payments were payable by such Hedging Counterparty to the Issuer after the occurrence of an Early Termination Date (as defined in the ISDA Master Agreement) in respect of the relevant Hedging Agreement, the Hedge Collateral due to be returned to the Hedging Counterparty in accordance with the provisions of the relevant credit support annex, in each case, under the terms of the relevant Hedging Agreement, or (c) any amounts in the applicable Hedge Collateral Account in excess of the amount of collateral required to be maintained in such account pursuant to the applicable Hedging Agreement.

"**Mandatory Excess Cover**" means the overcollateralistion of the Cover Pool by the Issuer from Substitute Assets in accordance with the minimum cover requirement provided under the Covered Bonds Communiqué that has to be maintained at all times (each such asset shall be a "**Mandatory Excess Cover Cover Pool Asset**"). Mandatory Excess Cover Cover Pool Assets are not subject to the Substitute Asset Limit. For the avoidance of doubt, the Mandatory Excess Cover does not refer to the Additional Cover.

"**Programme Closing Date**" means 15 May 2015.

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| **Cross-collateralisation and Recourse**..... | By operation of the Covered Bonds Communiqué and in accordance with the Transaction Documents, the Cover Pool Assets shall form a single portfolio, irrespective of the date of their inclusion in the Cover Pool, and shall be held for the payment of the Total Liabilities to the Covered Bondholders, Receiptholders, Couponholders and Hedging Counterparties (and claims of the Other Secured Creditors to the extent described in "*General Description of the Programme - Programme Description - Ranking of the Covered Bonds*.") irrespective of the Issue Date of the relevant Tranche, the date of any applicable Hedging Agreement or otherwise. The Secured Creditors shall (with respect to the Other Secured Creditors, to the extent described in "*General Description of the Programme - Programme Description - Ranking of the Covered Bonds*.") have recourse to the Transaction Security for the payment of the Issuer's obligations under the Programme.<br><br>In accordance with the provisions of the Covered Bonds Communiqué, the Cover Pool Assets may not be seized or attached in any form by creditors of the Issuer and may be used only to pay the Secured Creditors.<br><br>The Issuer is entitled, within certain limits and upon certain conditions, to effect certain changes to the Cover Pool. See "*Changes to the Cover Pool*" below. |
| **Issue Price**..... | Covered Bonds of each Tranche may be issued at par or at a premium or discount to par on a fully-paid basis (in each case, the "**Issue Price**" for such Tranche) as specified in the relevant Final Terms. |
| **Interest Payment Dates**..... | "Interest Payment Date" has the meaning specified in Condition 4.2(a)(ii). |
| **Payment Date** ..... | In relation to any Series of Covered Bonds, "**Payment Date**" shall have the meaning given to that term in the applicable Final Terms; *provided* that each Payment Date for a Series must be an Interest Payment Date for such Series. |
| **Extended Series Payment Date...** | In relation to any Series of Soft Bullet Covered Bonds that has been extended, "**Extended Series Payment Date**" shall be a monthly or other date as specified in the applicable Final Terms for such Series of Soft Bullet Covered Bonds.<br><br>"**Soft Bullet Covered Bonds**" means Covered Bonds for which, if so provided in the applicable Final Terms, the applicable Final Maturity Date shall be extended automatically to the applicable Extended Final Maturity Date (as specified in the applicable Final Terms) if the Issuer fails to pay on the relevant Final Maturity Date any amount representing the amount due on such Soft Bullet Covered Bonds on such Final Maturity Date as set out in the applicable Final Terms (the "**Final Redemption Amount**"); *it being understood* that such extended final maturity date may only be scheduled to occur on an Extended Series Payment Date for such Series of Soft Bullet Covered Bonds (such date, the "**Extended Final Maturity Date**"). |

Upon such automatic deferral, the Issuer shall:

(a) promptly liquidate all Authorised Investments that are Cover Pool Assets (*it being understood* that such does not include any investments that are Hedge Collateral) and Substitute Assets to the extent necessary to pay the Final Redemption Amount;

(b) deposit the proceeds of such liquidation (the "**Liquidation Proceeds**") into the relevant Designated Account(s) (such amounts to form part of the Available Funds);

(c) on the applicable Final Maturity Date and on each Extended Series Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date, apply all Available Funds towards the payment of any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date of such Series of Soft Bullet Covered Bonds unless otherwise provided for in the applicable Final Terms; *provided* that where a Payment Date of any other Series of Covered Bonds (or any payment by the Issuer under a Hedging Agreement) corresponds with such Extended Series Payment Date, the Issuer shall apply all Available Funds towards payment of amounts due in respect of the Covered Bonds, such other Series of Covered Bonds and such Hedging Agreement, as applicable, on a *pro rata* basis.

Any extension of the maturity of Soft Bullet Covered Bonds shall be irrevocable. Any failure to redeem such Soft Bullet Covered Bonds on their Final Maturity Date or any extension of the maturity of Soft Bullet Covered Bonds shall not constitute an Event of Default for any purpose or give any Covered Bondholder, Receiptholder or Couponholder any right to receive any payment of interest, principal or otherwise on the relevant Soft Bullet Covered Bonds other than as expressly set out in the Conditions. However, any failure to redeem such Soft Bullet Covered Bonds on their Final Maturity Date or any extension of the maturity of Soft Bullet Covered Bonds to their Extended Final Maturity Date shall constitute an Issuer Event.

In the event of the extension of the maturity of Soft Bullet Covered Bonds, interest rates, interest periods and interest payment dates on such Soft Bullet Covered Bonds from (and including) the Final Maturity Date to (but excluding) their Extended Final Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition 4 (*Interest*).

"**Available Funds**" means, following the occurrence of an automatic deferral of a Final Maturity Date of any Series of Soft Bullet Covered Bonds, all amounts standing to the credit of the Collection Account, the Designated Accounts, the Non-

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| | TL Hedge Collection Account(s) and any Liquidation Proceeds. |
| **Redemption**..... | A Final Terms may specify that either the relevant Series of Covered Bonds can be redeemed prior to its stated maturity for taxation reasons in the manner set out in Condition 6 (*Redemption and Purchase*) or that such Covered Bonds will be redeemable at the option of the Issuer upon giving notice to the applicable Covered Bondholder(s), in each case on a date or dates specified prior to such stated maturity and at a price or prices as may be agreed between the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s).<br><br>The applicable Final Terms may provide that Instalment Covered Bonds may be redeemed in two or more instalments (each an "**Instalment**") on such Payment Dates as are indicated in such Final Terms. |
| **Final maturity and extendable obligations under the Covered Bonds**..... | The final maturity date for each Series (the "**Final Maturity Date**") will be specified in the applicable Final Terms as agreed between the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s); *it being understood* that the Final Maturity Date for a Series may only be scheduled to occur on a Payment Date for such Series. Unless previously redeemed as provided in the Conditions, the Covered Bonds of a Series will be redeemed at their Principal Amount Outstanding on the relevant Final Maturity Date.<br><br>As noted in "Extended Series Payment Date" above, the applicable Final Terms relating to a Series of Soft Bullet Covered Bonds may also provide that the Issuer's obligations under the relevant Covered Bonds to pay their Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past the Final Maturity Date until the applicable Extended Final Maturity Date.<br><br>The entitlements of Covered Bondholders in respect of voting rights (including with respect to the exercise of remedies) under the Conditions, the Agency Agreement and the Transaction Security Documents (and the other Transaction Documents to the extent applicable) upon the occurrence of an Issuer Event and/or an Event of Default will be determined by reference to the Principal Amount Outstanding of the relevant Covered Bond(s) held by the relevant Covered Bondholder(s). For the purposes of calculating the Principal Amount Outstanding of any Covered Bonds denominated in a currency other than Turkish Lira, the Principal Amount Outstanding of any such Covered Bonds shall be notionally converted into a Turkish Lira equivalent using the Applicable Exchange Rate for purposes of determining voting rights. |

"**Applicable Exchange Rate**" means:

(a) in respect of the non-Turkish Lira currency Covered Bonds of a particular Tranche:

(i) to the extent that a Hedging Agreement which is a currency swap transaction, cross currency and interest rate swap transaction or option contract, foreign exchange, derivative or similar agreement is in the Cover Pool in connection with the issuance of such Tranche of Covered Bonds, the rate at which the relevant currency is exchangeable into Turkish Lira pursuant to such Hedging Agreement; and

(ii) to the extent that sub-paragraph (a)(i) above is not applicable, the Spot Rate;

(b) in respect of the non-Turkish Lira currency amount of a Cover Pool Asset:

(i) to the extent that a Hedging Agreement which is a currency swap transaction, cross currency and interest rate swap transaction or option contract, foreign exchange, derivative or similar agreement is in the Cover Pool in connection with such Cover Pool Asset, the rate at which the relevant currency is exchangeable into Turkish Lira pursuant to such Hedging Agreement; and

(ii) to the extent that sub-paragraph (b)(i) above is not applicable, the Spot Rate; and

(c) in respect of the expenses not denominated in U.S. Dollars that are covered by the Reserve Fund, the Spot Rate.

"**Spot Rate**" means: (a) with respect to the conversion of the relevant non-Turkish Lira currency into Turkish Lira, the relevant "mid" price spot rate of exchange obtained by the Issuer and/or the Security Agent, as applicable, on the relevant day using the relevant display page on the Reuter Monitor Money Rates Service (or any successor service thereof), or such other page as may replace that page on that service for the purpose of displaying a currency exchange rate for Turkish Lira and the non-Turkish Lira currency, expressed as the amount of Turkish Lira per one non-Turkish Lira currency at approximately 11.00 a.m. (İstanbul time) on such day; and (b) with respect to the conversion of a non-U.S. Dollar currency into U.S. Dollars, the relevant "mid" price spot rate of exchange obtained by the Issuer and/or the Security Agent, as applicable, on the relevant day using the relevant display page on the Reuter Monitor Money Rates Service (or any successor service thereof), or such other page as may replace that page on that service for the purpose of displaying a currency

exchange rate for U.S. Dollars and such non-U.S. Dollar currency, expressed as the amount of U.S. Dollars per one non-U.S. Dollar currency at approximately 11.00 a.m. (London time) on such day.

"**Principal Amount Outstanding**" means, in respect of a Covered Bond on any day of determination, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day of determination; *provided* that the Principal Amount Outstanding in respect of a Covered Bond that has been purchased by the Issuer or any Subsidiary of the Issuer and cancelled shall be zero.

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

**Ratings** ..... Each Series issued under the Programme may be assigned a rating by one or more rating agencies as specified in the applicable Final Terms; *it being understood* that a Series need not be rated.

Series of Covered Bonds issued under the Programme may either be rated (whether by Moody's and/or any other Relevant Rating Agency) or unrated, with any Covered Bonds rated by Moody's being expected (assuming they provide for the required Required Overcollateralisation Percentage) initially to be rated "A3". Where a Tranche of Covered Bonds is rated (other than unsolicited ratings), such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Covered Bonds of other Series. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Purchases of Covered Bonds**..... To the extent possible under applicable law and regulations: (a) the Issuer may from time to time issue Covered Bonds to itself or its Subsidiaries and (b) the Issuer and/or its Subsidiaries may from time to time purchase Covered Bonds. Such issued or purchased Covered Bonds may be held, resold or at the option of the Issuer or any Subsidiary (as the case may be) surrendered to any Paying Agent and/or the Registrar for cancellation. Such Covered Bonds, whilst held by, for the benefit of or on behalf of the Issuer or any such Subsidiary, shall not entitle the Issuer or such Subsidiary, as applicable, to

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| | vote at any meeting or the Covered Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Covered Bondholders. See Condition 6.7 (*Purchases by the Issuer or its Subsidiaries*). |
| **Listing and admission to trading** ..... | Application has been made to the Irish Stock Exchange for Covered Bonds issued under the Programme to be admitted to the Official List and to trading on the Main Securities Market, *however*, no assurance can be given that such application will be accepted. Covered Bonds may be unlisted or may be listed or admitted to trading, as the case may be, on any market (including any unregulated or regulated market for the purposes of the Markets in Financial Instruments Directive) as may be agreed among the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholders(s) in relation to each issue. The Final Terms relating to each Tranche of the Covered Bonds will state whether or not such Covered Bonds are to be listed and/or admitted to trading and, if so, on which market(s), as the case may be; *it being understood* that a Series need not be listed or admitted to trading on any particular exchange or market and if a Series is listed and/or admitted to trading, such Series need not be listed on the Official List of the Irish Stock Exchange and admitted to trading on the Main Securities Market. |
| **Clearing Systems**..... | For any Series of Covered Bonds other than Turkish Dematerialised Covered Bonds, DTC, Euroclear, Clearstream Luxembourg and/or any other clearing system approved by the Issuer and the Fiscal Agent or as otherwise specified in the applicable Final Terms may be the applicable clearing system(s); *it being understood* that a Series need not have a clearing system and may be issued as Definitive Covered Bonds. |
| **Selling Restrictions** ..... | There are restrictions on the offer, sale and transfer of the Covered Bonds (and beneficial interests therein) in (*inter alia*) the United States, the European Economic Area (including the United Kingdom and Ireland) and Turkey and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds. See "*Subscription and Sale and Transfer and Selling Restrictions*" below. |
| **U.S. Selling Restrictions** ..... | United States Selling Restrictions: Regulation S Category 2, Rule 144A and Section 4(a)(2). Bearer Covered Bonds 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 Covered Bonds will not constitute "registration-required obligations" under Section 4701(b) of the Code, as specified in the applicable Final Terms. Such rules impose certain additional restrictions on transfers of Bearer Covered Bonds (or beneficial interests therein). See "*Subscription and Sale and Transfer and Selling Restrictions*". |

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| **ERISA**..... | Subject to certain conditions and the applicable selling and transfer restrictions, the Covered Bonds may be invested in by an "employee benefit plan" as defined in and subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), a "plan" as defined in and subject to Section 4975 of the Code, or any entity whose underlying assets include "plan assets" of any of the foregoing. See "*Certain Considerations for ERISA and other U.S. Employee Benefit Plans*". |
| **Turkish Covered Bonds Legislation**..... | Means the Capital Markets Law, the Covered Bonds Communiqué and other relevant capital markets legislation of Turkey pursuant to which the Covered Bonds are issued (together, the "**Turkish Covered Bonds Legislation**").<br><br>The Covered Bonds will be issued pursuant to the Turkish Covered Bonds Legislation. For further information on the Turkish Covered Bonds Legislation, see "*Summary of the Turkish Covered Bonds Legislation*" below. |
| **Covered Bonds Communiqué**..... | Means the Communiqué on Covered Bonds No. III-59.1 published by the CMB (as amended from time to time) (the "**Covered Bonds Communiqué**"). |
| **Governing Law**..... | The Covered Bonds (other than as set forth in the following paragraph), the Agency Agreement, the Deed of Covenant, the Security Assignment, the Offshore Bank Account Agreement, the Security Agency Agreement, the Calculation Agency Agreement, the Programme Agreement, each Subscription Agreement and (unless specified otherwise in the applicable Hedging Agreement) each Hedging Agreement (and any non-contractual obligations arising out of or in connection with any of the above) are (or will be, as the case may be) governed by, and construed in accordance with, the laws of England.<br><br>The Cover Monitor Agreement is governed by, and construed in accordance with, Turkish law. In addition, the Statutory Segregation referred to in Condition 3 (*Status of the Covered Bonds*) is (or will be, as the case may be) governed by and construed in accordance with Turkish law. |
| **Statutory Segregation**..... | "**Statutory Segregation**" means the statutory protection of the Cover Pool against competing claims for the benefit of the Covered Bondholders, Receiptholders, Couponholders, Hedging Counterparties and (subject to the provisions of Article 29 of the Covered Bonds Communiqué) Other Secured Creditors pursuant to Article 13 of the Covered Bonds Communiqué to the extent described in "*General Description of the Programme - Programme Description - Ranking of the Covered Bonds*". |
| **Distribution**..... | Covered Bonds 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. To the extent permitted by the applicable laws and regulations of Turkey, Turkish Dematerialised Covered Bonds may also be sold by the Issuer to investors within the Republic of Turkey. |

**Maturities** ..... The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s) (as set out in the applicable Final Terms), 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.

Covered Bonds having a maturity of less than one year are subject to restrictions on their denomination and distribution. See "*Certain Restrictions - Covered Bonds having a maturity of less than one year*" above.

**CREATION AND ADMINISTRATION OF THE COVER POOL**

**The Cover Pool**..... Pursuant to the Turkish Covered Bonds Legislation, the Issuer is entitled to create the Statutory Segregation over:

(a) mortgage loans meeting (i) the requirements set out in Articles 9(2), 10(1)(a) and 10(1)(c) of the Covered Bonds Communiqué; and (ii) though not required by the Turkish Covered Bonds Legislation, the Individual Asset Eligibility Criteria (such assets included in the Cover Pool being the "**Mortgage Assets**"), and all receivables relating to such Mortgage Assets;

(b) Substitute Assets (subject to the Substitute Asset Limit); and

(c) its rights in, to and under Hedging Agreements,

(each such asset included in the Cover Register, a "**Cover Pool Asset**" and collectively the "**Cover Pool**").

For the avoidance of doubt, a mortgage loan or derivative contract intended to become a Cover Pool Asset is required to meet the asset requirements set out in Article 10 (in the case of mortgage loans) and Article 11 (in the case of derivative contracts) of the Covered Bonds Communiqué at the time of inclusion in the Cover Register. In the event that a Cover Pool Asset thereafter ceases to meet the asset requirements of the Covered Bonds Communiqué (or failed to have satisfied such requirements at the time of its inclusion in the Cover Register), the Issuer is obliged under Article 13(5) of the Covered Bonds Communiqué to replace such assets with Cover Pool Assets that do satisfy the requirements of Articles 10 and 11 (as applicable) of the Covered Bonds Communiqué unless the Statutory Tests are otherwise satisfied and the Issuer is otherwise complying with its obligations under the Covered Bonds Communiqué (in which case, the Issuer is not obliged to remove any such ineligible Cover Pool Asset). See "*Changes to the Cover Pool*" below.

By virtue of the creation of the Cover Pool by registration in the Cover Register (including through any Security Update Registration(s)) on or prior to the First Issue Date, the Issuer

shall segregate the Cover Pool for the satisfaction of the rights of the Covered Bondholders, the Couponholders, the Receiptholders and the Hedging Counterparties (and the Other Secured Creditors to the extent described in "*General Description of the Programme - Programme Description - Ranking of the Covered Bonds*.").

All Mortgage Rights relating to Mortgage Assets in the Cover Pool are themselves included in the Cover Pool as part of the receivables of such Mortgage Assets; *however*, if it is subsequently judicially determined that all or part of the Mortgage Rights of the type referred to in sub-paragraphs (b) and (c) of the definition of Mortgage Rights below (all such items being "**Ancillary Rights**") do not constitute receivables of Mortgage Assets for the purposes of Article 9 of the Covered Bonds Communiqué, then the obligation of the Issuer to apply the relevant proceeds of such Ancillary Rights in satisfaction of any indebtedness owed by the Issuer under the Transaction Documents to the Secured Creditors shall be an unsecured contractual obligation only and such Ancillary Rights shall not be Cover Pool Assets and thus not benefit from Statutory Segregation.

The rights, title and interest (both present and future) of the Bank in, to and under: (a) any valuation and (b) all causes and rights of action in favour of the Bank against any person in connection with any report, valuation, opinion, certificate, consent or other statement of fact or opinion, in each case given in connection with a Mortgage Asset or affecting the decision of the Bank to make the relevant advance (all payments received by the Bank for either clause (a) or (b) being a "**Related Payment**"), do not constitute receivables of the Mortgage Assets for the purposes of Article 9 of the Covered Bonds Communiqué and therefore do not benefit from Statutory Segregation. However, at any time after the service of a Notice of Default (which has not been revoked (such revocation to be provided in the same manner as the service of a Notice of Default)), the Issuer shall, as an unsecured contractual obligation only, transfer (within two İstanbul Business Days of receipt) all Related Payments to the Security Agent for the benefit of the Secured Creditors to be applied in satisfaction of the Secured Obligations; *it being understood* that any such Related Payments shall not be deposited into the Collection Account or the Designated Accounts and shall otherwise remain segregated from the Cover Pool Assets.

"**Mortgage Rights**" shall, with respect to a Mortgage Asset in the Cover Pool, mean:

(a) any prepayment fees or other fees payable by the Borrower of such Mortgage Asset;

(b) to the extent that they are assignable, the benefit of all collateral security and any guarantees or indemnities from the Borrower or a guarantor for such Mortgage Asset; and

(c) all right, title, interest and benefit in favour of the Bank (both present and future) in relation to any insurance contracts relating to such Mortgage Asset, including the right to receive the proceeds of any insurance claims in so far as they relate to such Mortgage Asset.

The Bank will act in a manner consistent with that of a Prudent Lender and Servicer of Mortgage Assets in respect of the Mortgage Assets in the Cover Pool; *provided* that:

(a) during the continuance of an Issuer Event, the Bank may not make any Mortgage Asset Modification(s) other than in accordance with its then prevailing servicing and collection procedures in respect of mortgage assets that are not part of the Cover Pool; and

(b) the Bank shall service such Mortgage Assets with no less care than the Bank exercises or would exercise in connection with the servicing of mortgage assets held for its own account as if such Mortgage Assets were not part of the Cover Pool.

"**Mortgage Asset Modification(s)**" means any modification, variation amendment, release or waiver of a Mortgage Asset, including as to, but not limited to, interest rates, repayment schedule and/or maturity of such Mortgage Asset.

"**Prudent Lender and Servicer of Mortgage Assets**" means acting in a manner consistent with that of an experienced lender and servicer of mortgage loans granted to obligors in the Republic of Turkey.

"**First Issue Date**" means the date on which the Issuer issues a Series of Covered Bonds for the first time pursuant to the Programme.

"**Substitute Assets**" means: (a) the assets permitted by the Covered Bonds Communiqué to constitute substitute assets (as of the Programme Closing Date, such assets include cash, certificates of liquidity issued by the Central Bank of Turkey, government bonds issued domestically (in Turkey) or abroad, lease certificates issued by asset leasing corporations established by the Undersecretariat of the Treasury of Turkey (*T.C. Başbakanlık Hazine Müsteşarlığı*), securities guaranteed by the Treasury of Turkey within the framework of the Law on the Regulation of Public Financing and Debt Management dated 28 March 2002 and numbered 4749 and securities issued by or with the guarantee of the central administrations and/or central banks of the countries which are members of the Organisation for Economic Co-operation and Development); and (b) other assets which the CMB approves and discloses to the public.

**Changes to the Cover Pool** ..... The Issuer shall be entitled (and, in the circumstances set out in Article 13(5) of the Covered Bonds Communiqué, shall be obliged to substitute Cover Pool Assets as set out in (b) below), subject to making appropriate Security Update Registration(s) to:

(a) *Allocation of Further Assets*: allocate to the Cover Pool additional assets at any time, including for the purposes of issuing further Series of Covered Bonds, complying with the Statutory Tests and/or the Required Overcollateralisation Percentage of any Series, maintaining the rating(s) assigned to any Series of the Covered Bonds and/or maintaining or increasing the creditworthiness of the Cover Pool; *provided* that such new assets meet the requirements of the Covered Bonds Communiqué, comply with the Individual Asset Eligibility Criteria and do not cause the Substitute Assets in the Cover Pool to exceed the Substitute Asset Limit; and

(b) *Removal or substitution of Cover Pool Assets*: remove (including to substitute) one or more Cover Pool Asset(s) (including any Cover Pool Assets that cease to comply or did not comply at the time of their registration in the Cover Register with the requirements of the Covered Bonds Communiqué and the Individual Asset Eligibility Criteria) at any time in accordance with the Covered Bonds Communiqué; *provided* that, in addition to the requirements of the Covered Bonds Communiqué: (i) any assets added to the Cover Pool by way of substitution must comply with the Individual Asset Eligibility Criteria; (ii) any assets added to the Cover Pool by way of substitution or any removal of assets from the Cover Pool does not cause the Substitute Assets in the Cover Pool to exceed the Substitute Asset Limit; (iii) neither any Potential Breach of Statutory Test nor any Issuer Event of the type described in sub-paragraphs (a) through (f) of the definition thereof would occur as a result of such removal or Cover Pool Asset Substitution; and (iv) any collections in respect of any such removed Cover Pool Assets will no longer be transferred to the Collection Account. The Issuer is obliged to substitute any Cover Pool Assets that cease to comply with the requirements of the Covered Bonds Communiqué or the Individual Asset Eligibility Criteria unless the Statutory Tests are otherwise satisfied and the Issuer is otherwise complying with its obligations under the Covered Bonds Communiqué (in which case, the Issuer may either keep such ineligible Cover Pool Asset within the Cover Pool or remove such ineligible Cover Pool Asset without new eligible assets being registered in the Cover Pool). Also see "*Changes to the Cover Pool*" below.

It is agreed that:

(a) upon the occurrence of any Potential Breach of Statutory Test or an Issuer Event that is continuing, no Cover Pool Assets can be removed or substituted from the Cover Pool unless such removal or substitution is required pursuant to the provisions of the Covered Bonds Communiqué; and

(b) upon the occurrence of an Event of Default that is continuing, no Cover Pool Assets can be removed or substituted from the Cover Pool unless:

(i) such removal or substitution is required pursuant to the provisions of the Covered Bonds Communiqué; or

(ii) such substitution or removal is made by the Administrator in accordance with the provisions of the Covered Bonds Communiqué or by the Security Agent in accordance with the Transaction Documents.

**Sale of Cover Pool Assets by the Administrator**..... Under Articles 27(4) and (6) of the Covered Bonds Communiqué and in the circumstances specified therein, the Administrator may administer the sale of the Cover Pool Assets.

"**Administrator**" means the person appointed to administer the Cover Pool by the CMB under Article 27(1) of the Covered Bonds Communiqué.

**Representations and Warranties of the Bank in its capacity as Issuer**..... Under the Security Agency Agreement, as of the Programme Closing Date, each Issue Date and each date on which additional Cover Pool Assets are added to the Cover Pool, the Bank has made (or will make) certain representations and warranties regarding itself and the Cover Pool Assets in favour of the Security Agent (for itself and for the benefit of the Secured Creditors) that:

(a) it is a corporation, duly incorporated and validly existing under the laws of the Republic of Turkey;

(b) the obligations expressed to be assumed by it in each Transaction Document to which it is a party are legal, valid, binding and enforceable obligations, subject to equitable principles and to applicable insolvency or other similar laws affecting the rights of creditors generally;

(c) it has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Transaction Documents to which it is a party and the transactions contemplated by those Transaction Documents;

(d) the Cover Pool Assets are in existence;

(e) except to the extent provided otherwise pursuant to the Transaction Documents, it is the sole absolute owner of the Cover Pool Assets with full title guarantee and all rights, title and interest therein free and clear of all Security Interests of any nature whatsoever; *it being understood* that: (i) pursuant to the Covered Bonds Communiqué, the Cover Pool Assets are segregated under Turkish law for the benefit of the Covered Bondholders and the Hedging Counterparties, and (ii) the Borrowers and other obligors under Cover Pool Assets might have a right of set-off; and

(f) it is not in liquidation, bankruptcy or receivership and will not go into liquidation, bankruptcy or receivership as a result of the issuance of any Covered Bonds or the entering into of the Transaction Documents.

**Individual Asset Eligibility Criteria**..... Each mortgage loan to be included in the Cover Pool shall comply with the following criteria (the "**Individual Asset Eligibility Criteria**"):

(a) the requirements of Articles 9(2) and 10(1) of the Covered Bonds Communiqué;

(b) such mortgage loan is denominated in Turkish Lira;

(c) such mortgage loan is not a commercial loan or related receivable;

(d) the applicable Borrower is not an employee of the Bank;

(e) the principal amount outstanding of such mortgage loan at the time of its inclusion in the Cover Pool must be lower than or equal to the Turkish Lira-equivalent of €1,000,000 (using the TL/€ sell-side exchange rate most recently published by the Central Bank at such time of inclusion);

(f) such mortgage loan is secured by a first ranking mortgage;

(g) the applicable LTV is not greater than 75%;

(h) the applicable Borrower is a natural person;

(i) such mortgage loan is not in arrears at the date of inclusion in the Cover Pool and, after the date of inclusion, is not Delinquent; and

(j) such mortgage loan constitutes a valid and enforceable claim against the Borrower, subject to customary bankruptcy and similar exceptions and general principles of equity.

"**Borrower**" means, with respect to a mortgage loan, the borrower or borrowers specified in respect of such mortgage loan.

"**Delinquent**" means, with respect to a mortgage loan, that such mortgage loan is in arrears for more than 30 consecutive calendar days.

"**LTV**" means, with respect to a mortgage loan, the percentage determined by dividing the principal amount outstanding of such mortgage loan by the Initial Appraised Value of the residential property at the origination of such mortgage loan.

"**Initial Appraised Value**" means, with respect to a mortgage loan, the appraised value of the applicable residential property used by such mortgage loans' originator in connection with the origination of such mortgage loan.

Substitute Assets may not be added to the Cover Pool if, immediately following such addition, the Cover Pool would not comply with the requirement of Article 19(3) of the Covered Bonds Communiqué that the net present value of the Substitute Assets included in the Cover Pool shall not exceed 15% of the total Net Present Value of the Cover Pool (the "**Substitute Asset Limit**"). Mandatory Excess Cover Cover Pool Assets are not subject to the restriction contained in Article 19(3) of the Covered Bonds Communiqué and do not count towards the Substitute Asset Limit.

**Monitoring of the Cover Pool** ..... The Cover Monitor shall, pursuant to the Cover Monitor Agreement, in respect of each Cover Monitor Calculation Date analyse and verify whether the Cover Pool satisfies each of:

(a) the Nominal Value Test;

(b) the Net Present Value Test;

(c) the Cash Flow Matching Test; and

(d) the Stress Test,

(collectively, the "**Statutory Tests**" and each a "**Statutory Test**").

In addition, the Issuer shall, in accordance with Article 20(1) of the Covered Bonds Communiqué, test whether the Cover Pool complies with the Statutory Tests (*i.e.*, at every change to the Cover Register and, in any case, at least once per calendar month) (each a "**Statutory Test Date**").

The Cover Monitor shall, pursuant to the Cover Monitor Agreement, after testing the Statutory Tests as described above, send a copy of the report indicating compliance or non-compliance with the Statutory Tests to the Issuer and the Security Agent within twenty İstanbul Business Days following the end of the applicable accounting period.

"**Cover Monitor Calculation Date**" means the First Issue Date, each of the dates falling at the end of each semi-annual reporting period (or quarter reporting period if any Covered Bonds issued in a public offering in Turkey of Covered Bonds remain outstanding) following the First Issue Date and each

subsequent Issue Date; *provided* that: (a) the first Cover Monitor Calculation Date shall be within six months after the First Issue Date (as agreed between the Issuer and the Cover Monitor); and (b) the end of each semi-annual reporting period or quarter reporting period, as applicable, shall be calculated from the first Cover Monitor Calculation Date and not from the First Issue Date.

**Statutory Tests** ..... The Cover Pool is subject to the Statutory Tests as set out in the Covered Bonds Communiqué. The Statutory Tests are the following:

(a) *The Nominal Value Test*: The "**Nominal Value Test**" means the test set out in Article 15(1) of the Covered Bonds Communiqué.

(b) *The Cash Flow Matching Test*: The "**Cash Flow Matching Test**" means the test set out in Article 16(1) of the Covered Bonds Communiqué.

(c) *The Net Present Value Test*: The "**Net Present Value Test**" means the test set out in Article 17 of the Covered Bonds Communiqué.

(d) *The Stress Test*: The "**Stress Test**" means the test set out in Article 18 of the Covered Bonds Communiqué.

The Statutory Tests (both their nature and their method of calculation) may vary from time to time to the extent that the Covered Bonds Communiqué is amended; *it being understood* that all Series of Covered Bonds are subject to the Statutory Tests as in force at the time of their issuance unless expressly provided otherwise by the Turkish Covered Bonds Legislation.

The method of calculating the Statutory Tests shall (within the requirements of the Covered Bonds Communiqué) be determined by the Bank, acting reasonably (and subject to any guidance, pronouncement, rule, official directive or guideline (whether or not having the force of law) issued by the CMB to the Bank specifically or to covered bond issuers generally in relation to the method of calculating the Statutory Tests).

The following are not included in calculations related to the Statutory Tests (without duplication of any exclusion):

(a) assets: (i) which are mortgage loans that do not satisfy the Individual Asset Eligibility Criteria, (ii) which are Substitute Assets all or portions of which are to be excluded in order for the Cover Pool to satisfy the Substitute Asset Limit; *it being understood* that if only portions of such assets are so excluded, then the part thereof that is not so excluded shall be included in the calculation of the Statutory Tests to the extent otherwise eligible, or (iii) that, pursuant to Article 10(1)(a) of the Covered Bonds Communiqué, are mortgage loans that would not qualify to be registered in the Cover Register;

(b) in the manner to be calculated pursuant to Article 19(1) of the Covered Bonds Communiqué, the portion of a Mortgage Asset in excess of 75% of the value of the residential property securing the corresponding loan;

(c) rights in, and cash amounts standing to the credit of, the Collection Account (and investments made with such amounts);

(d) Cover Pool Assets which are Additional Cover Cover Pool Assets pursuant to Article 29 of the Covered Bonds Communiqué;

(e) Hedge Collateral; and

(f) the Reserve Fund.

For further information concerning each of the above Statutory Tests, see "*Summary of the Turkish Covered Bonds Legislation*" below.

**Required Overcollateralisation Percentage**..... In addition to the Statutory Tests, so long as any of the Covered Bonds of any Series remains outstanding, the Issuer shall at all times ensure that the Nominal Value of the Cover Pool is not less than the product of: (a) the Turkish Lira Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds outstanding and (b) the sum of one plus the decimal equivalent of the highest then-existing Required Overcollateralisation Percentage among all then-outstanding Series. The then-existing Required Overcollateralisation Percentage for each Series shall be specified in each Investor Report.

"**Nominal Value**" means, in respect of the Cover Pool, the sum of: (a) the outstanding principal amounts of the Mortgage Assets in the Cover Pool, (b) the issue price of discounted debt securities that are included in the Cover Pool and (c) the nominal value of debt securities issued at a premium that are included in the Cover Pool (in the case of (b) and (c), excluding any Hedge Collateral that might then be in the Cover Pool).

"**Required Overcollateralisation Percentage**" means, for a Series, the percentage set forth in the applicable Final Terms (the "**Issue Date Required Overcollateralisation Percentage**") or such other percentage from time to time thereafter selected by the Issuer and notified to the Relevant Rating Agency (to the address specified to the Issuer by the Relevant Rating Agency from time to time) and the Fiscal Agent (each such notice, a "**Change Notice**"); *provided* that:

(a) if the current rating of such Series from such Relevant Rating Agency is the same as or higher than the Issue Date Rating of such Series from such Relevant Rating Agency, then the percentage shall not be so reduced unless a Rating Agency Confirmation from such Relevant Rating Agency has been obtained with respect thereto, and

(b) if the current rating of such Series from such Relevant Rating Agency is below the Issue Date Rating of such Series from such Relevant Rating Agency, then the percentage shall not be so reduced to below the percentage applicable immediately prior to the most recent downgrade of such Series by such Relevant Rating Agency.

Until a new Required Overcollateralisation Percentage for any Series is selected by the Issuer, the Required Overcollateralisation Percentage for such Series shall be the last figure so notified in a Change Notice from the Issuer to the Relevant Rating Agency and the Fiscal Agent (or, if applicable, the Issue Date Required Overcollateralisation Percentage). Should a Series have more than one Required Rating Agency, then the above in this definition shall be determined independently for each such Required Rating Agency and the Required Overcollateralisation Percentage for such Series shall be the highest resulting percentage.

The Issuer, in its discretion, may increase or, as provided above, decrease the Required Overcollateralisation Percentage for any Series at any time without the consent of the Covered Bondholders, the Agents and/or any other Secured Creditors. For the avoidance of doubt, the Issuer is under no obligation to increase the Required Overcollateralisation Percentage for any Series regardless of any positive impact doing so might have on the ratings of the Covered Bonds. The Issuer shall notify the Covered Bondholders of a Series of any such change to the Required Overcollateralisation Percentage for such Series in accordance with Condition 14 (*Notices*).

"**Issue Date Rating**" means, in respect of a Series of Covered Bonds and a Relevant Rating Agency, the rating assigned by such Relevant Rating Agency to such Series on the relevant Issue Date.

"**Turkish Lira Equivalent**" means, in respect of a Covered Bond which is denominated in: (a) a currency other than Turkish Lira, the Turkish Lira equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Covered Bond, and (b) Turkish Lira, the applicable amount in Turkish Lira.

"**Covered Bond Swap Rate"** means, in respect of a Covered Bond, the exchange rate specified in the Currency Hedging Agreement relating to the Series of which such Covered Bond is a part, or, if there is no Currency Hedging Agreement relating to such Series (including if the Currency Hedging Agreement for such Series has been terminated), the applicable Spot Rate.

**Rating Agency Confirmation** ..... "**Rating Agency Confirmation**" means, with respect to any Series of Covered Bonds and any specified action or determination, the Relevant Rating Agency has indicated in writing (which may be by email, a signed letter (including

facsimile), a public press release, a rating report or any other publication, including a publication on such Relevant Rating Agency's website) that such action or determination would not result in the credit rating then assigned to such Series by such Relevant Rating Agency being reduced, removed, suspended or placed on negative credit watch with an indication of a potential reduction.

Whenever the implementation of certain matters is, pursuant to the Conditions and/or the other Transaction Documents, subject to a Rating Agency Confirmation, the requirement shall be satisfied by receipt of (or access to) the Rating Agency Confirmation by the Security Agent; *provided* that: (a) if the applicable Relevant Rating Agency provides a waiver or acknowledgement indicating its decision not to review (or otherwise declining to review) the matter for which the Rating Agency Confirmation is sought, the requirement for the Rating Agency Confirmation from such Relevant Rating Agency with respect to such matter will be deemed waived, and (b) the Security Agent shall, where directed by the Covered Bondholder Representative or as otherwise provided in the Conditions and/or the other Transaction Documents, waive the requirement for a Rating Agency Confirmation to be obtained.

**Breach of Statutory Tests**..... If, on a Statutory Test Date, there is a Potential Brach of Statutory Test, the Issuer must cure any breach(es) of the relevant Statutory Tests within one month of such Statutory Test Date.

If, in its own monitoring of the Statutory Tests, the Issuer identifies a Potential Breach of Statutory Test, it will promptly notify the Fiscal Agent, the Security Agent and the Cover Monitor of such breach and must cure such breach within one month of its detection of such breach.

Failure by the Issuer to cure a breach of any one of the Statutory Tests within such one month period (and if there is no corresponding day in the following month, then the relevant Statutory Test will be required to be cured on or before the last day in the aforementioned following month) will constitute a "**Breach of Statutory Test**" and result in: (a) until such breach is cured, an Issuer Event and the Issuer not being able to issue further Covered Bonds; and (b) the actions as set out in "*Accounts and Cash Flow Structure – Designated Account(s)*."

**"Potential Breach of Statutory Test**" means a breach by the Issuer of any one of the Statutory Tests that has not yet become a Breach of Statutory Test.

**Amendment .....** The Agency Agreement provides that the Issuer may (without the consent of the Security Agent and the other Secured Creditors; *it being understood* that each other party to the applicable Transaction Document(s) shall, and (as applicable) shall be deemed to be instructed to, acknowledge such amendments) make:

(a) any amendment to the Conditions, the Deed of Covenant or any of the provisions of the Agency Agreement or any other Transaction Document which amendment is, in the opinion of the Issuer, either: (i) of a formal, minor or technical nature or which is made for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained therein or (ii) not materially prejudicial to the interests of the Covered Bondholders;

(b) amendments to any of the Transaction Documents if the Issuer proposes to: (i) appoint a rating agency to assign a credit rating to one or more Series of Covered Bonds or (ii) revise any provision of the Transaction Documents in accordance with the then current rating agency criteria of one or more of the Relevant Rating Agencies (such as to establish or alter the Offshore Account Bank Required Rating relating to such Relevant Rating Agency); *provided* that: (A) the Issuer certifies to the Security Agent and the Fiscal Agent that such amendment is necessary or desirable in order to give effect to the appointment of the additional Relevant Rating Agency and the assignment of its initial credit rating to the relevant Covered Bonds or conform any provision of the Transaction Documents to the then current rating agency criteria of one or more of the Relevant Rating Agencies and (B) subject to the provisions described in "*Rating Agency Confirmation*" above, Rating Agency Confirmation has been obtained in respect of such amendment;

(c) any modification to a Hedging Agreement which is requested by the Issuer or the relevant Hedging Counterparty in order to enable the Issuer and/or the relevant Hedging Counterparty to comply with any requirements which apply to it under EMIR or Dodd-Frank or MiFID 2 (or comparable legislation in any jurisdiction to which the Issuer or the relevant Hedging Counterparty is subject), including any New EMIR Requirements or New Dodd-Frank Requirements or New MiFID 2 Requirements or New Turkish Law Regulatory Requirements (or comparable legislation in any jurisdiction to which the Issuer or the relevant Hedging Counterparty is subject), as applicable, in relation to the relevant Hedging Agreement, subject to the Issuer and/or the relevant Hedging Counterparty, as applicable, providing the Fiscal Agent and the Security Agent with written certification that the Issuer and/or the relevant Hedging Counterparty is only seeking to implement changes it considers appropriate to comply with EMIR or Dodd-Frank or MiFID 2 or New Turkish Law Regulatory Requirements (or comparable legislation

in any jurisdiction to which the Issuer and/or the relevant Hedging Counterparty is subject) or to meet the New EMIR Requirements or New Dodd-Frank Requirements or New MiFID 2 Requirements or New Turkish Law Regulatory Requirements (or comparable legislation in any jurisdiction to which the Issuer and/or the relevant Hedging Counterparty is subject), as applicable, together with any modification to any other Transaction Document(s) that may be necessary as a consequence of such modification to the relevant Hedging Agreement; *provided* that any modification or change to the payment instructions contained in such Hedging Agreement shall require the consent of the Security Agent (as directed by the Covered Bondholder Representative);

(d) amendments to any of the Transaction Documents (including a change in the definitions of Cover Pool, Cover Pool Asset, Individual Asset Eligibility Criteria, Substitute Asset Limit, Required Overcollateralisation Percentage and Statutory Test (and their corresponding subsidiary definitions)) (to the extent not otherwise permitted by the Transaction Documents, including per (a) and (b) above and (j) below) as a result of any amendment, restatement, modification or other change to the Turkish Covered Bonds Legislation; *provided* that: (i) the Issuer provides the Security Agent and the Fiscal Agent with written certification that the Issuer is only seeking to implement mandatory provisions of the Turkish Covered Bonds Legislation applicable to the Programme and (ii) each Relevant Rating Agency has been notified in writing of such amendment not less than 5 Business Days prior to the proposed amendment;

(e) amendments to effect the substitution of the Issuer in accordance with the provisions of the Covered Bonds Communiqué, together with any modification to any other Transaction Document that may be necessary as a consequence of such substitution;

(f) amendments to effect the appointment of a third party service provider (within the meaning of the Covered Bonds Communiqué) or an Administrator, together with the modification to any other Transaction Document that may be necessary for the sole purpose of enabling such third party service provider or Administrator to carry out its statutory duties and for no other purpose;

(g) amendments to effect the appointment or replacement of any Agent; *provided* that: (i) such appointment or replacement is otherwise made in accordance with the provisions of the relevant Transaction Documents applicable to such Agent and (ii) each Relevant Rating

Agency has been notified in writing of such amendment not less than 5 Business Days prior to the proposed amendment;

(h) amendments to effect the appointment of a replacement Cover Monitor to the Programme; *provided* that: (i) such appointment is otherwise made in accordance with the provisions of the Cover Monitor Agreement (if relevant) and the Covered Bonds Communiqué and (ii) each Relevant Rating Agency has been notified in writing of such amendment not less than 5 Business Days prior to the proposed amendment;

(i) amendments to any of the Transaction Documents to facilitate the inclusion of a guarantor or other enhancer for future Series of Covered Bonds, which amendment the Issuer certifies to the Security Agent and the Fiscal Agent is not materially prejudicial to the then-existing Covered Bondholders; *it being understood* that any such amendment that permits the guarantor/enhancer to: (i) receive its interest/premium/fee on a *pro rata* basis with interest on the Covered Bonds, (ii) receive interest and/or principal (or reimbursement for making a guaranty/enhancement payment for interest and/or principal) on a *pro rata* basis with interest and/or principal, as applicable, on the Covered Bonds, (iii) receive indemnities and other payments on a *pro rata* basis with similar payments to Covered Bondholders and (iv) be a Secured Creditor will not be considered to be materially prejudicial to the then-existing Covered Bondholders;

(j) amendments to the Individual Asset Eligibility Criteria as a result of the inclusion of additional Cover Pool Assets in the Programme or to comply with the Issuer's then current underwriting, servicing and collection procedures; *provided* that: (i) any such change is in compliance with the provisions of the Covered Bonds Communiqué, (ii) any requirements in the Transaction Documents as to the inclusion of additional Cover Pool Assets in the Programme are satisfied; and (iii) subject to the provisions described in "*Rating Agency Confirmation*" above, Rating Agency Confirmation has been obtained in respect of such amendment; and

(k) at any time after a change in applicable Turkish law (including in the Covered Bonds Communiqué) that permits the Additional Cover to be made available to some or all of the Other Secured Parties on a *pari passu* or priority basis to the Total Liabilities, any amendment to the Agency Agreement, the Security Assignment or any other Transaction Document to provide for such *pari passu* or priority treatment.

Any such amendment or modification shall be binding on the Agents, Covered Bondholders, Receiptholders, Couponholders and other Secured Creditors. Notwithstanding the above, such amendment and modification provisions do not apply to any Series Reserved Matter or Programme Reserved Matter.

Notwithstanding anything in the above to the contrary, any amendment or modification that decreases the rights of any Agent or the Security Agent (in their respective individual capacities), as applicable, or increases the obligations and/or liabilities of any Agent or the Security Agent, as applicable, shall require the consent of such Agent or the Security Agent, as applicable, which shall be in its sole discretion.

Any amendments, modifications or waivers in relation to the Conditions or the other Transaction Documents which are not covered by the above are, subject to the requirements for Programme Reserved Matters and Series Reserved Matters, required to be effected by Extraordinary Resolution and (except for waivers of compliance by the Issuer) require the consent of the Issuer.

"**Dodd-Frank**" means the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

"**MiFID 2**" means Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU and relevant regulations made under it.

"**New Dodd-Frank Requirements**" means provisions, rules, regulations, directions, processes, guidelines and procedures relating to Dodd-Frank (including, without limitation, any associated regulatory or implementing technical standards and advice, guidance or recommendations from relevant competent authorities) which have been clarified, updated, delivered, amended, modified or become operative or applicable on or after the Programme Closing Date.

"**New EMIR Requirements**" means provisions, rules, regulations, directions, processes, guidelines and procedures relating to EMIR (including, without limitation, any associated regulatory or implementing technical standards and advice, guidance or recommendations from relevant competent authorities or ESMA) which have been clarified, updated, delivered, amended, modified or become operative or applicable on or after the Programme Closing Date.

"**New MiFID 2 Requirements**" means provisions, rules, regulations, directions, processes, guidelines and procedures relating to MiFID 2 (including, without limitation, any associated regulatory or implementing technical standards and advice, guidance or recommendations from relevant competent authorities) which have been clarified, updated, delivered, amended, modified or become operative or applicable on or after the Programme Closing Date.

"**New Turkish Law Regulatory Requirements**" means provisions, rules, regulations, directions, processes, guidelines and procedures relating to any relevant (present or future) Turkish law regulatory requirements relating to derivatives (including, without limitation, in each case, any associated regulatory or implementing technical standards and advice, guidance or recommendations from relevant competent authorities) which have been enacted, clarified, updated, delivered, amended, modified or become operative or applicable on or after the Programme Closing Date.

See "*Description of Principal Documents – Agency Agreement – Amendments*".

**Issuer Events**..... The occurrence of any of the following events shall constitute an "**Issuer Event**":

(a) the Issuer fails to pay any interest (or any Additional Amounts) in respect of the Covered Bonds (including with respect to the Coupons) of any Series within a period of 14 İstanbul Business Days from the due date thereof;

(b) the Issuer fails to pay any principal in respect of the Covered Bonds of any Series (including any Receipts or Instalments, as applicable) within a period of seven İstanbul Business Days from the due date (including, in the case of a Series of Covered Bonds that is subject to an Extended Final Maturity Date, the applicable Final Maturity Date) thereof;

(c) the Issuer fails to perform or observe any of its obligations (other than any obligation for the payment of interest, Additional Amounts or principal due under the Covered Bonds, Receipts or Coupons of any Series) under the Agency Agreement, the Transaction Security Documents or any other Transaction Document to which the Issuer is a party which failure could reasonably be expected to have a materially prejudicial effect on the interests of the Covered Bondholders of any Series and the Issuer has received notice thereof from the Security Agent, and (except where such failure is, or the effects of such failure are, incapable of remedy, in which event no such continuation and notice as is hereinafter mentioned will be required) such failure continues for at least 30 days after the Issuer's receipt of such notice requiring such failure to be remedied;

(d) 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, in each of (i) through (iv), 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 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);

(e) 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 or any of its Material Subsidiaries ceases or threatens to cease to carry on the whole or substantially the whole of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Covered Bondholders; (iii) 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; (iv) 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 (v) the Issuer or any of its Material Subsidiaries: (A) takes any corporate action or other steps are taken by it or its regulators or legal proceedings are started by it or its regulators: (x) for its winding-up, dissolution, administration, bankruptcy or reorganisation (other than for the purposes of and followed by a reconstruction while solvent upon terms previously approved by an Extraordinary Resolution of Covered Bondholders) or (y) for the appointment of a liquidator, receiver, administrator, administrative receiver, trustee or similar officer of it or any substantial part or all of its revenues and assets or (B) shall or propose to make a general assignment for the benefit of its creditors or shall enter into any composition with its creditors, in each case in sub-paragraphs (i) to (v) above, save for the solvent voluntary winding-up, dissolution or reorganisation of any Material Subsidiary in connection with any combination with, or transfer of all or substantially all of its business and/or assets to,

the Issuer or one or more other Subsidiary(ies) of the Issuer;

(f) if the banking licence of the Issuer is temporarily or permanently revoked or management of the Issuer is taken over by the Savings Deposit Insurance Fund or other public institution (within the meaning of the Covered Bonds Communiqué) under the provisions of the Banking Law (Law No. 5411) of Turkey; or

(g) a Breach of Statutory Test.

Notwithstanding anything in the Transaction Documents to the contrary, in the case of Covered Bonds where the applicable Final Terms provide that the Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past the Final Maturity Date until the Extended Final Maturity Date, the failure by the Issuer to pay the Principal Amount Outstanding on such Covered Bond on the Final Maturity Date shall (if not cured by the end of the applicable cure period) constitute an Issuer Event and shall not constitute an Event of Default.

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

(a) any notes, bonds, debentures, debenture stock, loan stock or other securities;

(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 which itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer relate, are equal to) not less than 15% 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: (i) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries relate or (ii) in the case of any such Subsidiary for which its then latest relevant audited accounts, at the time of such acquisition, are not

prepared in accordance with IFRS, the reference to the then latest audited consolidated IFRS financial statements of the Issuer and the relevant then latest audited IFRS financial statements of such Subsidiary for the purposes of the calculation above shall, until consolidated or, as the case may be, IFRS accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such consolidated IFRS financial statements of the Issuer as if such Subsidiary had been shown in those financial statements by reference to such Subsidiary's then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer (including to reflect a conversion of such accounts into IFRS if the then latest relevant audited accounts of such Subsidiary were not prepared in accordance with IFRS);

(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; *it being understood* 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) until the earlier of: (i) any transfer by it as described in this sub-paragraph (b), in which event this sub-paragraph (b) shall apply, and (ii) the date of publication of any of the Issuer's future 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% of the consolidated total assets of the Group taken as a whole (calculated as set out in sub-paragraph (a) above); *it being understood* that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless, immediately following such transfer, its assets represent (or, in the case aforesaid, are equal to) not less than 15% of the consolidated total assets of the Group (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 Group's next audited IFRS consolidated financial statements, save that such transferor Subsidiary or such transferee Subsidiary may be (or cease to 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 of the Issuer is or is not or was or was not (as applicable) at any particular time a Material Subsidiary will, in the absence of manifest error, be conclusive and binding on all parties; *it being understood* that such is not the only method of determining whether a Subsidiary of the Issuer is or is not or was or was not a Material Subsidiary.

"**Coupons**" means interest coupons in respect of Bearer Definitive Covered Bonds.

"**Receipt**" means a receipt for the payment of Instalments of principal (other than the final Instalment) attached on issue to Bearer Definitive Covered Bonds repayable in Instalments, such receipt being substantially in the form set out in the Agency Agreement or in such other form as may be agreed among the Issuer, the Fiscal Agent and the relevant Dealer(s) or Lead Manager (in the case of syndicated issues) or (in the case of a private placement) the relevant Covered Bondholder(s), and includes any replacements for Receipts issued pursuant to Condition 11 (*Replacement of Covered Bonds, Receipts, Coupons and Talons*).

"**Lead Manager**" means, in relation to any Tranche of Covered Bonds, the person named as the Lead Manager in the applicable Subscription Agreement or, when only one Dealer signs such Subscription Agreement, such Dealer.

**Authorised Investments**..... Pursuant to the Offshore Bank Account Agreement, the Issuer is entitled to draw sums from time to time standing to the credit of the Non-TL Designated Account(s) maintained with the Offshore Account Bank for purchasing Authorised Investments. For the avoidance of doubt: (a) Hedge Collateral and/or amounts standing to the credit of the Hedge Collateral Account(s) may not be used to purchase Authorised Investments; *however* Hedge Collateral can be provided in assets other than cash (*e.g.*, securities), (b) amounts standing to the credit of the Non-TL Hedge Collection Account(s) may not be used to purchase Authorised Investments and (c) amounts standing to the credit of the Agency Account may be used to purchase Authorised Investments only in the manner described in the Offshore Bank Account Agreement.

"**Authorised Investments**" means: (a) government and public securities; and (b) demand or time deposits, certificates of deposits and short-term debt obligations; *provided* that all such Authorised Investments meet the: (i) requirements for eligible assets that can be Substitute Assets, (ii) criteria (which are commensurate with the then current rating of the highest-rated Tranche of Covered Bonds rated by such Relevant Rating

Agency) of the applicable Relevant Rating Agency (and should there be more than one Relevant Rating Agency, then any such investment must satisfy each of the applicable above minimum rating requirements) and (iii) requirement that they are denominated in the same currency as the currency of the applicable Offshore Bank Account.

**ACCOUNTS AND CASH FLOW STRUCTURE:**

**Collection Account** ..... On or about the Programme Closing Date, a Turkish Lira-denominated segregated account has been established, and has thereafter been maintained, at the Bank (the "**Collection Account**").

So long as an Issuer Event or Event of Default does not exist, the Bank will deposit within one İstanbul Business Day of receipt all collections of interest and principal and any other amounts it receives on the Cover Pool Assets denominated in Turkish Lira (including all moneys received from Authorised Investments denominated in Turkish Lira, if any), other than payments under Hedging Agreements (if any) included in the Cover Pool Assets, into the Collection Account. The Bank will not commingle any of its other funds and general assets (including any Related Payments) with amounts standing to the credit of the Collection Account. Cash amounts standing to the credit of the Collection Account (and investments made with such amounts) shall not comprise part of the Cover Pool for the purposes of the Statutory Tests.

All amounts deposited in, and standing to the credit of, the Collection Account shall constitute segregated property distinct from all other property of the Bank pursuant to Article 13 of the Covered Bonds Communiqué.

Unless an Issuer Event of the type described in sub-paragraphs (a) through (f) of the definition thereof or an Event of Default is then continuing, the Bank will be entitled to withdraw amounts from time to time standing to the credit of the Collection Account, if any, that (if such amounts were transferred to the TL Designated Account) would result in there being funds that are in excess of any cash amounts required to satisfy the Statutory Tests (for the avoidance of doubt, the Issuer shall not withdraw any amount from such accounts if a Potential Breach of Statutory Test is continuing on the applicable withdrawal date).

**Designated Account(s)** ..... On or about the Programme Closing Date, a segregated TL-denominated account has been established, and has thereafter been maintained, at the Bank (the "**TL Designated Account**").

Pursuant to Article 26(4) of the Covered Bonds Communiqué, where the Cover Monitor determines that the Issuer has not satisfied the conditions specified in Article 26(3) of the Covered Bonds Communiqué, it shall submit a notice to the debtors of the Mortgage Assets, notifying them that they have to make their payments to an account, which is not held with the Issuer and which does not belong to the Issuer, within the

scope of Article 13(8) of the Covered Bonds Communiqué, or to take equivalent measures approved by the CMB.

With respect to payments made to the Issuer on Substitute Assets in currencies other than Turkish Lira, the applicable accounts shall be located outside Turkey and maintained at the Offshore Account Bank. A separate account will be established for each such applicable currency (such accounts together being the "**Non-TL Designated Account(s)**", and together with the TL Designated Account, the "**Designated Account(s)**") in the name of the Issuer. Notwithstanding the above, such payments may be payable directly to the Issuer (including within Turkey and/or through a clearing system such as Euroclear or Clearstream); *provided* that the Issuer shall transfer (within two İstanbul Business Days of receipt) all such amounts to the applicable Non-TL Designated Account(s).

Unless an Issuer Event of the type described in sub-paragraphs (a) through (f) of the definition thereof or an Event of Default is then continuing, the Issuer will be entitled to withdraw amounts from time to time standing to the credit of the relevant Designated Account(s), if any, that are in excess of any cash amounts required to satisfy the Statutory Tests; *provided* that the Issuer shall not be entitled to withdraw amounts from the Non-TL Designated Account(s) during the continuance of a Transferability and Convertibility Event other than in accordance with the provisions of the Calculation Agency Agreement and the Offshore Bank Account Agreement to pay Secured Creditors (for the avoidance of doubt, the Issuer shall not withdraw any amount from such accounts if a Potential Breach of Statutory Test is continuing on the applicable withdrawal date).

"**Transferability and Convertibility Event**" means, with respect to any Series:

(a) the occurrence of any event that is continuing on an İstanbul Business Day that generally makes it impossible to convert Turkish Lira into the applicable Specified Currency in Turkey through customary legal channels; and/or

(b) the occurrence of any event that is continuing on an İstanbul Business Day that generally makes it impossible to deliver: (i) Turkish Lira or the applicable Specified Currency from accounts inside Turkey to accounts outside Turkey or (ii) Turkish Lira or the applicable Specified Currency between accounts inside Turkey to a party that is a non-resident of Turkey;

*provided* that where such impossibility to convert or deliver (as described in sub-paragraphs (a) and (b) above) arises as a direct result of force majeure (including earthquake, but excluding any governmental action or laws that result in either (a) or (b) above), a Transferability and Convertibility Event

shall only occur if the impossibility to convert or deliver continues for longer than 10 İstanbul Business Days.

After the occurrence of a Potential Breach of Statutory Test or an Issuer Event, the Issuer shall procure that within two İstanbul Business Days of its detection thereof (and on each İstanbul Business Day thereafter for so long as such Potential Breach of Statutory Test or Issuer Event is continuing), all amounts on deposit in the Collection Account are transferred to the TL Designated Account. The Issuer will not commingle any of its other funds and general assets with amounts standing to the credit of the TL Designated Account.

During the continuance of an Issuer Event or an Event of Default, the Designated Account(s) will be the bank account(s) used for the crediting of, *inter alia*, amounts standing to the credit of the Collection Account or in respect of the Cover Pool Assets (other than Hedging Agreements and Hedge Collateral) and to make payments under the Covered Bonds, including:

(a) amounts in the Collection Account transferred to the TL Designated Account as described above;

(b) any amounts (to the extent part of the Cover Pool) received by the Issuer in respect of the Mortgage Assets; *it being understood* that such does not include Related Payments;

(c) any amounts received in respect of Authorised Investments made from funds in the applicable Designated Account(s);

(d) any amounts credited into the applicable Designated Account(s) by the Issuer from its own funds for effecting payments on the Covered Bonds; and

(e) any amounts transferred by the Issuer or the Administrator, as applicable, in connection with the sale of Cover Pool Assets.

**Non-TL Hedge Collection Account(s)** ..... With respect to payments on the Hedging Agreements in currencies other than Turkish Lira, a separate account (each such account being a "**Non-TL Hedge Collection Account**") will be established and maintained pursuant to the Offshore Bank Account Agreement for each applicable currency with the Offshore Account Bank in the name of the Security Agent for the benefit of and on trust for the Secured Creditors; *it being understood* that a transfer or delivery of Hedge Collateral is not a payment on a Hedging Agreement. Payments that are not in Turkish Lira made by the Hedging Counterparties to the Issuer under each Hedging Agreement will be credited to the relevant Non-TL Hedge Collection Account.

**Hedge Collateral Account(s)** ..... With respect to credit support provided by Hedging Counterparties to the Issuer pursuant to the Hedging Agreements, a separate account (each such account being a "**Hedge Collateral Account**") will be established and

maintained pursuant to the Offshore Bank Account Agreement for each applicable currency (other than Turkish Lira) and for each applicable Hedging Counterparty in respect of each relevant Hedging Agreement with the Offshore Account Bank in the name of the Security Agent for the benefit of and on trust for the Secured Creditors (to the extent such Hedge Collateral does not constitute Excess Hedge Collateral) and for the benefit of and on trust for the relevant Hedging Counterparty (to the extent such Hedge Collateral constitutes Excess Hedge Collateral). Hedge Collateral provided to the Issuer by a Hedging Counterparty under a Hedging Agreement shall be credited to the relevant Hedge Collateral Account.

"**Hedge Collateral**" means, at any time, any asset or right (including, without limitation, cash and/or securities) which is paid, transferred or pledged by a Hedging Counterparty to (or for the benefit of) the Issuer as collateral in respect of the performance by such Hedging Counterparty of its obligations under the relevant Hedging Agreement, together with any income or distributions received in respect of such asset or right and any equivalent of such asset or right into which such asset or right is transformed.

All amounts deposited in, and standing to the credit of, a Designated Account and the Hedge Collateral Account(s) shall constitute segregated property distinct from all other property of the Bank pursuant to Article 13 of the Covered Bonds Communiqué.

**Events of Default** ..... An "**Event of Default**" arises if one of the following events occurs and is continuing:

(a) the Issuer fails to pay any interest (or any Additional Amounts) in respect of the Covered Bonds (including with respect to the Coupons) of any Series within a period of 14 İstanbul Business Days from the due date thereof; or

(b) on the Final Maturity Date (in the case of Covered Bonds which are not subject to an Extended Final Maturity Date) or Extended Final Maturity Date (in the case of Covered Bonds which are subject to an Extended Final Maturity Date), as applicable, in respect of any Series there is a failure to pay any amount of principal due on such Covered Bonds on such date and such default is not remedied within a period of seven İstanbul Business Days from the due date thereof.

At any time following the occurrence of any Event of Default and for so long as such Event of Default is continuing, the Security Agent, acting as directed by the Covered Bondholder Representative, may serve a notice of default on the Issuer (such notice, a "**Notice of Default**"), upon the Issuer's receipt of which the Covered Bonds of each Series shall become immediately due and payable.

In such circumstances, interest shall continue to accrue on any Covered Bond which has not been redeemed and any payments of interest or principal in respect of such Covered Bond shall be made until the date on which such Covered Bond is cancelled or redeemed.

In the case of Soft Bullet Covered Bonds where the applicable Final Terms provide that the Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past such Final Maturity Date until the applicable Extended Final Maturity Date, the failure by the Issuer to pay the Principal Amount Outstanding on such Soft Bullet Covered Bonds on such Final Maturity Date shall not constitute an Event of Default but shall constitute an Issuer Event.

**Cover Monitor Agreement** ..... Under the terms of the cover monitor agreement (*Teminat Sorumlusu Sözleşmesi*) entered into on the Programme Closing Date between the Cover Monitor and the Issuer (the "**Cover Monitor Agreement**"), the Cover Monitor has agreed to carry out various testing and notification duties in relation to the calculations performed by the Issuer in relation to the Statutory Tests. The Cover Monitor Agreement is executed in Turkish.

The Cover Monitor Agreement is governed by Turkish law.

**Security Assignment** ..... The Issuer has assigned to the Security Agent its rights arising under the Hedging Agreements (to the extent governed by the laws of England) and the other English law-governed Transaction Documents (other than the Security Assignment and any deed expressed to be supplemental to the Security Assignment) pursuant to a security assignment entered into on the Programme Closing Date (the "**Security Assignment**").

The Security Assignment is governed by the laws of England.

**Agency Agreement** ..... Under the terms of an agency agreement dated the Programme Closing Date among the Issuer, the Agents and the Security Agent (the "**Agency Agreement**"), the Agents have each agreed to provide the Issuer with certain agency services. In particular, each Paying Agent has agreed to hold available for inspection at its specified office during normal business hours copies of all documents required to be so available by the Conditions of any Covered Bonds or the rules of any relevant Stock Exchange (or any other relevant authority). For these purposes, the Issuer shall provide the Paying Agents with sufficient copies of each of the relevant documents.

The Agency Agreement is governed by the laws of England.

**Deed of Covenant**..... The Covered Bondholders are entitled to the benefit of a deed of covenant dated the Programme Closing Date executed as a deed by the Issuer in favour of certain accountholders with DTC, Euroclear, Clearstream, Luxembourg and any other agreed clearing system (the "**Deed of Covenant**"). The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

The Deed of Covenant is governed by the laws of England.

**Offshore Bank Account Agreement**..... Under the terms of the bank account agreement dated the Programme Closing Date among the Issuer, the Offshore Account Bank and the Security Agent (the "**Offshore Bank Account Agreement**"), the Offshore Account Bank has agreed to open and maintain the Offshore Bank Accounts.

**Hedging Agreements**..... The Issuer may, from time to time, enter into hedging agreements that satisfy the requirements of Article 11 of the Covered Bonds Communiqué (the "**Hedging Agreements**") with one or more Hedging Counterparty(ies) to hedge certain interest rate and currency risks associated with the Mortgage Assets which form part of the Cover Pool and/or the Covered Bonds and where the relevant Hedging Counterparties benefit from the Statutory Segregation over the Cover Pool Assets. The Hedging Counterparties will act pursuant to the relevant Hedging Agreements and the Issuer's rights under each Hedging Agreement shall form part of the Cover Pool.

Hedging agreements that do not satisfy the requirements of Article 11 of the Covered Bonds Communiqué will not form part of the Cover Pool and hedging counterparties to such hedging agreements will not benefit from the Statutory Segregation over the Cover Pool Assets.

Where a Hedging Counterparty provides Hedge Collateral to the Issuer in accordance with the terms of a Hedging Agreement, such collateral will be credited to the relevant Hedge Collateral Account. Any Hedge Collateral applied in satisfying any termination payments payable by the Hedging Counterparty to the Issuer in respect of the relevant Hedging Agreement may be applied by the Security Agent in satisfaction of the Secured Obligations owed to the Secured Creditors. Excess Hedge Collateral standing to the credit of the Hedge Collateral Account(s) shall not be available to Secured Creditors (other than to the relevant Hedging Counterparty) and shall be returned to the relevant Hedging Counterparty.

The Hedging Agreements included in the Cover Pool shall be governed by the laws of England (unless specified otherwise in the applicable Hedging Agreement).

"**Currency Hedging Agreement**" means an agreement among the Issuer, the relevant Currency Hedge Provider and the Security Agent governing a foreign exchange transaction (including, without limitation, an option or forward) in the form of: (a) an ISDA Master Agreement, including a schedule

and one or more confirmations and a credit support annex; (b) a foreign exchange facility or line; or (c) an analogous market agreement for the purchase or sale (or hedge) of foreign currencies.

"**Interest Rate Hedging Agreement**" means an agreement among the Issuer, the relevant Interest Rate Hedge Provider and the Security Agent governing an interest rate hedge in the form of an ISDA Master Agreement, including (as applicable) a schedule, one or more confirmation(s) and a credit support annex.

**Transaction Documents**..... The Programme Agreement, the Agency Agreement, the Security Agency Agreement, the Transaction Security Documents, the Calculation Agency Agreement, the Offshore Bank Account Agreement, the Cover Monitor Agreement, the Master Definitions and Construction Schedule, the Hedging Agreements, the Deed Poll, the Deed of Covenant, the Conditions, the Covered Bonds, the Receipts, the Coupons, each of the Final Terms, each Subscription Agreement and each custody agreement entered into from time to time in connection with the holding of any Authorised Investments, together with any other agreement or document entered into in respect of the Covered Bonds and/or the Cover Pool and designated as a Transaction Document by the Issuer and the Security Agent, are together referred to as the "**Transaction Documents**".

**"Subscription Agreement**" means an agreement (by whatever name called) in or substantially in the form set out in the Programme Agreement or in such other form as may be agreed between the Issuer and the Lead Manager (named therein) or one or more Dealer(s) (as the case may be) or (in the case of a private placement) the relevant Covered Bondholder(s).

**Investor Report** ..... On or before the İstanbul Business Day which falls 25 days after the expiration of each Collection Period (each an "**Investor Report Date**"), the Issuer will produce an investor report (the "**Investor Report**") which will contain information regarding the Covered Bonds and the Cover Pool Assets, including statistics relating to the financial performance of the Cover Pool Assets for the immediately preceding Collection Period. Such report will be available to prospective investors in the Covered Bonds and to Covered Bondholders on Bloomberg and on the Issuer's website www.garantiinvestorrelations.com.

"**Collection Period**" means the period from (and including) the first calendar day of a calendar month (or, in the case of the first collection period, the Programme Closing Date) to (and including) the last calendar day of such calendar month; *provided* that, in the event that the first collection period would be for a duration of less than 15 days (but for the operation of this proviso) the first collection period means the period from and including the Programme Closing Date to (and including) the last calendar day of the second calendar month following the Programme Closing Date.

## FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in bearer form (with or without interest coupons attached), registered form (without interest coupons attached) or dematerialised form. Bearer Covered Bonds will be issued to non-U.S. persons in reliance upon Regulation S and Registered Covered Bonds will be issued both in "offshore transactions" to non-U.S. persons in reliance upon the exemption from registration provided by Regulation S, to QIBs in reliance upon Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act. Turkish Dematerialised Covered Bonds will be issued through the Central Registry System.

In accordance with the Covered Bonds Communiqué (by reference to the Communiqué on Debt Instruments), the Covered Bonds are required under Turkish law to be issued in an electronically registered form in the Central Registry Agency and the interests therein recorded in the Central Registry Agency; *however*, upon the Issuer's request, the CMB may resolve to exempt the Covered Bonds from this requirement if the Covered Bonds are to be issued outside of Turkey. Further to the request of the Issuer, such exemption was granted by the CMB in the CMB Approval. As a result, this requirement will not be applicable to the Covered Bonds. Notwithstanding such exemption, the Issuer is required to notify the Central Registry Agency within three Turkish business days from the Issue Date of the amount, Issue Date, ISIN code, term commencement date, maturity date, interest rate, name of the custodian and currency of the Covered Bonds and the country of issuance.

**Bearer Covered Bonds**

Each Tranche of Bearer Covered Bonds will be initially issued in the form of a temporary global covered bond (a "**Temporary Bearer Global Covered Bond**") or, if so specified in the applicable Final Terms, a permanent global covered bond (a "**Permanent Bearer Global Covered Bond**" and, together with a Temporary Bearer Global Covered Bond, each a "**Bearer Global Covered Bond**"), which, in either case, will:

(a) if the Bearer Global Covered Bonds are issued in new global covered bond ("**NGCB**") form, as stated in the applicable Final Terms, be delivered on or prior to the original Issue Date of the Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear and Clearstream, Luxembourg; and

(b) if the Bearer Global Covered Bonds are not issued in NGCB form, be delivered on or prior to the original Issue Date of the Tranche to a common depositary (the "**Common Depositary**") for, Euroclear and Clearstream, Luxembourg.

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

Whilst any Bearer Covered Bond is represented by a Temporary Bearer Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of such Covered Bonds will only be made (against presentation of such Temporary Bearer Global Covered Bond if such Temporary Bearer Global Covered Bond is not issued in NGCB form) if certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Bearer Global Covered Bond 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.

On and after the date (the "**Exchange Date**") that is 40 days after a Temporary Bearer Global Covered Bond is issued, interests in such Temporary Bearer Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for: (a) interests in a Permanent Bearer Global Covered Bond of the same Series or (b) definitive Bearer Covered Bonds of the same Series with, where applicable, interest coupons, receipts and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given; *provided* that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Covered Bonds. The holder of a Temporary Bearer Global Covered Bond (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 Covered Bond for an interest in a Permanent Bearer Global Covered Bond or for definitive Bearer Covered Bonds is improperly withheld or refused.

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

The applicable Final Terms will specify that a Temporary Bearer Global Covered Bond or a Permanent Bearer Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, interest coupons and talons attached upon either: (a) not less than 60 days' written notice given at any time from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) to the Fiscal Agent as described therein or (b) only upon the occurrence of an Exchange Event or (c) at any time at the request of the Issuer. For these purposes, "**Exchange Event**" means that: (i) an Event of Default (as defined in Condition 10 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences that would not be suffered were the Covered Bonds represented by the Permanent Bearer Global Covered Bond in definitive form. The Issuer will promptly give notice to the applicable Covered Bondholders in accordance with Condition 14 (*Notices*) upon the occurrence of an Exchange Event.

In the event of the occurrence of any Exchange Event described in sub-paragraph (i) or (ii) in the definition thereof, one or more of the relevant Clearing Systems or the common safekeeper for the relevant Clearing Systems (if the applicable Final Terms indicates that the applicable Global Covered Bond is a New Global Covered Bond) or the common depositary (if the applicable Final Terms indicates that the applicable Global Covered Bond is not a New Global Covered Bond) on their behalf acting on the instructions of any holder of an interest in the applicable Global Covered Bond may give notice to the Fiscal Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in paragraph (iii) in the definition thereof, the Issuer may also 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.

In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or the common depositary or the common safekeeper for Euroclear and Clearstream, Luxembourg, as the case may be, on their behalf (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) may give notice to the Fiscal Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

The following legend will appear on all Bearer Covered Bonds (other than Temporary Bearer Global Covered Bonds or Bearer Covered Bonds issued in compliance with TEFRA C) that have an original maturity of more than 365 days and on all interest coupons relating to such Covered Bonds:

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

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

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

**Bearer Covered Bonds 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 Covered Bonds**

The Registered Covered Bonds 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 covered bond in registered form (a "**Regulation S Registered Global Covered Bond**") or, if so specified in the applicable Final Terms, by a registered covered bond in definitive form (a "**Definitive Regulation S Registered Covered Bond**"). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Covered Bonds, Registered Covered Bonds offered and sold in reliance on Regulation S (including Definitive Regulation S Registered Covered Bonds) or beneficial interests therein may not be offered or sold to, or for the account or benefit of, a U.S. person except as otherwise provided in Condition 2 (*Transfers of Registered Covered Bonds*) and such beneficial interests in a Regulation S Registered Global Covered Bond may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Covered Bonds will bear a legend regarding such restrictions on transfer.

The Registered Covered Bonds (or beneficial interests therein) of each Tranche offered and sold in the United States or to, or for the account or benefit of, U.S. persons may only be offered and sold by the Issuer or any person acting on its behalf: (a) to QIBs, (b) to Institutional Accredited Investors who execute and deliver an IAI Investment Letter in which they agree to purchase the Covered Bonds for their own account and not with a view to the distribution thereof or (c) in transactions that are otherwise exempt from the registration requirements of the Securities Act. The Registered Covered Bonds of each Tranche sold to QIBs pursuant to Rule 144A will be represented by a global covered bond in registered form (a "**Rule 144A Global Covered Bond**") or, if so specified in the applicable Final Terms, by a registered covered bond in definitive form.

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

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

The Registered Covered Bonds of each Tranche sold to Institutional Accredited Investors in reliance on Section 4(a)(2) of the Securities Act will be in definitive form, registered in the name of the holder thereof ("**Definitive IAI Registered Covered Bonds**") or, if so specified in the applicable Final Terms, by a global covered bond in registered form (an "**IAI Global Covered Bond**" and, together with a Rule 144A Global Covered Bond and a Regulation S Registered Global Covered Bond, each a "**Registered Global Covered Bond**"). An interest in an IAI Global Covered Bond sold to an Institutional Accredited Investor will only be transferable to QIBs or to non-U.S. persons in offshore transactions, in accordance with the legends regarding restrictions on transfer set out under "*Subscription and Sale and Transfer and Selling Restrictions*", until that date that is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such securities. Unless otherwise set forth in the applicable Final Terms, Definitive IAI Registered Covered Bonds will be issued, and interests in a Rule 144A Global Covered Bond may be purchased, only in minimum denominations of US$500,000 and integral multiples of US$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Covered Bonds and interests in Global Covered Bonds will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under "*Subscription and Sale and Transfer and Selling Restrictions*". Institutional Accredited Investors that hold Definitive IAI Registered Covered Bonds may not elect to hold such Covered Bonds through DTC, Euroclear or Clearstream, Luxembourg.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5.4 (*Payments in Respect of Registered Covered Bonds*)) as the registered holder of the Registered Global Covered Bonds on the relevant Record Date. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5.4 (*Payments in respect of Registered Covered Bonds*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bond will be exchangeable in whole but not in part (free of charge) for Registered Definitive Covered Bonds without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that: (a) an Event of Default has occurred and is continuing, (b) in the case of Covered Bonds registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depositary for the Covered Bonds 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 Covered Bonds registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing

system is available, or (d) the Issuer has or will become subject to adverse tax consequences that would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond.

The Issuer will promptly give notice to the applicable Covered Bondholders in accordance with Condition 14 (*Notices*) upon the occurrence of an Exchange Event. In the event of the occurrence of any Exchange Event described in sub-paragraph (a) or (b) in the definition thereof, the applicable Clearing System(s) or any person acting on its/their behalf, acting on the instructions of any holder of an interest in the applicable Global Covered Bond, may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in sub-paragraph (c) above, the Issuer may also give notice to the Registrar requesting exchange. Any exchange shall occur no later than 45 days after the date of receipt of the relevant notice by the Registrar.

**Transfer of Interests**

Interests in a Registered Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Covered Bond or, upon the delivery of an IAI Investment Letter, in the form of a Definitive IAI Registered Covered Bond and Definitive IAI Registered Covered Bonds may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Covered Bonds in the form of an interest in a Registered Global Covered Bond. No beneficial owner of an interest in a Registered Global Covered Bond 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 Covered Bonds 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***".

**Turkish Dematerialised Covered Bonds**

Turkish Dematerialised Covered Bonds (which are Registered Covered Bonds) are issued in uncertificated, dematerialised (*kaydi*) form registered with the Central Registry System and will be wholly and exclusively deposited with Turkish Custodians in accordance with Article 13 of the Capital Markets Law and the Turkish Covered Bonds Legislation.

Title to Turkish Dematerialised Covered Bonds will be evidenced by the book-entry system maintained by the Central Registry Agency and the account records with the relevant Turkish Custodian and in accordance with the provisions of the Capital Markets Law and the Turkish Covered Bonds Legislation. No certificate or physical document of title will be issued in respect of the Turkish Dematerialised Covered Bonds.

Turkish Dematerialised Covered Bonds will be transferable by means of book-entries in accordance with the procedures for the time being of the Central Registry System and the provisions of the Turkish Covered Bonds Legislation.

**General**

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

A Covered Bond may be accelerated by the holder thereof in certain circumstances described in Condition 10 (*Events of Default*). In such circumstances, where any Covered Bond is still represented by a Global Covered Bond and the Global Covered Bond (or any part thereof) has become due and

repayable in accordance with the Conditions of such Covered Bonds and payment in full of the amount due has not been made in accordance with the provisions of the Global Covered Bond, then from 8.00 p.m. (London time) on the day immediately following the applicable due date, holders of interests in such Global Covered Bond credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and DTC on and subject to the terms of the Deed of Covenant.

The Issuer may agree with any Dealer or Covered Bondholder that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds 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 Covered Bonds.

## FORM OF APPLICABLE FINAL TERMS

*Set out below is the form of Final Terms that, subject to any necessary amendment, will be completed for each Tranche of Covered Bonds issued under the Programme. Text in this section appearing in italics does not form part of the Final Terms but denotes directions for completing the Final Terms.*

[Date]

**TÜRKİYE GARANTİ BANKASI A.Ş.**

**Issue of [Aggregate Principal Amount of Tranche] [Title of Covered Bonds] (the "Covered Bonds")**
**under the €5,000,000,000**
**Global Covered Bond Programme**

**PART A - CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the base prospectus dated 15 May 2015 [and the supplement[s] to it dated [*date*] [and [*date*]]], which [together] constitute[s] a base prospectus [for the purposes of the Prospectus Directive] [1] (the "**Base Prospectus**"). This document constitutes the Final Terms of the Covered Bonds described herein [for the purposes of Article 5.4 of the Prospectus Directive][1] and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Issuer's website (https://www.garantiinvestorrelations.com/en/images/pdf/CoveredBondBaseProspectus-May2015.pdf).

[*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*.]

[*If the Covered Bonds 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*.]

| | | | |
|---|---|---|---|
| 1. | Issuer: | | Türkiye Garanti Bankası A.Ş. |
| 2. | (a) | Series Number: | [●] |
| | (b) | Tranche Number: | [●] |
| | (c) | Date on which the Covered Bonds will be consolidated and form a single Series: | The Covered Bonds will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Bearer Global Covered Bond for interests in the Permanent Bearer Global Covered Bond, as referred to in paragraph [●] below, which is expected to occur on or about [*date*]][Not Applicable] |
| 3. | Specified Currency: | | [●] |

[1] *Delete where the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive.*

| | | | |
|---|---|---|---|
| 4. | USD Payment Election: | | [Applicable/Not Applicable]<br><br>*(Only applicable for Turkish Lira-denominated Covered Bonds.)* |
| 5. | Aggregate Principal Amount: | | |
| | (a) | Series: | [●] |
| | (b) | Tranche: | [●] |
| 6. | Issue Price: | | [●] *per cent.* of the Aggregate Principal Amount of the Tranche [*plus* accrued interest from [*insert date*] (*if applicable*)] |
| 7. | (a) | Specified Denominations: | [●]<br><br>(*Note — where multiple denominations above* [*€100,000*] *or equivalent are being used, the following sample wording should be followed:*<br><br>"*[€100,000] and integral multiples of* [*€1,000*] *in excess thereof up to and including* [*€199,000*]. *No Covered Bonds in definitive form will be issued with a denomination above [€199,000]*.") |
| | (b) | Calculation Amount: | [●]<br><br>(*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.*) |
| | (c) | Redenomination: | [●]<br><br>(*Insert relevant provisions for redenomination of Covered Bonds issued in a Specified Currency other than euro to euro.*) |
| 8. | (a) | Issue Date: | [●] |
| | (b) | Interest Commencement Date: | [*specify*/Issue Date/Not Applicable] |
| 9. | (i) | Final Redemption: | |
| | | (a) Final Maturity Date: | [*Fixed rate – specify date/Floating rate* – Interest Payment Date falling in or nearest to [*specify month and year*]] |
| | | (b) Extended Final Maturity Date: | [Applicable/Not Applicable]<br><br>[*Insert Date if Applicable*]<br><br>Notwithstanding anything in the Transaction Documents to the contrary, where Extended Final Maturity Date is Applicable, the failure by the Issuer to pay the Principal Amount Outstanding in respect of this Series on the Final Maturity Date |

| | | | |
|---|---|---|---|
| | | | shall (if not cured by the end of the applicable cure period) not constitute an Event of Default, but shall constitute an Issuer Event. |
| | | (c) Extended Series Payment Date: | *[Insert relevant dates. Should correspond with Interest Payment Dates]* |
| | (ii) | Instalment Covered Bonds: | [Applicable/Not Applicable]. |
| | | (a) Instalment Amounts: | [●] |
| | | (b) Instalment Dates: | [●] |
| 10. | Interest Basis: | | [[●] *per cent*. Fixed Rate]<br><br>[[●] month [[currency] LIBOR/EURIBOR/TRYIBOR]] +/- [●] *per cent*. Floating Rate]<br><br>(*see paragraph* [*16*]*/[17*] *below*) |
| 11. | Redemption[/Payment] Basis: | | Subject to any purchase and cancellation or early redemption, the Covered Bonds will be redeemed on the Maturity Date [(or, as applicable, Extended Final Maturity Date)] at [●] *per cent*. of their nominal amount. |
| 12. | Change of Interest Basis: | | [For the period from (and including) the Interest Commencement Date, up to (but excluding) [●], paragraph [16/17] below applies, and, for the period from (and including) [●] up to (and including) the Maturity Date, paragraph [16/17] below applies]/[Not Applicable][●]] |
| 13. | Issuer Call: | | [Applicable/Not Applicable].<br><br>[(*see paragraph 19 below*)] |
| 14. | (a) | Status of the Covered Bonds: | Senior |
| | (b) | Date Board approval for issuance of Covered Bonds obtained: | [●] [Not Applicable] (*N.B. Only relevant where Board* (*or similar*) *authorisation is required for the particular Tranche of Covered Bonds*) |
| 15. | Payment Date: | | [●]<br><br>(*each Payment Date for a Series must also be an Interest Payment Date*) |

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

| | | | |
|---|---|---|---|
| 16. | Fixed Rate Covered Bond Provisions | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (a) | Rate(s) of Interest: | [●] *per cent. per annum* payable in arrear on each Interest Payment Date |
| | (b) | Interest Payment Date(s): | [●] [and [●]] in each year up to and including the |

| | | | |
|---|---|---|---|
| | | | Maturity Date<br><br>(*Amend appropriately in the case of irregular coupons*) |
| | (c) | Interest Periods: | [Adjusted/Not Adjusted] |
| | (d) | Business Day Convention: | [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable] |
| | (e) | Additional Business Centre(s): | [[[●]/Not Applicable]] |
| | (f) | Fixed Coupon Amount(s):<br><br>(*Applicable to Covered Bonds in definitive form*) | [[●] per Calculation Amount] [Not Applicable] |
| | (g) | Broken Amount(s):<br><br>(*Applicable to Covered Bonds in definitive form*) | [[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]][Not Applicable] |
| | (h) | Day Count Fraction: | [30/360 (Fixed)]<br>[Actual/Actual (ICMA)] |
| | (i) | [Determination Date(s): | [[●] in each year][Not Applicable]<br><br>(*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*) |
| 17. | Floating Rate Covered Bond Provisions | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (a) | Specified Period(s)/Specified Interest Payment Dates: | [●][[●] subject to adjustment in accordance with the Business Day Convention set out in (b) below/[●], not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable] |
| | (b) | Business Day Convention: | [Floating Rate Convention/Following Business<br><br>Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention][Not Applicable] |
| | (c) | Additional Business Centre(s): | [●] |
| | (d) | Manner in which the Rate of Interest and Interest Amount | [Screen Rate Determination/ISDA Determination] |

is to be determined:

| | | |
|---|---|---|
| (e) | Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): | [●] |
| (f) | Screen Rate Determination: | |
| | ● Reference Rate, Specified Time and Relevant Financial Centre: | Reference Rate: [●] month [[currency] [LIBOR/EURIBOR/TRYIBOR].<br><br>Specified Time: [●]<br><br>(*11.00 a.m in the case of LIBOR and EURIBOR, and 11.30 a.m in the case of TRYIBOR*)<br><br>Relevant Financial Centre: [London] [Brussels] [İstanbul] |
| | ● Interest Determination Date(s): | [●]<br><br>(*Second London business day prior to the start of each Interest Period if LIBOR* (*other than Sterling or euro LIBOR*), *first day of each Interest Period if Sterling LIBOR, the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR and the second İstanbul business day prior to the start of each Interest Period if TRYIBOR.*) |
| | ● Relevant Screen Page: | [●]<br><br>(*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page that shows a composite rate or amend the fallback provisions appropriately.*) |
| (g) | ISDA Determination: | [Applicable/Not Applicable] |
| | ● Floating Rate Option: | [●] |
| | ● Designated Maturity: | [●] |
| | ● Reset Date: | [●]<br><br>(*In the case of a LIBOR or EURIBOR-based option, the first day of the Interest Period*) |
| (h) | Linear Interpolation: | [Not Applicable]/[Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)] |

| | | |
|---|---|---|
| (i) | Margin(s): | [+/-][●] *per cent. per annum* |
| (j) | Minimum Rate of Interest: | [●] *per cent. per annum* |
| (k) | Maximum Rate of Interest: | [●] *per cent. per annum* |
| (l) | Day Count Fraction: | [Actual/Actual (ISDA)][Actual/Actual]<br>[Actual/365 (Fixed)]<br>[Actual/365 (Sterling)]<br>[Actual/360]<br>[30/360]<br>[360/360]<br>[Bond Basis]<br>[30E/360]<br>[Eurobond Basis]<br>[30E/360 (ISDA)]<br>(*See Condition 4 for alternatives*) |

**PROVISIONS RELATING TO REDEMPTION**

| | | | |
|---|---|---|---|
| 18. | Notice periods for Condition 6.2: | | Minimum period: [●] days<br><br>Maximum period: [●] days |
| 19. | Issuer Call: | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (a) | Optional Redemption Date(s): | [●] |
| | (b) | Optional Redemption Amount: | [●] per Calculation Amount<br><br>[*Set out appropriate variable details in this pro forma, for example reference obligation*] |
| | (c) | If redeemable in part: | |
| | | (i) Minimum Redemption Amount: | [●] |
| | | (ii) Maximum Redemption Amount: | [●] |
| | (d) | Notice periods: | Minimum period: [●] days<br><br>Maximum period: [●] days<br><br>(*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems* (*which, in the case of Euroclear and Clearstream, Luxembourg, require a minimum of 5 clearing system business days' notice for a call*) *and custodians, as well as any other notice requirements that may apply, for example, as between the Issuer and the Agent*) |

20. Final Redemption Amount: [●] per Calculation Amount

21. Early Redemption Amount:

(a) payable on redemption for taxation reasons: [●] per Calculation Amount

(b) payable on redemption for event of default: [●] per Calculation Amount

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

22. Form of Covered Bonds:

(a) Form: [Bearer Covered Bonds:

[Temporary Bearer Global Covered Bond exchangeable for a Permanent Bearer Global Covered Bond that is exchangeable for Definitive Covered Bonds [on not less than 60 days' notice given at any time/only upon an Exchange Event]]

[Temporary Bearer Global Covered Bond exchangeable for Definitive Covered Bonds on and after the Exchange Date]

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

[Definitive Bearer Covered Bonds]

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

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

[Registered Covered Bonds:

[Regulation S Registered Global Covered Bond 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 Covered Bonds [upon an Exchange Event][at any time at the request of the Issuer]] |
| | [Rule 144A Global Covered Bond 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 Covered Bonds [upon an Exchange Event][at any time at the request of the Issuer]] |
| | [Definitive Regulation S Registered Covered Bond] |
| | [Definitive IAI Registered Covered Bonds] |
| | [IAI Global Covered Bond 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 Covered Bonds [upon an Exchange Event][at any time at the request of the Issuer]] |
| | [Turkish Dematerialised Covered Bonds:<br><br>Turkish Dematerialised Covered Bonds will be held in uncertificated, dematerialised form on behalf of the ultimate owners by the Turkish Custodian for the account of the relevant Turkish Custodian Account Holders. The Turkish Dematerialised Covered Bonds have been accepted for clearance by the Central Registry Agency. The Turkish Dematerialised Covered Bonds will at all times be evidenced by, and title thereto will be transferable by means of, book-entries in accordance with the provisions of the Turkish Covered Bonds Legislation. No physical document of title will be issued in respect of the Turkish Dematerialised Covered Bonds.] |
| | (*N.B. In the case of an issue with more than one Global Covered Bond or a combination of one or more Bearer Global Covered Bonds and Definitive IAI Covered Bonds, specify the nominal amounts of each Global Covered Bond and, if applicable, the aggregate principal amount of all Definitive IAI Covered Bonds if such information is available*) |
| (b) New Global Covered Bond: | [Yes][No] |
| (*Relevant to Bearer Global Covered Bonds only*) | [Eurosystem eligibility: [Yes][No]] |

| | | |
|---|---|---|
| | (c) New Safekeeping Structure: | [Yes][No] |
| | (*Relevant to Registered Global Covered Bonds only*) | [Eurosystem eligibility: [Yes][No]] |
| 23. | Additional Financial Centre(s): | [Not Applicable/*give details*]<br><br>(*Note that this paragraph relates to the date of payment and not Interest Period end dates to which paragraph 17(c) relates*) |
| 24. | Talons for future Coupons to be attached to Definitive Covered Bonds:<br><br>(*Relevant to Bearer Definitive Covered Bonds only*) | [Yes, as the Covered Bonds 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] |

**RESPONSIBILITY AND THIRD PARTY INFORMATION**

The Issuer accepts responsibility for the information contained in these Final Terms.

[[*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 made by the Issuer (or on its behalf) for the Covered Bonds to be listed on the Official List and admitted to trading on the Main Securities Market of the Irish Stock Exchange plc with effect from [●].][●] [Not Applicable.]<br><br>(*When documenting an issue of Covered Bonds that is to be consolidated and to form a single series with a previous issue, it should be indicated here that the original Covered Bonds are already listed and admitted to trading.*) |
| (b) | Estimate of total expenses related to admission to trading: | [●] |

### 2. RATINGS

| | |
|---|---|
| Ratings: | [Not Applicable][The Covered Bonds to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Covered Bonds of this type issued under the Programme generally]:<br><br>[*insert details*]] by [*insert the legal name of the relevant credit rating agency entity*(*ies*) *and associated defined terms*].<br><br>[Each of [*defined terms*] is established in the European Union and is registered under the CRA Regulation.]<br><br>[[*Insert legal name of credit rating agency*] is established in the European Union and is not registered under the CRA Regulation).]<br><br>[[*Insert legal name of credit rating agency*] is not established in the European Union but the rating it has given to the Covered Bonds is endorsed by [*insert legal name of credit rating agency*], which is established in the European Union and registered under the CRA Regulation.]<br><br>[[*Insert legal name of credit rating agency*] is not established in the European Union but is certified under the CRA Regulation.]<br><br>[[*Insert legal name of credit rating agency*] is not established in the European Union and is not certified under the CRA Regulation and the rating it has given to the Covered Bonds is not endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation.] |

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

Required Overcollateralisation Percentage: [●] *per cent.*

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

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

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

**4. YIELD** (*Fixed Rate Covered Bonds only*)

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

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

**5. HISTORIC INTEREST RATES (*Floating Rate Covered Bonds only*)**

Details of historic [LIBOR/EURIBOR/TRYIBOR] rates can be obtained from [Reuters at [ ]].

**6. OPERATIONAL INFORMATION**

| | | |
|---|---|---|
| (a) | ISIN Code: | [●] |
| (b) | Common Code: | [●] |
| (c) | [*(Insert here any other relevant codes such as CUSIP and CINS codes)*]: | [Not Applicable/give name(s) and number(s)] |
| (d) | Any clearing system(s) other than DTC Euroclear Bank SA/NV and Clearstream Banking, *société anonyme* and the relevant identification number(s): | [Not Applicable/give *name*(*s*) *and number*(*s*)] |
| (e) | Delivery: | Delivery [against/free of] payment |
| (f) | Names and addresses of additional Agent(s) (if any): | [●] |
| (g) | Deemed delivery of clearing system notices for the purposes of Condition 14: | Any notice delivered to Covered Bondholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to the relevant |

clearing system.

| | | |
|---|---|---|
| (h) | Intended to be held in a manner that would allow Eurosystem eligibility: | [Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds 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.]<br><br>[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] |

**7. DISTRIBUTION**

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

**TERMS AND CONDITIONS OF THE COVERED BONDS**

## Terms and Conditions of the Covered Bonds

*The following are the Terms and Conditions of the Covered Bonds which, 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 Covered Bond (as defined below) and each Turkish Dematerialised Covered Bond (as defined below) and each Definitive Covered Bond (as defined below), 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 Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond. Reference should be made to "Form of Applicable Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.*

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Türkiye Garanti Bankası A.Ş. (the "**Issuer**") pursuant to the Agency Agreement (as defined below).

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

(a) in relation to any Covered Bonds represented by a Global Covered Bond, units of each Specified Denomination in the Specified Currency;

(b) any Global Covered Bond (including any Turkish Dematerialised Covered Bond);

(c) any Bearer Definitive Covered Bonds issued in exchange for a Global Covered Bond in bearer form; and

(d) any Registered Definitive Covered Bonds (whether or not issued in exchange for a Global Covered Bond in registered form).

The Covered Bonds and the Coupons have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 15 May 2015 and made among the Issuer, The Bank of New York Mellon, London branch, as fiscal agent (including as 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 (Luxembourg) S.A., as transfer agent (together with the Registrar (as defined below), the "**Transfer Agents"**, which expression shall include any additional or successor transfer agent) and registrar (the "**Registrar**", which expression shall include any successor registrar).

The final terms for this Covered Bond (or the relevant provisions thereof) are set out in the Final Terms attached to or endorsed on this Covered Bond, which complete these Terms and Conditions (the "**Conditions**"). References to the "**applicable Final Terms**" are, unless otherwise stated, to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond.

Bearer Definitive Covered Bonds have (unless otherwise indicated in the applicable Final Terms) interest Coupons and, in the case of Bearer Definitive Covered Bonds which have more than 27 interest payments remaining, Talons for further Coupons attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Bearer Definitive Covered Bonds repayable in instalments have Receipts for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Covered Bonds,

Global Covered Bonds and Turkish Dematerialised Covered Bonds do not have Receipts, Coupons or Talons attached on issue.

Any reference to Covered Bondholders or "holders" in relation to any Covered Bonds shall mean (in the case of Bearer Covered Bonds) the holders of such Covered Bonds and (in the case of Registered Covered Bonds) the Persons in whose name such Covered Bonds are registered and shall, in relation to any Covered Bonds represented by a Global Covered Bond (including a Turkish Dematerialised Covered Bond), be construed as provided below.

Copies of the applicable Final Terms and the other Transaction Documents will be available for inspection during normal business hours at the registered office of the Issuer and at the specified office of each of the Fiscal Agent and the other Paying Agents. If this Covered Bond is to be admitted to trading on the regulated market of the Irish Stock Exchange, then the applicable Final Terms will be published on the Issuer's website (as of the date hereof, at: https://www.garantiinvestorrelations.com/en/debt-information/Covered-Bond/Covered-Bond/806/0/0). If this Covered Bond is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (Directive 2003/71/EC), then the applicable Final Terms will only be obtainable by a Covered Bondholder holding one or more Covered Bonds and such Covered Bondholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Covered Bonds and identity. The Covered Bondholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Agency Agreement, the Deed Poll, the Deed of Covenant, the Security Assignment, the Security Agency Agreement, the Calculation Agency Agreement, the applicable Final Terms, the Cover Monitor Agreement and the other Transaction Documents which are applicable to them. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below). The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant, the Security Assignment, the Security Agency Agreement, the Calculation Agency Agreement, the applicable Final Terms and the other Transaction Documents.

Each Covered Bondholder, by reason of holding one or more Covered Bonds: (a) recognises the Security Agent as its representative, in relation to the Transaction Security Documents and the Security Agency Agreement, acting in its name and on its behalf, and agrees to be bound by the terms of the Transaction Security Documents and the Security Agency Agreement as if such Covered Bondholder were a party thereto, and (b) acknowledges and accepts the terms of the appointment of the Security Agent as set out in the Security Agency Agreement and all of the provisions of the Security Agency Agreement relating to the exercise by the Security Agent of its powers, trusts, authorities, duties, rights and discretions contained therein.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the applicable Final Terms and/or the master definitions and construction schedule made on or about the Programme Closing Date and signed for the purpose of identification by Mayer Brown LLP and White and Case LLP (as amended, supplemented and/or restated from time to time, the "**Master Definitions and Construction Schedule**"), a copy of which may be obtained as described above.

In these Conditions, references to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, in respect of Covered Bonds other than Turkish Dematerialised Covered Bonds, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Fiscal Agent.

## 1. Form, Denomination and Title

### 1.1 Form and Denomination of Covered Bonds other than Turkish Dematerialised Covered Bonds

The Covered Bonds, other than the Turkish Dematerialised Covered Bonds, are in bearer form or in registered form as specified in the applicable Final Terms and serially numbered in the Specified Currency set out in the applicable Final Terms and in Specified Denomination(s) specified in the applicable Final Terms. Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and *vice versa*.

### 1.2 Form and Denomination of Turkish Dematerialised Covered Bonds

Covered Bonds may be issued in uncertificated and dematerialised (in Turkish: *kaydileştirilmiş*) book-entry form (*i.e.,* Turkish Dematerialised Covered Bonds) registered with the Central Registry System and wholly and exclusively deposited with Turkish Custodians as specified in the applicable Final Terms, which would be serially numbered in the Specified Currency set out in the applicable Final Terms and in Specified Denomination(s) specified in the applicable Final Terms. Turkish Dematerialised Covered Bonds of one Specified Denomination may not be exchanged for Turkish Dematerialised Covered Bonds of another Specified Denomination. Turkish Dematerialised Covered Bonds may not be exchanged for Bearer Covered Bonds or Registered Covered Bonds and *vice versa*.

### 1.3 General provisions applicable to all forms of Covered Bonds (including Turkish Dematerialised Covered Bonds)

The Covered Bonds are issued pursuant to the Capital Markets Law, the Covered Bonds Communiqué and other Turkish Covered Bonds Legislation, as applicable.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond or a combination thereof, depending upon the Interest Basis specified in the applicable Final Terms. In addition, a Covered Bond may be an Instalment Covered Bond if so specified in the applicable Final Terms.

Bearer Definitive Covered Bonds are issued with Coupons attached. Bearer Definitive Covered Bonds that are Instalment Covered Bonds are issued with Receipts and references to Receipts and Receiptholders in these Conditions are only applicable to such Bearer Definitive Covered Bonds.

### 1.4 Title to Covered Bonds other than Turkish Dematerialised Covered Bonds

Subject as set out below, title to the Bearer Covered Bonds, Receipts and Coupons will pass by delivery and (other than with respect to Turkish Dematerialised Covered Bonds) title to the Registered Covered Bonds 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 ordered by a court of competent jurisdiction or as required by law or applicable regulations) deem and treat the bearer of any Bearer Covered Bond, Receipt or Coupon and (other than with respect to Turkish Dematerialised Covered Bonds) the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not it is 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 Covered Bond, without prejudice to the provisions set out in this Condition 1.4.

For so long as any of the Covered Bonds is represented by a Global Covered Bond deposited with and, (subject to the following paragraph and Condition 1.5 (*Title to Turkish*

*Dematerialised Covered Bonds*)) in the case of a Registered Global Covered Bond, registered in the name of a clearing system (or a nominee thereof or of a common depositary or a common safekeeper thereof), each Person (other than a clearing system) who is for the time being shown in the records of such clearing system as the holder of a particular principal amount of such Global Covered Bond (in which regard any certificate or other document issued by such clearing system as to the principal amount of such Global Covered Bond standing to the account of any Person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall upon their receipt of such certificate or other document be treated by the Issuer and the Agents as the holder of such principal amount of such Global Covered Bond (and the bearer or registered holder of such Global Covered Bond shall be deemed not to be the holder) for all purposes other than with respect to the payment on such principal amount of such Global Covered Bond, for which purposes the bearer of the relevant Bearer Global Covered Bond or, as applicable, the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer and the Agents as the holder of such principal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions "**Covered Bondholder**" and "**holder of Covered Bonds**" and related expressions shall be construed accordingly.

For so long as DTC or its nominee is the registered owner or holder of a Registered Global Covered Bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Covered Bonds represented by such Registered Global Covered Bond for all purposes under the Transaction Documents and the applicable Covered Bondholder, except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Covered Bonds (other than with respect to Turkish Dematerialised Covered Bonds) which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of the applicable Clearing System.

**1.5 Title to Turkish Dematerialised Covered Bonds**

In the case of Turkish Dematerialised Covered Bonds, except as otherwise required by law, the holder (as defined below) of any Turkish Dematerialised Covered Bond shall be deemed to be, and shall be treated as, its absolute owner (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 and no Person shall be liable for so treating the holder but without prejudice to the provisions set out in this Condition 1.5.

Turkish Dematerialised Covered Bonds will be held by the relevant Turkish Custodian with the Central Registry System on behalf of each relevant Turkish Custodian Account Holder until redemption and cancellation for the account of each relevant Turkish Custodian Account Holder with the relevant Turkish Custodian. Each Turkish Custodian will act as custodian for the applicable Turkish Custodian Account Holder(s). Title to the Turkish Dematerialised Covered Bonds will be evidenced by the book-entry system maintained by the Central Registry Agency and the account records with the relevant Turkish Custodian and in accordance with the provisions of the Capital Markets Law and the other Turkish Covered Bonds Legislation. For the avoidance of doubt, Turkish Dematerialised Covered Bonds will be kept under the accounts of the relevant Turkish Custodian with the Central Registry System in the name of the relevant Turkish Custodian Account Holder.

No global note, certificate or physical document of title will be issued in respect of any Turkish Dematerialised Covered Bonds. Definitive Covered Bonds will not be issued in respect of any Turkish Dematerialised Covered Bonds. No Coupons, Talons or Receipts will be issued in respect of any Turkish Dematerialised Covered Bonds.

The provisions of these Conditions relating to Global Covered Bonds and Coupons and the presentation, surrender or replacement of certificates or Definitive Covered Bonds shall not

apply to Turkish Dematerialised Covered Bonds. The TEFRA C and TEFRA D Rules will not be applicable to Turkish Dematerialised Covered Bonds.

## 2. Transfers of Registered Covered Bonds

### 2.1 Transfers of Interests in Registered Global Covered Bonds

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Covered Bonds of the same Series in definitive form or for a beneficial interest in another Registered Global Covered Bond of the same Series, in each case, only in the Specified Denomination(s) (and *provided* that the aggregate principal amount of any balance of such beneficial interest of the transferor not so transferred is an amount of at least the Specified Denomination) and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement and the applicable Final Terms; it being understood that both the transferee and (if less than a transfer of its entire interest) the transferor must immediately thereafter retain beneficial interests in an amount at least equal to the Specified Denomination. Transfers of a Registered Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee. Notwithstanding the above in this paragraph, this paragraph shall not apply to Turkish Dematerialised Covered Bonds (for which, see Condition 2.3 (*Transfers of Turkish Dematerialised Covered Bonds*)).

### 2.2 Transfers of Registered Definitive Covered Bonds

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Definitive Covered Bond may be transferred in whole or in part (in the Specified Denomination(s) set out in the applicable Final Terms) (and *provided* that, if transferred in part, the aggregate principal amount of the balance of that Registered Definitive Covered Bond not so transferred is an amount of at least the Specified Denomination). In order to effect any such transfer: (a) the holder or holders must: (i) surrender the Registered Definitive Covered Bond for registration of the transfer of the Registered Definitive Covered Bond (or the relevant part of the Registered Definitive Covered Bond) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the Person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in the Agency Agreement).

Subject as provided above, the relevant Transfer Agent will promptly, and in any event 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 the relevant request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (if so requested by the specified transferee and at the risk of such transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Definitive Covered Bond of a like aggregate principal amount to the Registered Definitive Covered Bond (or the relevant part of the Registered Definitive Covered Bond) being transferred.

In the case of the transfer of part only of a Registered Definitive Covered Bond, a new Registered Definitive Covered Bond in respect of the balance of the Registered Definitive Covered Bond not transferred will be so authenticated and delivered or (if so requested by the transferor and at the risk of the transferor) sent by uninsured mail to the transferor. No transfer of a Registered Definitive Covered Bond will be valid unless and until entered in the register maintained by the Registrar (the "**Register**").

**2.3 Transfers of Turkish Dematerialised Covered Bonds**

Transfers of Turkish Dematerialised Covered Bonds shall be governed by, and may only be effected in accordance with, the rules and procedures for the time being of the Central Registry System.

No holder may require the transfer of a Turkish Dematerialised Covered Bond to be registered during any closed period under the rules and procedures for the time being of the Central Registry System.

All transfers of Turkish Dematerialised Covered Bonds are subject to any applicable cut-off date under the rules and procedures for the time being of the Central Registry System.

**2.4 Costs of Registration**

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

**3. Status of the Covered Bonds**

**3.1 Status of the Covered Bonds**

Subject to the provisions of Condition 3.2 (*Mortgage Covered Bonds*), the Covered Bonds and any Receipts and Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank and will rank *pari passu*: (a) without any preference or priority amongst themselves, irrespective of their Series and Issue Date (*it being* understood that each Series may have different timing for the repayment of principal and the timing and amount of interest payable), and (b) 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.

**3.2 Mortgage Covered Bonds**

The Covered Bonds and the Receipts and Coupons are mortgage covered bonds (in Turkish, *ipotek terminatlı menkul kıymet*) issued in accordance with the Covered Bonds Communiqué. The Covered Bonds and the Receipts and Coupons are issued on an unconditional basis and are backed by assets forming the Cover Pool of the Issuer. In accordance with the Turkish Covered Bonds Legislation, by virtue of the Transaction Documents, registration in the Security Register and any Security Update Registration, the Covered Bonds and related Receipts and Coupons shall be secured by the Cover Pool and the other Transaction Security (which includes all cashflows derived from the Cover Pool) and benefit from Statutory Segregation.

**3.3 Turkish Lira Equivalent**

For the purposes of determining the *pari passu* entitlement of any Covered Bondholder to payment in these Conditions and for the purposes of the Covered Bonds Communiqué, any

amount which is not denominated in Turkish Lira shall be notionally converted into Turkish Lira using the Applicable Exchange Rate.

## 4. Interest

### 4.1 Interest on Fixed Rate Covered Bonds

This Condition 4.1 applies to Fixed Rate Covered Bonds only. The applicable Final Terms contain provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 4.1 for full information on the manner in which interest is calculated on Fixed Rate Covered Bonds. In particular, the applicable Final Terms specify the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Final Maturity Date, the Extended Final Maturity Date (if any), the Fixed Coupon Amount, any applicable Broken Amount, the Calculation Amount, the Day Count Fraction and any applicable Determination Date.

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) *per annum* equal to the applicable Rate of Interest. Interest will be payable on Fixed Rate Covered Bonds, subject as provided in these Conditions, in arrear on the applicable Interest Payment Date(s) in each year up to (and including) the Final Maturity Date or Extended Final Maturity Date, as applicable.

In the case of Definitive Covered Bonds, except as provided in the applicable Final Terms, the Interest Amount payable on each Interest Payment Date in respect of the Interest Period ending on (but excluding) such date will amount, where a "**Fixed Coupon Amount**" is specified in the applicable Final Terms, to the Fixed Coupon Amount so specified; *provided* that the Interest Amount payable on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

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

(a) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the Principal Amount Outstanding of the Fixed Rate Covered Bonds represented by such Global Covered Bond;

(b) in the case of Fixed Rate Covered Bonds which are Turkish Dematerialised Covered Bonds, the Principal Amount Outstanding of such Turkish Dematerialised Covered Bonds; or

(c) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount;

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

### 4.2 Interest on Floating Rate Covered Bonds

This Condition 4.2 applies to Floating Rate Covered Bonds only. The applicable Final Terms contain provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 4.2 for full information on the manner in which interest is

calculated on Floating Rate Covered Bonds. In particular, the applicable Final Terms will identify any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Additional Business Centres, whether ISDA Determination or Screen Rate Determination applies to the calculation of interest, the party who will calculate the amount of interest due if it is not the Fiscal Agent, the Margin, any maximum or minimum interest rates and the Day Count Fraction. Where ISDA Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date. Where Screen Rate Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Reference Rate, Specified Time, Relevant Financial Centre, Interest Determination Date(s) and Relevant Screen Page.

(a) **Interest Payment Dates**

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable, subject as provided in these Conditions, in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

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

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

(b) **Rate of Interest**

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

(i) **ISDA Determination for Floating Rate Covered Bonds**

Where "**ISDA Determination**" is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (i), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Fiscal Agent under an interest rate swap transaction if the Fiscal Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is a period specified in the applicable Final Terms; and

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

For the purposes of this sub-paragraph (i) only, "**Calculation Agent**" has the meanings given to those terms in the ISDA Definitions.

(ii) **Screen Rate Determination for Floating Rate Covered Bonds**

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

(A) the offered quotation (if there is only one quotation on the Relevant Screen Page which is a composite quotation or customarily supplied by one entity); or

(B) in any other case, 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(s) which 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) the Margin (if any), all as determined by the Fiscal Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Fiscal Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

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

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

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

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

A Final Terms may specify both a Minimum Rate of Interest and a Maximum Rate of Interest. Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

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

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

The Fiscal Agent will calculate the amount of interest payable in respect of each Specified Denomination of the Floating Rate Covered Bonds for the relevant Interest Period (the "**Interest Amount**") or any other period by applying the Rate of Interest to:

(i) in the case of Floating Rate Covered Bonds which are represented by a Global Covered Bond, the Principal Amount Outstanding of the Covered Bonds represented by such Global Covered Bond;

(ii) in the case of Floating Rate Covered Bonds which are Turkish Dematerialised Covered Bonds, the Principal Amount Outstanding of such Turkish Dematerialised Covered Bonds; or

(iii) in the case of Floating Rate Covered Bonds 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 Covered Bond in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

(e) **Linear Interpolation**

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

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

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

In the case of Floating Rate Covered Bonds, the Fiscal Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed and notice thereof to be published in accordance with Condition 14 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the

Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed and to the Covered Bondholders in accordance with Condition 14 (*Notices*).

(g) **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 4.2 whether by the Fiscal Agent or, if applicable, any other Paying Agent, shall (in the absence of wilful default, wilful misconduct or manifest error) be binding on the Issuer, the Fiscal Agent, the other Agents and all Covered Bondholders and Couponholders and Receiptholders and (in the absence of negligence, wilful default or wilful misconduct) no liability to the Issuer, the Covered Bondholders or the Couponholders and Receiptholders shall attach to the Fiscal Agent or any other Paying Agent, as applicable, in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**4.3 Accrual of Interest**

Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date for its redemption, unless payment of principal in respect of such Covered Bond 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 Covered Bond (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 Covered Bond 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 Covered Bondholders in accordance with Condition 14 (*Notices*).

**4.4 Business Day, Business Day Convention, Day Count Fractions and other adjustments**

(a) In these Conditions, "**Business Day**" means a day (other than a Saturday or Sunday) which is both:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and İstanbul and, in relation to any Series, any Additional Business Centre specified in the applicable Final Terms; and

(ii) either: (A) 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 (if other than London, İstanbul and any Additional Business Centre) or as otherwise specified in the applicable Final Terms, or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") is open.

(b) If a Business Day Convention (the "**Business Day Convention**") is specified in the applicable Final Terms and: (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest

Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(i) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii) (*Interest Payment Dates*), the "**Floating Rate Convention**", such Interest Payment Date: (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (II) below shall apply *mutatis mutandis*, or (2) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event: (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls within the Specified Period after the preceding applicable Interest Payment Date occurred; or

(ii) the "**Following Business Day Convention**", such Interest Payment Date shall be postponed to the next day which is a Business Day; or

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

(iv) the "**Preceding Business Day Convention**", such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

(c) "**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:

(A) in the case of Covered Bonds 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 (as defined in Condition 4.4(d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

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

(ii) if "**Actual/Actual**" or "**Actual/Actual (ISDA)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of: (A)

the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iv) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(v) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y^2 - Y^1)] + [30 \times (M^2 - M^1)] + (D^2 - D^1)}{360}$$

where:

"$\mathbf{Y^1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y^2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M^1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M^2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D^1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case $D^1$ will be 30; and

"$\mathbf{D^2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and $D^1$ is greater than 29, in which case $D^2$ will be 30;

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y^2 - Y^1)] + [30 \times (M^2 - M^1)] + (D^2 - D^1)}{360}$$

where:

"$\mathbf{Y^1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**$Y^2$**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**$M^1$**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**$M^2$**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**$D^1$**" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case $D^1$ will be 30; and

"**$D^2$**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case $D^2$ will be 30;

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y^2 - Y^1)] + [30 \times (M^2 - M^1)] + (D^2 - D^1)}{360}$$

"**$Y^1$**" is the year, expressed as a number, in which the first day of the Interest Period falls; "Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**$M^1$**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**$M^2$**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**$D^1$**" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case $D^1$ will be 30; and

"**$D^2$**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Final Maturity Date or (ii) such number would be 31 and $D^2$ will be 30; or

such other Day Count Fraction as may be specified in the applicable Final Terms.

(d) "**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).

(e) "**Interest Period**" for a Series means the period from (and including) an Interest Payment Date (or, for the first Interest Period for this Covered Bond, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

(f) If "**adjusted**" is specified in the applicable Final Terms against the Day Count Fraction, interest in respect of the relevant Interest Period shall be payable in arrear on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, as such Interest Payment Date shall, where applicable, be adjusted in accordance with the Business Day Convention.

(g) If "**not adjusted**" is specified in the applicable Final Terms against the Day Count Fraction, interest in respect of the relevant Interest Period shall be payable in arrear on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, but such Interest Payment Dates for the purposes of calculating the accrual of interest shall not be adjusted in accordance with any Business Day Convention. If "not adjusted" applies, the Interest Payment Date (for the purpose of payment only) shall be adjusted in accordance with the applicable Business Day Convention. Accordingly, interest may be actually paid on a Business Day earlier than, or later than, the originally scheduled payment date as a result of the Business Day Convention adjustment. For the avoidance of doubt, if "not adjusted" applies, no additional interest shall be payable by the Issuer if the actual date of payment occurs later that the originally scheduled date for payment as a result of a Business Day Convention adjustment.

(h) "**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.

**4.5 Interest Rate and Payments from Final Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Final Maturity Date**

If an Extended Final Maturity Date is specified in the applicable Final Terms as applying to a Series of Soft Bullet Covered Bonds and the Issuer fails to pay any amount representing the Final Redemption Amount in respect of the relevant Series on the Final Maturity Date, the maturity of such Series of Soft Bullet Covered Bonds is automatically extended beyond the Final Maturity Date until the applicable Extended Final Maturity Date in accordance with Condition 6.9 (*Extension of Maturity up to an Extended Final Maturity Date*). Interest will continue to accrue and be payable on any unpaid Principal Amount Outstanding for such Series of Soft Bullet Covered Bonds, such interest to be payable on each Extended Series Payment Date for such Series of Soft Bullet Covered Bonds up to its Extended Final Maturity Date in accordance with Condition 4 (*Interest*), and the Issuer will make such payments on each relevant Extended Series Payment Date and on the Extended Final Maturity Date. The final Extended Series Payment Date shall fall no later than the Extended Final Maturity Date.

The Issuer shall confirm to the Covered Bondholders (in accordance with Condition 14 (*Notices*)), the Paying Agents, the Registrar (in the case of a Registered Covered Bond) and the Fiscal Agent as soon as reasonably practicable and in any event at least five Business Days prior to the Final Maturity Date of a Series as to whether: (a) payment will be made of all or any part of the Final Redemption Amount of the applicable Series of Soft Bullet Covered Bonds in full on their Final Maturity Date, or (b) the obligation to pay all or part of the Final Redemption Amount of the applicable Series of Soft Bullet Covered Bonds on their Final Maturity Date shall be deferred until a following Interest Payment Date or the Extended Final Maturity Date (any such notice under this sub-paragraph (b) being an Extension Notice). Any failure by the Issuer to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

Promptly following receipt by the Fiscal Agent of the Extension Notice with respect to Global Covered Bonds, and in any event not less than three Business Days prior to the Final Maturity

Date of the applicable Series, the Fiscal Agent shall notify Euroclear, Clearstream, Luxembourg, DTC and/or the Central Registry System, as applicable, as to whether: (a) payment will be made of all or any part of the Final Redemption Amount of the applicable Series of Soft Bullet Covered Bonds on their Final Maturity Date, or (b) the obligation to pay Final Redemption Amount of the applicable Series of Soft Bullet Covered Bonds on their Final Maturity Date shall be deferred until a following Interest Payment Date or the Extended Final Maturity Date.

For the avoidance of doubt, a failure by the Issuer to provide an Extension Notice under this Condition 4.5 shall not affect the validity or effectiveness of any extension of the maturity of a Series of Soft Bullet Covered Bonds to the Extended Final Maturity Date in accordance with Condition 6.9 (*Extension of Maturity up to an Extended Final Maturity Date*).

Where the applicable Final Terms for a relevant Series of Soft Bullet Covered Bonds provides that such Soft Bullet Covered Bonds are subject to an Extended Final Maturity Date, such failure to pay the Final Redemption Amount by the Issuer on the Final Maturity Date of such Series shall not constitute an Event of Default but shall constitute an Issuer Event.

This Condition 4.5 shall only apply to Soft Bullet Covered Bonds to which an Extended Final Maturity Date is specified in the applicable Final Terms.

## 5. Payments

### 5.1 Method of Payment

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

Payments in respect of principal and interest on the Covered Bonds will be subject in all cases to: (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to FATCA.

### 5.2 Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons

Notwithstanding any other provision of these Conditions to the contrary, payments of principal in respect of Bearer Definitive Covered Bonds will (subject as provided below) be made in the manner provided in Condition 5.1 (*Method of Payment*) above only against surrender (or, in the case of part payment of any sum due, presentation and endorsement) of the applicable Receipt and/or Bearer Definitive Covered Bonds, and payments of interest in respect of Bearer Definitive Covered Bonds 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)).

Payments of instalments (if any) of principal other than the final instalment will (subject as provided below) be made in accordance with Condition 5.1 (*Method of payment*) only against presentation and surrender (or, in the case of part of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in accordance with Condition 5.1 (*Method of payment*) only against presentation or surrender (or, in the case of part of any sum due, endorsement) of the Definitive Covered Bond in accordance with the preceding paragraph. Each Receipt must be presented for

payment of the relevant instalment together with the Bearer Definitive Covered Bond to which it appertains. If any Bearer Definitive Covered Bond is redeemed or becomes repayable prior to the stated maturity thereof, principal will be payable in accordance with Condition 5.1 (*Method of payment*) only against presentation and surrender (or, in the case of part payment of any sum, endorsement) of such Bearer Definitive Covered Bond together with all unmatured Receipts appertaining thereto. Receipts presented without the Bearer Definitive Covered Bond to which they appertain and unmatured Receipts do not constitute valid obligations of the Issuer. On the date on which any Bearer Definitive Covered Bond becomes due and payable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect of them.

Fixed Rate Covered Bonds in definitive bearer form 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 7 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Covered Bond in definitive bearer form becoming due and repayable prior to its Final Maturity Date (or, as the case may be, Extended Final Maturity Date), all unmatured Receipts, 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.

If the due date for redemption of any Bearer Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Definitive Bond 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 Bearer Definitive Covered Bond.

**5.3 Payments in Respect of Bearer Global Covered Bonds**

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified in Condition 5.2 (*Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons*) in relation to Bearer Definitive Covered Bonds or otherwise in the manner specified in the relevant Bearer Global Covered Bond, where applicable against surrender or, as the case may be, presentation and endorsement, of such Bearer Global Covered Bond 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 Covered Bond either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

**5.4 Payments in Respect of Registered Covered Bonds**

Subject to Condition 5.5 (*Payments in Respect of Turkish Dematerialised Covered Bonds*), payments of principal (other than Instalments of principal prior to the final Instalment) in respect of each Registered Covered Bond (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 Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Specified Account (as

defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at: (a) where in global form and held under the NSS, the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (b) in all other cases, the close of business on the 15th day (or, if such 15th day is not a day on which banks are open for business in the city where the specified office of the Registrar is located, the first such day prior to such 15th day) before the relevant due date (in each case, and subject to Condition 5.5 (*Payments in Respect of Turkish Dematerialised Covered Bonds*) the "**Record Date**"). Notwithstanding the previous sentence, if: (i) a holder does not have a Specified Account or (ii) the principal amount of the Covered Bonds held by a holder is less than US$250,000 (or its approximate equivalent in any other Specified Currency), payment may instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Specified Account**" means the account maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means any bank which processes payments in such Specified Currency.

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

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond 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 Covered Bonds, save as provided in Conditions 5.9 (*U.S. Dollar Exchange and Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC*) and 5.10 (*Payments on Covered Bonds held through DTC in a Specified Currency other than U.S. Dollars*).

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than U.S. Dollars shall be paid by transfer by the Fiscal Agent to an account of the Exchange Agent in the relevant Specified Currency on behalf of DTC or its nominee for: (a) payment in such Specified Currency or (b) conversion into U.S. Dollars for payment through DTC, in each case in accordance with the provisions of the Agency Agreement and Condition 5.10 (*Payments on Covered Bonds held through DTC in a Specified Currency other than U.S. Dollars*).

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 Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

**5.5 Payments in Respect of Turkish Dematerialised Covered Bonds**

Payment of principal and interest in respect of Turkish Dematerialised Covered Bonds shall be made to the holders of Turkish Dematerialised Covered Bonds appearing on the records of the Central Registry System on the fifth Business Day (or such other day as is determined in accordance with the rules and procedures of the Central Registry System) prior to the relevant Interest Payment Date, Payment Date, Final Maturity Date or Extended Final Maturity Date, as applicable. Such day shall be the "**Record Date**" for the purposes of these Conditions in respect of Turkish Dematerialised Covered Bonds. All payment of principal and interest shall be credited by the Issuer to the accounts of the beneficial owners of the Turkish Dematerialised Covered Bonds of a Series through the Central Registry System in accordance with the rules and procedures of the Central Registry System.

**5.6 General Provisions Applicable to Payments**

The registered holder of a Registered Global Covered Bond (other than Turkish Dematerialised Covered Bonds) shall be the only Person entitled to receive payments in respect of Covered Bonds represented by such Registered Global Covered Bond and the Issuer will be discharged by payment to, or to the order of, the holder of such Registered Global Covered Bond in respect of each amount so paid. Each of the Persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, as the beneficial holder of a particular principal amount of Covered Bonds represented by such Registered Global Covered Bond must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for such Persons' share of each payment so made by the Issuer to, or to the order of, the holder of such Registered Global Covered Bond.

Notwithstanding the provisions of Conditions 5.2 (*Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons*) and 5.3 (*Payments in Respect of Bearer Global Covered Bonds*), if any amount of principal and/or interest in respect of Bearer Covered Bonds is payable in U.S. Dollars, such U.S. Dollar payments of principal and/or interest in respect of such Bearer Covered Bonds 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 Covered Bonds 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.

**5.7 Payment Day**

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day in the relevant place and shall not be entitled to further interest or other sum in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 8 (*Prescription*)) 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) London (unless otherwise specified in the Final Terms);

(ii) İstanbul;

(iii) in the case of Covered Bonds in definitive form only, the relevant place of presentation; and

(iv) any Additional Financial Centre specified in the applicable Final Terms;

(b) either: (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency, or (ii) in relation to any sum payable in euro, a day on which the TARGET 2 System is open; and

(c) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. Dollars and registered in the name of DTC or its nominee and in respect of which a participant in DTC (with an interest in such Registered Global Covered Bond) has elected in accordance with Condition 5.10 to receive any part of such payment in that Specified Currency, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

**5.8 Interpretation of Principal and Interest**

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

(a) any Additional Amounts which may be payable with respect to such principal under Condition 7 (*Taxation*);

(b) the Final Redemption Amount of such Covered Bond;

(c) the Early Redemption Amount of such Covered Bond;

(d) the Optional Redemption Amount(s) (if any) of such Covered Bond;

(e) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of such Covered Bond; and

(f) in relation to Instalment Covered Bonds, the Instalment Amounts.

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any Additional Amounts which may be payable with respect to interest under Condition 7 (*Taxation*).

**5.9 U.S. Dollar Exchange and Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC**

(a) If "USD Payment Election" is specified as being applicable in the applicable Final Terms, the Specified Currency is Turkish Lira and interests in the Covered Bonds are not represented by a Registered Global Covered Bond registered in the name of DTC or its nominee, a Covered Bondholder as of the applicable Record Date may, not more than 10 and not less than five Business Days before the due date (the "**Relevant Payment Date**") for the next payment of interest and/or principal on a Covered Bond

(*i.e.*, a USD Election Period), give an irrevocable election to the Fiscal Agent to receive such payment in U.S. Dollars instead of Turkish Lira (*i.e.*, a USD Payment Election). The Fiscal Agent shall calculate the related aggregate Turkish Lira (the "**Lira Amount"**) on the Business Day following each USD Election Period of the USD Payment Elections made to it by Covered Bondholders during such USD Election Period and notify the Exchange Agent of the Lira Amount to be paid by the Issuer in respect of the Covered Bonds the subject of such USD Payment Elections and which is to be converted into U.S. Dollars and paid to the holders of such Covered Bonds on the Relevant Payment Date in accordance with the provisions of this Condition 5.9 and Clause 5 of the Agency Agreement.

(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 "**Relevant Exchange Rate**"). In no event shall any Agent be liable to any Covered Bondholder, the Issuer or any third party for the conversion rate so used.

If the Fiscal Agent receives cleared funds from the Issuer in respect of Turkish Lira-denominated Covered Bonds held other than through DTC after the time noted in the previous paragraph on the Relevant Payment Date, then the Fiscal Agent will use reasonable efforts to pay any U.S. Dollar amounts that Covered Bondholders have elected to receive in respect of such funds as soon as reasonably practicable thereafter.

The Issuer's obligation to make payments on Covered Bonds the Specified Currency of which is Turkish Lira is limited to the specified Turkish Lira amount of such payments and, in the event that it fails to make any payment on the Covered Bonds 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 Relevant 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 5.9 and the Agency Agreement, the Exchange Agent shall: (i) promptly transfer such U.S. Dollar amount to the Fiscal Agent and (ii) notify the Fiscal Agent of: (A) the total amount of U.S. Dollars purchased with the relevant Lira Amount and (B) the Relevant 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 Covered Bondholders of such U.S. Dollar amount and Relevant Exchange Rate in accordance with Condition 14 (*Notices*) as so notified to it by the Exchange Agent.

(d) If, for illegality or any other reason, it is not possible for the Exchange Agent to purchase U.S. Dollars with the Lira Amount, then the Exchange Agent will promptly notify the Fiscal Agent, which shall, as soon as practicable upon receipt of such notification from the Exchange Agent, notify the Covered Bondholders of such event in accordance with Condition 14 (*Notices*) and all payments on the Covered Bonds on the Relevant Payment Date will be made in Turkish Lira in accordance with this Condition 5.9 irrespective of any USD Payment Election made.

If it is not practicable for the Fiscal Agent, either itself or through the relevant Paying Agent, to make payment of the relevant amount on the Relevant Payment Date, such relevant amount shall be paid as soon as practicable on a Business Day following such Relevant Payment Date. No additional interest shall be payable in respect of such deferred payment and failure to make such payment on the Relevant Payment Date shall not constitute an Issuer Event or an Event of Default.

(e) To give a USD Payment Election:

(i) in the case of Covered Bonds in definitive form, a Covered Bondholder must deliver at the specified office of the Fiscal 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 the Fiscal Agent and in which the holder must specify a USD bank account to which payment is to be made under this Condition 5.9 accompanied by the relevant Covered Bonds or evidence satisfactory to the Fiscal Agent that such Covered Bonds 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 Covered Bonds in global form, a Covered Bondholder must, on any Business Day falling within the USD Election Period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or DTC, as applicable (which may include notice being given on such holder's instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for any of them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg or DTC, as applicable, from time to time.

(f) Notwithstanding any other provision in the Conditions to the contrary: (A) all costs of the purchase of U.S. Dollars with the Lira Amount shall be borne *pro rata* by the relevant Covered Bondholders relative to the Covered Bonds of such Covered Bondholders the subject of USD Payment Elections, which *pro rata* amount will be deducted from the U.S. Dollar payment made to such Covered Bondholders, (B) none of the Issuer, any Agent or any other Person shall have any obligation whatsoever to pay any related foreign exchange rate spreads, conversion fees, commissions or expenses or to indemnify any Covered Bondholder against any difference between the U.S. Dollar amount received by such Covered Bondholder and the portion of the Lira Amount that would have been payable to the Covered Bondholder if it had not made the relevant USD Payment Election and (C) the Issuer shall not have any liability or other obligation to any Covered Bondholder 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 Covered Bondholders.

**5.10 Payments on Covered Bonds Held through DTC in a Specified Currency other than U.S. Dollars**

In the case of any Covered Bonds represented by a Registered Global Covered Bond 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 Covered Bonds will be made to the applicable Covered Bondholders in U.S. Dollars unless the participant in DTC with an interest in such Covered Bonds 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. In connection with all such payments, the Issuer shall deliver to the Fiscal Agent the related payments in the applicable Specified Currency, which amounts the Fiscal Agent shall pay to the Exchange Agent for conversion into U.S. Dollars

(to the extent required) and: (a) for payments so elected to be delivered in the applicable Specified Currency, payment by the Exchange Agent directly to the applicable participant in DTC in accordance with the payment instructions received from DTC or its nominee, and (b) for payments in U.S. Dollars, payment by the Exchange Agent to DTC (or its nominee) for distribution to DTC's participants.

**5.11 Redenomination**

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Covered Bondholders, the Receiptholders and the Couponholders, on giving prior written notice to the Agents and any applicable Clearing System and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 14 (*Notices*), elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be redenominated in euro. In relation to any Covered Bonds where the applicable Final Terms provides for a minimum Specified Denomination in the Specified Currency which is equivalent to at least €100,000 and which are admitted to trading on a regulated market in the European Economic Area, it shall be a term of any such redenomination that the holder of any Covered Bonds held through Euroclear and/or Clearstream, Luxembourg must have credited to its securities account with the relevant Clearing System a minimum balance of Covered Bonds of at least €100,000.

The election will have effect as follows:

(a) the Covered Bonds and any Receipts shall be deemed to be redenominated in euro in the denomination of €0.01 with a principal amount for each Covered Bond and Receipt equal to the principal amount of that Covered Bond or Receipt in the Specified Currency, converted into euro at the rate for the conversion of the relevant Specified Currency (including compliance with rules relating to rounding in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the treaty establishing the European Community, as amended; *provided* that, if the Issuer determines, in consultation with the Fiscal Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Covered Bondholders, the Paying Agents and the competent listing authority, stock exchange and/or market (if any) on or by which the Covered Bonds are listed and/or admitted to trading of such deemed amendments;

(b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate principal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01;

(c) if Definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of €100,000 and/or such higher amounts as the Fiscal Agent may determine and notify to the Covered Bondholders and any remaining amounts less than €100,000 shall be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 6 (*Redemption and Purchase*);

(d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the "**Exchange Notice**") that replacement euro-denominated Covered Bonds, Receipts and Coupons

are available for exchange (*provided* that such securities are so available) and no payments will be made in respect of the then-existing Covered Bonds, Receipts and Coupons. The payment obligations contained in any Covered Bonds, Receipts and Coupons so issued prior to the Redenomination Date will also become void on that date although those Covered Bonds, Receipts and Coupons will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds, Receipts and Coupons will be issued in exchange for Covered Bonds, Receipts and Coupons denominated in the Specified Currency in such manner as the Agents may specify and as shall be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;

(e) after the Redenomination Date, all payments in respect of the Covered Bonds, the Receipts and the Coupons will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

(f) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, 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;

(g) if the Covered Bonds are Floating Rate Covered Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and

(h) such other changes shall be made to this Condition (and the Final Terms and other Transaction Documents) as the Issuer may decide, after consultation with the Fiscal Agent, and as may be specified in the Exchange Notice, to conform it to conventions then applicable to instruments denominated in euro.

**5.12 Definitions**

In these Conditions, the following expressions have the following meanings:

"**Final Redemption Amount**" means, in respect of a Tranche of Covered Bonds, the amount specified in the applicable Final Terms.

"**Optional Redemption Amount**" has the meaning (if any) given in the applicable Final Terms.

"**Rate of Interest**" has, with respect to any Tranche, the meaning given to that term in the applicable Final Terms as further elaborated by Condition 4 (*Interest*).

"**Relevant Screen Page**", in respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, has the meaning given to that term in the applicable Final Terms.

"**Screen Rate Determination**" means, if specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2(b)(ii) (*Screen Rate Determination for Floating Rate Covered Bonds*).

## 6. Redemption and Purchase

### 6.1 Redemption at Maturity

Subject to Condition 6.9 (*Extension of Maturity up to an Extended Final Maturity Date*), and unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Final Maturity Date specified in the applicable Final Terms. Unless previously redeemed as provided in these Conditions, the Covered Bonds will be redeemed at their Principal Amount Outstanding.

### 6.2 Redemption for Tax Reasons

Unless provided otherwise in the applicable Final Terms, if:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Covered Bonds of this Series (which shall, for the avoidance of doubt and for the purposes of this Condition 6.2, be the date on which the applicable Final Terms is signed by the Issuer), on the next Interest Payment Date the Issuer would be required to:

(i) pay Additional Amounts as provided or referred to in Condition 7 (*Taxation*); and

(ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on such date on which agreement is reached to issue the first Tranche of the Covered Bonds 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 to the Covered Bondholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Covered Bonds of this Series at any time at their Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent: (i) a certificate signed by two 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 the change or amendment.

### 6.3 Redemption at the Option of the Issuer (Issuer Call)

This Condition 6.3 applies to Covered Bonds which are subject to redemption prior to the Final Maturity Date at the option of the Issuer (other than for taxation reasons pursuant to Condition 6.2 (*Redemption for Tax Reasons*)), such option being referred to as an "**Issuer Call**". The applicable Final Terms contains provisions applicable to any Issuer Call and must be read in conjunction with this Condition 6.3 for full information on any Issuer Call. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the

Optional Redemption Amount, any minimum or maximum amount of Covered Bonds which can be redeemed and the applicable notice periods.

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may at its option, having given not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Covered Bondholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together (if appropriate) with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a principal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Covered Bonds under this Condition 6.3, the Covered Bonds to be redeemed ("**Redeemed Covered Bonds**") will: (a) in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, be selected individually by lot not more than 30 days prior to the date fixed for redemption, and (b) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, 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 principal amount, at their discretion) and/or DTC. In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 14 (*Notices*) not less than 15 days (or such shorter period as may be specified in the applicable Final Terms) prior to the date fixed for redemption.

"**Optional Redemption Date**" has the meaning (if any) given in the applicable Final Terms.

**6.4 Early Redemption Amounts**

For the purpose of Conditions 6.2 (*Early Redemption Amount*) and 10 (*Events of Default*), each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows (the "**Early Redemption Amount**"):

(a) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price of the first Tranche of the applicable Series and payable in the Specified Currency of such Covered Bond, at the Final Redemption Amount thereof; or

(b) in the case of a Covered Bond (including an Instalment Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price of the first Tranche of the applicable Series or which is payable in a Specified Currency other than that in which the Covered Bond is denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its Principal Amount Outstanding.

**6.5 Instalments**

Instalment Covered Bonds will be redeemed in the instalment amount as specified in the Final Terms (the "**Instalment Amount**") and on the Instalment Date(s) specified in the Final Terms. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.4 (*Early Redemption Amounts*).

**6.6 General**

Prior to the publication of any notice of redemption pursuant to Condition 6.2 (*Redemption for Tax Reasons*) or Condition 6.3 (*Redemption at the Option of the Issuer (Issuer Call)*), the

Issuer shall deliver to the Fiscal Agent a certificate signed by two authorised signatories (at the relevant time) of the Issuer stating that the Issuer is entitled or required to effect such redemption and setting forth a statement of facts showing that the conditions set out in Condition 6.2 (*Redemption for Tax Reasons*) or Condition 6.3 (*Redemption at the Option of the Issuer (Issuer Call)*) for such right of the Issuer to arise have been satisfied and that the Issuer will have the funds in the relevant Specified Currency outside of Turkey, not subject to the interest of any other Persons, required to fulfil its obligations hereunder in respect of the Covered Bonds to be redeemed and any amounts required under the Transaction Documents and/or the Turkish Covered Bonds Legislation to be paid at the same time *pari passu* with, or in priority to, such Covered Bonds (including any early termination amount or settlement amount payable to a Hedging Counterparty under a Hedging Agreement in connection with such redemption) and the Fiscal Agent shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions set out above, in which event it shall be conclusive and binding on all Covered Bondholders, Receiptholders and Couponholders.

**6.7 Purchases by the Issuer or its Subsidiaries**

To the extent possible under applicable law and regulations, the Issuer or any of its Subsidiaries may at any time purchase or otherwise acquire Covered Bonds (*provided* that, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market either by tender or private agreement or otherwise. If purchases of a Series are made by tender, tenders must be available to all Covered Bondholders of such Series alike to the extent required by law. Such Covered Bonds may be held, resold or, at the option of the Issuer or any such Subsidiary (as the case may be) for those Covered Bonds held by it, surrendered to any Paying Agent and/or the Registrar for cancellation. The Covered Bonds so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the Covered Bondholder to vote at any meeting of the Covered Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Covered Bondholders or for the purposes of Condition 15.1 (*Meetings of Covered Bondholders*).

**6.8 Cancellation**

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.7 (*Purchases by the Issuer or its Subsidiaries*) above (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, 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.

**6.9 Extension of Maturity up to an Extended Final Maturity Date**

If so specified in the applicable Final Terms relating to a Series of Soft Bullet Covered Bonds, the Issuer's obligations under the relevant Covered Bonds to pay their Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past that Final Maturity Date until the Extended Final Maturity Date. Such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount on the relevant Final Maturity Date for such Soft Bullet Covered Bonds. Upon such automatic deferral, any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date of such Series of Soft Bullet Covered Bonds may be paid by the Issuer on any Extended Series Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date or as otherwise provided for in the applicable Final Terms. Interest will continue to accrue and be payable on any unpaid amounts on each Extended Series Payment Date up to the relevant Extended Final

Maturity Date in accordance with Condition 4 (*Interest*) and as specified in the applicable Final Terms. As provided in Condition 4.5 (*Interest Rate and Payments from Final Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Final Maturity Date*), the Issuer shall give to the Covered Bondholders, the Fiscal Agent and the Paying Agents notice of its intention to redeem all or any of the Principal Amount Outstanding of the Soft Bullet Covered Bonds.

Upon such automatic deferral, the Issuer shall:

(a) promptly liquidate all Authorised Investments that are Cover Pool Assets (*it being understood* that such does not include any investments that are Hedge Collateral) and Substitute Assets to the extent necessary to pay the Final Redemption Amount;

(b) deposit the proceeds of such liquidation (the "**Liquidation Proceeds**") into the relevant Designated Account(s) (such amounts to form part of the Available Funds); and

(c) on the Final Maturity Date and on each Extended Series Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date, apply all Available Funds towards the payment of any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date of such Series of Soft Bullet Covered Bonds unless otherwise provided for in the applicable Final Terms; *provided* that where a Payment Date of any other Series of Covered Bonds (or any payment by the Issuer under a Hedging Agreement) corresponds with such Extended Series Payment Date, the Issuer shall apply all Available Funds towards payment of amounts due in respect of the Covered Bonds, such other Series of Covered Bonds and such Hedging Agreement, as applicable, on a *pro rata* basis.

Any extension of the maturity of Soft Bullet Covered Bonds under this Condition 6.9 shall be irrevocable. Where this Condition 6.9 applies, any failure to redeem the Soft Bullet Covered Bonds on their Final Maturity Date or any extension of the maturity of Soft Bullet Covered Bonds under this Condition 6.9 shall not constitute an Event of Default for any purpose or give any Covered Bondholder, Receiptholder or Couponholder any right to receive any payment of interest, principal or otherwise on the relevant Soft Bullet Covered Bonds other than as expressly set out in these Conditions. Where this Condition 6.9 applies, any failure to redeem the Soft Bullet Covered Bonds on their Final Maturity Date or any extension of the maturity of Soft Bullet Covered Bonds to their Extended Final Maturity Date under this Condition 6.9 shall constitute an Issuer Event.

In the event of the extension of the maturity of Soft Bullet Covered Bonds under this Condition 6.9, interest rates, interest periods and interest payment dates on such Soft Bullet Covered Bonds from (and including) the Final Maturity Date to (but excluding) their Extended Final Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition 4 (*Interest*).

If the Issuer redeems part and not all of the Principal Amount Outstanding of the relevant Covered Bonds on an Interest Payment Date falling in any month after the Final Maturity Date, the redemption proceeds shall be applied rateably across the relevant Covered Bonds and the Principal Amount Outstanding on the relevant Covered Bonds shall be reduced by the level of that redemption.

This Condition 6.9 shall only apply to Soft Bullet Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Soft Bullet Covered Bonds in full on the Final Maturity Date.

**6.10 Procedures for Payment Upon Redemption of Turkish Dematerialised Covered Bonds**

Any redemption of Turkish Dematerialised Covered Bonds pursuant to this Condition 6 shall be in accordance with the then prevailing rules and procedures of the Central Registry System.

**6.11 Mandatory Redemption by the Administrator**

Notwithstanding anything else herein or in any other Transaction Documents to the contrary, pursuant to Article 27(6) of the Covered Bonds Communiqué, the Administrator may, with the consent of the Capital Markets Board, determine to redeem the Covered Bonds in whole or in part on one or more redemption dates prior to the relevant Final Maturity Date or Extended Final Maturity Date applicable to such Covered Bonds. In such case, the Administrator shall perform the liquidation of the Cover Pool Assets and the early redemption of the Covered Bonds.

**7. Taxation**

**7.1 Payment without Withholding**

All payments of principal or interest in respect of the Covered Bonds, the Receipts and the Coupons (if any) by (or on behalf of) the Issuer will be made free and clear of, and without withholding or deduction for or on account of, any Taxes imposed or levied by any Relevant Jurisdiction unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts ("**Additional Amounts**") as shall be necessary in order that the net amounts received by the holders of the Covered Bonds, Receipts or Coupons after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable in respect of such Covered Bonds, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable in relation to any payment in respect of any Covered Bond, Receipt or Coupon:

(a) presented for payment by or on behalf of a holder who is liable for Taxes in respect of the Covered Bond, Receipt or Coupon by reason of such holder having some connection with any Relevant Jurisdiction other than the mere holding of the Covered Bond, Receipt or Coupon;

(b) presented for payment in the Republic of Turkey;

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to Council Directive 2003/48/EC (as amended from time to time, including by Council Directive 2014/48/EU of 24 March 2014) or any law implementing or complying with, or introduced in order to conform to, such Directive;

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or

(e) presented for payment more than 30 days after the Relevant Date except to the extent that a holder of the relevant Covered Bond, Receipt or 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 Day (as defined in Condition 5.7 (*Payment Day*)).

Notwithstanding any other provision of these Conditions or the other Transaction Documents, in no event will the Issuer, any Paying Agent or any other Person be required to pay any Additional Amounts or amount in respect of the Covered Bonds (including on Receipts and

Coupons) for, or on account of, any withholding or deduction required pursuant to FATCA (including pursuant to any agreement described in Section 1471(b) of the Code, the laws of any jurisdiction implementing FATCA or any agreement between the Issuer and/or Turkey and the United States or any authority thereof entered into for FATCA purposes).

**7.2 Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Covered Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 7.

**7.3 Tax Sharing Laws**

Each Covered Bondholder, by its acquisition of a Covered Bond, is deemed to agree, and each Paying Agent (with the consent of each Covered Bondholder, which consent is deemed to have been irrevocably provided) agrees: (a) to provide to the Issuer and each Paying Agent (or any agent acting on any of their respective behalf) all information reasonably available to it that is reasonably requested by the Issuer and/or such Paying Agent (or any agent acting on any of their respective behalf) in connection with the Tax Sharing Laws and (b) that each of the Issuer and the Paying Agents (or any agent acting on any of their respective behalf) may: (i) provide such information, any related documentation and any other information concerning such Covered Bondholder's investment in the Covered Bonds to any relevant tax authority and (ii) take such other steps as it may deem necessary or helpful to comply with the Tax Sharing Laws; *provided* that the requirements of this paragraph shall not apply to any Covered Bondholder that is an Exempt Government Entity. For the purpose of clarification, this is applicable only to the registered Covered Bondholders (or holders of Bearer Covered Bonds) and not to holders of beneficial interests in the Covered Bonds held through Clearing Systems.

**8. Prescription**

The Covered Bonds (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.

The Issuer shall be discharged from its obligation to pay principal on a Registered Covered Bond to the extent that the relevant Registered Covered Bond certificate has not been surrendered to the Registrar by, or a cheque which has been duly despatched in the applicable currency of payment remains uncashed at, the end of the period of ten years from the Relevant Date for such payment.

The Issuer shall be discharged from its obligation to pay interest on a Registered Covered Bond to the extent that a cheque which has been duly despatched in the applicable currency of payment remains uncashed at the end of the period of five years from the Relevant Date in respect of such payment.

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 5.2 (*Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons*) or any Talon which would be void pursuant to Condition 5.2 (*Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons*).

**9. Issuer Events; Consequences of the occurrence of a continuing Issuer Event**

For so long as an Issuer Event or (with respect to sub-paragraphs (a) through (c) below) a Potential Breach of Statutory Test is continuing:

(a) no further Covered Bonds shall be issued;

(b) after the Issuer's detection of such Issuer Event or Potential Breach of Statutory Test, all amounts on deposit in the Collection Account shall be transferred to the TL Designated Account within two İstanbul Business Days of receipt;

(c) after the Issuer's detection of such Issuer Event or Potential Breach of Statutory Test, all collections of principal and interest on the Cover Pool Assets will be dedicated exclusively towards the satisfaction of all the Issuer's payment obligations towards the Secured Creditors (subject to, in the case of the Other Secured Creditors, the provisions of Article 29 of the Covered Bonds Communiqué) subject to the provisions of Article 13 of the Covered Bonds Communiqué; and

(d) where Article 27(1) of the Covered Bonds Communiqué applies, an Administrator may be appointed by the CMB to manage the Cover Pool.

In the case of Soft Bullet Covered Bonds where the applicable Final Terms provide that the Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past the Final Maturity Date until the Extended Final Maturity Date, the failure by the Issuer to pay the Principal Amount Outstanding on such Soft Bullet Covered Bonds on the Final Maturity Date shall constitute an Issuer Event and shall not constitute an Event of Default.

**10. Events of Default**

**10.1** An "**Event of Default**" arises if one of the following events occurs and is continuing:

(a) the Issuer fails to pay any interest (or any Additional Amounts) in respect of the Covered Bonds (including with respect to the Coupons) of any Series within a period of 14 İstanbul Business Days from the due date thereof; or

(b) on the Final Maturity Date (in the case of Covered Bonds which are not subject to an Extended Final Maturity Date) or Extended Final Maturity Date (in the case of Soft Bullet Covered Bonds which are subject to an Extended Final Maturity Date), as applicable, in respect of any Series there is a failure to pay any amount of principal due on such Covered Bonds on such date and such default is not remedied within a period of seven İstanbul Business Days from the due date thereof.

At any time following the occurrence of any Event of Default and for so long as such Event of Default is continuing, the Security Agent acting as directed by the Covered Bondholder Representative may serve a notice of default on the Issuer (such notice, a "**Notice of Default**"), upon the Issuer's receipt of which the Covered Bonds of each Series shall become immediately due and payable.

In the case of Soft Bullet Covered Bonds where the applicable Final Terms provide that the Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past such Final Maturity Date until the applicable Extended Final Maturity Date, the failure by the Issuer to pay the Principal Amount Outstanding on such Soft Bullet Covered Bonds on such Final Maturity Date shall not constitute an Event of Default but shall constitute an Issuer Event.

**10.2 Enforcement**

The Security Agent, at its discretion and without notice, may take such steps or proceedings against or in relation to the Issuer as it may think fit to enforce the provisions of the Transaction Security Documents, the Covered Bonds, the Receipts, the Coupons and the other English Law Transaction Documents to which it is a party (or the Issuer's rights, title, interest and benefit under which have been assigned to it pursuant to the Security Assignment), but the Security Agent shall not be bound to take any such steps or proceedings unless so requested in writing by the Covered Bondholder Representative (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction).

Pursuant to the Security Assignment, each of the Secured Creditors (other than the Security Agent) agrees with (or, by accepting the benefits of the Security Assignment, shall be deemed to have agreed with) the Security Agent and the Issuer that such Secured Creditor: (a) shall not be entitled to take, and shall not take, any steps whatsoever to enforce the security created by or pursuant to the Security Assignment, or to direct the Security Agent to do so; and (b) shall not be entitled to take, and shall not take, any steps (including, without limitation, the exercise of any right of set-off) for the purpose of recovering any of the Secured Obligations owing to it or any other debts whatsoever owing to it by the Issuer or procuring the winding-up, examination, administration, bankruptcy, insolvency, dissolution or reorganisation of the Issuer or any analogous procedure or step in any jurisdiction in relation to the Issuer in respect of the Secured Obligations; *provided* that if the Security Agent or the Receiver, having become bound to do so, fails to serve a Notice of Default and/or to take any steps or proceedings to enforce such security pursuant to the Security Agreement within a reasonable time, and such failure is continuing, the Secured Creditors shall be entitled to take any such steps and proceedings as they shall deem necessary (other than procuring the winding-up, examination, administration, bankruptcy, insolvency, dissolution or re-organisation of the Issuer or any analogous procedure or step in any jurisdiction in relation to the Issuer in respect of the Secured Obligation); *and provided further* that the Covered Bondholder Representative is entitled to direct the Security Agent to enforce the security created pursuant to the Security Assignment as more particularly set out in this Condition 10 (*Events of Default*) and the Security Agency Agreement.

In acting on the instructions of the Covered Bondholder Representative, the Security Agent shall not be required to consider the interests of any other Secured Creditor. The Security Agent shall not be required to take any action that would involve the Security Agent in any liability or expense (unless previously pre-funded and/or indemnified and/or secured to its satisfaction). The Security Agent shall not, in any event, have regard to the consequences for individual Secured Creditors resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular jurisdiction. No Secured Creditor shall be entitled to require from the Issuer or the Security Agent, nor shall any Secured Creditor be entitled to claim from the Issuer or the Transaction Security, any indemnification or other payment in respect of any consequence (including any tax consequence) for such individual Secured Creditor of any such exercise.

For the avoidance of doubt, the Security Agent shall be entitled to act in relation to all matters arising under these Conditions, the Security Agency Agreement, the Transaction Security Documents and the other Transaction Documents to which it is a party as soon as it has received any instruction, direction and/or request from the Covered Bondholder Representative (subject in all cases to the requirement for the Security Agent to first have been pre-funded and/or secured and/or indemnified to its satisfaction) and if the Security Agent receives a conflicting instruction, direction and/or request from one or more Secured Creditors (other than the Covered Bondholder Representative) in relation to any such matter, the Security Agent shall in no way incur any liability for acting or continuing to act as it was instructed, directed and/or requested by the Covered Bondholder Representative.

The Covered Bondholder Representative is required to be appointed by the Majority Instructing Creditor. The Security Agency Agreement and the Agency Agreement contain provisions for convening meetings of Covered Bondholders to appoint the Covered Bondholder Representative.

**10.3 Transfer to another institution**

Pursuant to the provisions of Article 27 of the Covered Bonds Communiqué, in the event that an Administrator is appointed to the Cover Pool, the Administrator may, with the consent of the Capital Markets Board, transfer all or part of the Cover Pool Assets and the Total Liabilities and any other obligations which benefit from the Cover Pool to another bank (within the meaning of the Covered Bonds Communiqué) or mortgage finance institution (within the meaning of the Covered Bonds Communiqué). Any such transfer is not subject to the consent of the Security Agent, Covered Bondholders, Hedging Counterparties, Agents or other Secured Creditors.

Any such transfer shall not constitute an Event of Default.

The Issuer shall use its best endeavours to effect such transfer at the earliest opportunity and in a smooth and trouble-free manner as is reasonably possible in the circumstances.

**11. Replacement of Covered Bonds, Receipts, Coupons and Talons**

If any Covered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent (in the case of Bearer Covered Bonds, Receipts, Coupons or Talons) or the Registrar (in the case of Registered Covered Bonds) 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 Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

**12. Agents**

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

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents; *provided* that the applicable requirements (if any) of Clause 25 (*Changes in Agents*) of the Agency Agreement are satisfied.

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 5.6 (*General Provisions Applicable to Payments*).

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 Covered Bondholder, Receiptholder or Couponholder. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

**13. 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 Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (*Prescription*). Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relevant Coupon sheet matures.

**14. Notices**

All notices regarding the Bearer Covered Bonds 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 which complies with the rules of any relevant Stock Exchange or other relevant authority on which the Bearer Covered Bonds (if any) are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the first date on which publication has occurred in all required newspapers.

All notices to Covered Bondholders regarding the Registered Covered Bonds also 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 Covered Bonds 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 Covered Bonds are listed on a relevant Stock Exchange or are admitted to trading by another relevant authority and the rules of that relevant Stock Exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

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

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Definitive Bearer Covered Bond) with the relative Covered Bond or Covered Bonds, with the Fiscal Agent. Any such Definitive Bearer Covered Bond shall be returned to the relevant Covered Bondholder after such notice has been given in the event such Definitive Bearer Covered Bond is otherwise due to be returned to such Covered Bondholder. Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of an interest in such Covered Bond to the Fiscal Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

Receiptholders and Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Covered Bondholders of the corresponding Covered Bond.

## 15. Meetings of Covered Bondholders and Modification

### 15.1 Meetings of Covered Bondholders

The Agency Agreement contains provisions for convening meetings of the Covered Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Covered Bonds, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer: (a) other than in respect of a Programme Reserved Matter, at any time and, if required in writing by Covered Bondholders holding not less than five *per cent*. in Principal Amount of the Covered Bonds of this Series for the time being remaining outstanding, (b) in respect of a Programme Reserved Matter, at any time and, if required in writing by Covered Bondholders of any Series holding not less than five *per cent*. in Principal Amount of the Covered Bonds of all Series for the time being outstanding, or (c) in order to appoint the Covered Bondholder Representative, at any time if required by any Covered Bondholder. 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 such meeting giving at least five days' notice which, in the case of a meeting convened by the Issuer, will be given to applicable Covered Bondholders in accordance with Condition 14 and to the Fiscal Agent and the Security Agent. The quorum at any meeting for appointing the Covered Bondholder Representative shall be one or more Eligible Persons present and holding or representing any Principal Amount of the Covered Bonds then outstanding and the Covered Bondholder Representative is required to be appointed by the Majority Instructing Creditor. The quorum at any meeting of a Series of Covered Bonds for passing an Extraordinary Resolution (other than a Programme Resolution) is one or more Eligible Person(s) present and holding or representing in the aggregate not less than 50 *per cent*. in Principal Amount Outstanding of the relevant Series of Covered Bonds for the time being outstanding, or at any adjourned meeting one or more Person(s) being or representing Covered Bondholders whatever the principal amount of the Covered Bonds so held or represented, except that at any meeting the business of which includes any Series Reserved Matter (including modifying the date of maturity of the Covered Bonds 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 Covered Bonds, modifying the currency of payment of the Covered Bonds, the Receipts or the Coupons or modifying the Deed of Covenant), the quorum shall be one or more Eligible Persons present and holding or representing not less than two-thirds in Principal Amount of the relevant Series of Covered Bonds for the time being outstanding, or at any adjourned such meeting one or more Eligible Persons present and holding or representing not less than one-third in Principal Amount Outstanding of the Covered Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders shall be binding on all the Covered Bondholders, whether or not they are present at the meeting and whether or not they vote on the resolution, and on all Couponholders and Receiptholders.

### 15.2 Modification

The Issuer may make amendments or modifications to these Conditions and/or the other Transaction Documents in the manner described in Clause 32 (*Amendments*) of the Agency Agreement and (with respect to any Transaction Document) as provided within the applicable Transaction Document. Any such amendment or modification shall be binding on the Agents, Covered Bondholders, Receiptholders, Couponholders and other Secured Creditors and, unless the Fiscal Agent agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Covered Bondholders, Receiptholders and Couponholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

## 16. Further Issues

The Issuer may from time to time without the consent of the Covered Bondholders or any other Secured Creditors create and issue further Covered Bonds having terms and conditions the same as those of the Covered Bonds or the same in all respects save for the amount and/or date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds; *provided* that the Issuer shall ensure that such further Covered Bonds will be fungible for U.S. federal income tax purposes as a result of their issuance being a "qualified reopening" under U.S. Treasury Regulation § 1.1275-2(k); *and provided further* that: (a) there is no Potential Breach of Statutory Test, Issuer Event or Event of Default outstanding and that such issuance would not cause a Potential Breach of Statutory Test, Issuer Event or Event of Default, (b) such issuance would not result in a Potential Breach of Statutory Test, (c) the Issuer notifies each Relevant Rating Agency of the issuance not less than five Business Days prior to the relevant issuance, (d) if applicable, such issuance has been approved by the Capital Markets Board in accordance with the Turkish Covered Bonds Legislation, and (e) if applicable, a Hedging Agreement is entered into.

In addition, the Issuer may from time to time without the consent of the Covered Bondholders or any other Secured Creditors create and issue separate Series of Covered Bonds under the Programme subject to satisfaction of sub-paragraphs (a), (b) and (d) referred to in the proviso to the immediately preceding paragraph.

Notwithstanding the preceding two paragraphs, in order to issue any other Series of Covered Bonds or any further Tranche of this Series, a Rating Agency Confirmation from the Relevant Rating Agency(ies) of this Series shall have been obtained *unless* the new issuance is denominated and payable in Turkish Lira.

## 17. Contracts (Rights of Third Parties) Act 1999

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

## 18. Governing Law and Submission to Jurisdiction

### 18.1 Governing Law

These Conditions, and any non-contractual obligations arising out of or in connection herewith, are and will be governed by, and construed in accordance with, the laws of England; *provided* that the Statutory Segregation referred to in Condition 3 (*Status of the Covered Bonds*) is and shall be governed by and construed in accordance with Turkish law.

### 18.2 Submission to Jurisdiction

The Issuer irrevocably agrees, for the benefit of the Covered Bondholders, Receiptholders and Couponholders, and the Covered Bondholders, Receiptholders and Couponholders shall (by their acquisition of this Covered Bond or any related Receipt or Coupon) be deemed to have agreed for the benefit of the Issuer and the Agents, that the courts of England have exclusive jurisdiction to settle any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Covered Bonds, Receipts and/or Coupons, including any dispute as to existence, validity, interpretation, performance, breach or termination or the consequences of nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Covered Bonds, Receipts and/or Coupons) (together referred to as "**Proceedings**") and accordingly submits to the exclusive jurisdiction of the courts of England with respect thereto.

To the fullest extent allowed by applicable law, the Issuer irrevocably waives any objection which it may have to the laying of the venue of any Proceedings in any such courts and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

**18.3 Consent to Enforcement**

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

**18.4 Appointment of Process Agent**

In connection with any Proceedings, service of process may be made upon the Issuer at its representative office at Fifth Floor, 192 Sloane Street, London, SW1X 9QX in respect of any Proceedings in England and the Issuer undertakes that in the event that it ceases to have an office in England it will promptly appoint another Person as its agent for that purpose. Failing this, the Security Agent may appoint an agent for this purpose; *provided* that the Issuer may thereafter appoint a replacement therefor. This Condition does not affect any other method of service allowed by law.

**18.5 Other Documents**

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

## DESCRIPTION OF THE TRANSACTION DOCUMENTS

### Security Assignment

Pursuant to the Security Assignment entered into on the Programme Closing Date by the Issuer and the Security Agent, the Secured Obligations owing to the Secured Creditors (including the Security Agent and any Receiver) are secured by, *inter alia*:

(a) a security assignment over all the Issuer's right, title, interest and benefit, present and future, in, to and under:

(i) each of the Offshore Bank Accounts,

(ii) the English Law Transaction Documents (other than the Security Assignment and any deed expressed to be supplemental to the Security Assignment, the Programme Agreement and any Subscription Agreement), including, without limitation, any guarantee, credit support document or credit support annex entered into pursuant to the Hedging Agreements governed by the laws of England and any eligible credit support (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Deed or the 1995 English Law Credit Support Deed, each as defined by the International Swaps and Derivatives Association, Inc.) delivered or transferred to the Issuer thereunder, including, without limitation, all moneys received in respect thereof, all dividends paid or payable thereon, all property paid, distributed, accruing or offered at any time or, to in respect of or in substitution thereof and the proceeds of sale, repayment and redemption thereof, and

(iii) all payments of any amounts which may become payable to the Issuer thereunder, all payments received by the Issuer thereunder, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof,

which is held unto the Security Agent absolutely for the Security Agent itself and on trust, subject to the terms of this Deed, for: (i) other than Excess Hedge Collateral and the Agency Account, the Secured Creditors to whom the Secured Obligations from time become due, owing or payable; (ii) in the case of Excess Hedge Collateral, for the relevant Hedging Counterparty as security for the Issuer's obligations to repay or redeliver such Excess Hedge Collateral pursuant to the terms of the relevant Hedging Agreement to the relevant Hedging Counterparty; and (iii) in the case of the Agency Account, the Reserve Fund Secured Creditors; and

(b) a charge, by way of first fixed equitable charge to the Security Agent, over all the Issuer's rights, title, interest and benefit, present and future, in, to and under the Authorised Investments denominated in a currency other than Turkish Lira and which are Cover Pool Assets (and all moneys, income and proceeds to become payable thereunder or thereon and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same), which are held unto the Security Agent absolutely for the Security Agent itself and on trust, subject to the terms of the Security Assignment, for the Secured Creditors to whom the Secured Obligations from time become due, owing or payable.

"**English Law Transaction Documents**" means the Security Assignment, the Security Agency Agreement, the Agency Agreement, the Offshore Bank Account Agreement, the Hedging Agreements (to the extent governed by the laws of England), the Programme Agreement together with any additional document (governed by the laws of England) entered into in respect of a Series of Covered Bonds and/or the Cover Pool and designated as an English Law Transaction Document by the Issuer and the Security Agent.

Immediately following the creation of the security interest referred to above, the Security Agent has declared that it shall hold all such right, title, interest and benefit, present and future, in, to and under each of the Hedge Collateral Account(s) and the Non-TL Hedge Collection Account(s) for the benefit of and on trust for the Secured Creditors (in the case of Excess Hedge Collateral, for the relevant Hedging Counterparty only).

Notwithstanding the assignment in the Security Assignment, the Issuer shall be entitled to exercise its rights in respect of the English Law Transaction Documents rights in which were assigned pursuant to the Security Assignment; but subject to the provisions of the English Law Transaction Documents and certain payment allocations under the Security Assignment.

Notwithstanding the security created by the Security Assignment, but subject to the security enforcement provisions contained in the Security Assignment: (a) amounts may and shall be withdrawn from the Offshore Bank Accounts in the amounts contemplated, and for application in accordance with, the Conditions, the Offshore Bank Account Agreement, the Calculation Agency Agreement and the relevant Hedging Agreement; (b) payments may be made by the Issuer of the commissions, expenses and other amounts payable by the Issuer relating to or otherwise in connection with the issue of the Covered Bonds out of proceeds from the issue of the Covered Bonds; and (c) payments to be made under the Transaction Documents may be made by the Issuer and in accordance with the directions of the Issuer, subject as provided in the Offshore Bank Account Agreement and the Calculation Agency Agreement. Any amounts so withdrawn shall be automatically released and discharged from the security interest created under the Security Assignment. Subject as provided above and for making Authorised Investments as permitted in the Security Assignment, no other payments may be made out of any of the Offshore Bank Accounts without the prior written approval of the Security Agent.

The security constituted by the Security Assignment will become enforceable upon the occurrence of an Event of Default and a Notice of Default is served on the Issuer. Upon the security becoming enforceable, the Security Agent will be entitled to appoint a Receiver and/or to enforce the security constituted by the Security Assignment, subject to being indemnified and/or secured and/or prefunded to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all costs, charges, damages, expenses and liabilities which it may incur by so doing.

All moneys received by the Security Agent on the realisation or enforcement of the Security Assignment Security and other Non-Statutory Security (other than the security over the Agency Account) will be held and applied by the Security Agent in the following order of priority:

(a) firstly, to pay, or procure the payment of, *pro rata* and *pari passu*, all amounts due to: (i) the Covered Bondholders in respect of all outstanding Covered Bonds, (ii) the Receiptholders and Couponholders in respect of all outstanding Receipts and Coupons and (iii) the Hedging Counterparties in respect of all outstanding Hedging Agreements; and

(b) to use the Additional Cover (if any) or any other amounts permitted by the Covered Bonds Communiqué from time to time (to the extent remaining after all payments made pursuant to sub-paragraph (a) have been satisfied; *it being understood* that the amounts used to make payments pursuant to sub-paragraph (a) shall be deemed first to have been made from funds other than Additional Cover) to meet the Secured Obligations of the Other Secured Creditors permitted by Article 29 of the Covered Bonds Communiqué; *provided* that if the Covered Bonds Communiqué is amended after the Programme Closing Date to permit the Other Secured Creditors to have access to the Additional Cover on a priority or *pari passu* basis with the Covered Bondholders and/or the Hedging Counterparties, then this clause (b) shall be amended to reflect the statutory order of priority prescribed by the Covered Bonds Communiqué in respect of Additional Cover from time to time.

Notwithstanding the foregoing: (x), funds from the Agency Account shall be applied in payment of, *pro rata and pari passu*, all amounts due to the Reserve Fund Secured Creditors and (y) Excess

Hedge Collateral shall be repaid or redelivered by the Security Agent to the relevant Hedging Counterparty. The Agency Account does not form part of the Cover Pool.

To the extent possible under applicable law, at any time after the security created by the Security Assignment has become enforceable, the Security Agent may (without notice to the Issuer) sell or otherwise dispose of the property subject to the security of the Security Assignment or any part of it and (notwithstanding the above) shall be entitled to apply the proceeds of such sale or other disposal in paying the costs of such sale or disposal and only thereafter in or towards the discharge of the Secured Obligations or otherwise as provided for in the Security Assignment.

The Security Assignment is governed by the laws of England.

**Security Agency Agreement**

Pursuant to the terms of the Security Agency Agreement, the Issuer has appointed the Security Agent to act as the security agent and trustee of the Secured Creditors in connection with the Security Assignment, the other Transaction Security Documents, the Offshore Bank Account Agreement, the Calculation Agency Agreement and the Security Agency Agreement.

The Issuer has agreed to pay to the Security Agent a fee for acting as Security Agent and to reimburse the Security Agent for certain charges and expenses incurred by the Security Agent in connection with the Transaction Documents to which it is a party.

Notwithstanding any provision of any Transaction Document to the contrary, the Security Agent is not: (a) required to undertake any act which may be illegal or contrary to any law or regulation to which the Security Agent is subject or (b) required to expend or risk its own funds or incur a financial liability in the performance of its duties and obligations or exercise of its rights and remedies under the Transaction Documents to which it is a party where the repayment of such funds or adequate indemnity against such risk or liability is not assured to the Security Agent.

In the execution and exercise of all or any of the trusts, powers, authorities and discretions vested in it by any Transaction Document, the Security Agent may act by responsible officers or a responsible officer for the time being of the Security Agent.

In order for the Majority Instructing Creditor to direct or instruct the Security Agent under the Security Agency Agreement and/or the Transaction Security Documents and/or the other Transaction Documents to which it is a party, the Majority Instructing Creditor shall appoint a representative (which may be any Person and need not be a Covered Bondholder) (such representative, the "**Covered Bondholder Representative**") on such terms as the Majority Instructing Creditor thinks fit, to act as the representative of the Covered Bondholders. "**Majority Instructing Creditor**" means, at any time, the holders of at least a majority in Principal Amount Outstanding of the Covered Bonds then outstanding (with the Principal Amount Outstanding of Covered Bonds not denominated in Turkish Lira notionally converted into Turkish Lira using the Applicable Exchange Rate).

None of the Security Agent, any Receiver nor any Delegate will be liable for: (a) any damages, costs or losses to any person, any diminution in value, or any liability whatsoever arising as a result of taking or not taking any action under or in connection with any Transaction Security Document or the Non-Statutory Security unless caused by its negligence, wilful default or wilful misconduct or that of its officers, directors or employees; (b) exercising or not exercising any right, power, authority or discretion given to it by, or in connection with, any Transaction Security Document, the Non-Statutory Security or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with, any Transaction Security Document or the Non-Statutory Security; (c) any shortfall which arises on the enforcement or realisation of the Non-Statutory Security; (d) without prejudice to the generality of sub-paragraphs (a) to (c) above, any damages, costs, losses, diminution in value or liability whatsoever arising as a result of: (i) any force majeure event; or (ii) the general risks of investment in, or the holding of assets in, any jurisdiction; (e) any loss, cost, damage, expense or liability occasioned to the Non-Statutory Security, however

caused, by the Administrator, whether or not acting in accordance with the Covered Bonds Communiqué, or any other Person (including any bank, broker, depository, warehouseman or other intermediary or by any clearing system or the operator thereof), or otherwise, unless caused by the negligence, wilful default or wilful misconduct of the Security Agent or the Receiver respectively; (f) any decline in value or any loss realised upon any sale or other disposition of any Non-Statutory Security pursuant to any Transaction Document; or (g) any deficiency which might arise because the Security Agent or the Receiver or the Delegate is subject to tax (other than in respect of its net income) in respect of the Non-Statutory Security or any party thereof or any income thereon or any proceeds thereof.

"**Non-Statutory Security**" means: (a) any property, assets or undertakings (other than the Agency Account and the property, assets and undertakings included in the Cover Pool) charged, pledged or otherwise secured by the Issuer pursuant to the Transaction Security Documents for the benefit of the Secured Creditors, and (b) the Agency Account secured by the Issuer pursuant to the Security Assignment for the benefit of the Reserve Fund Secured Creditors.

For so long as any Covered Bonds remain outstanding, the Issuer has covenanted in the Security Agency Agreement in favour of, *inter alios*, the Security Agent (for itself and for the benefit of the Secured Creditors), that it will at all times:

(a) maintain a Fiscal Agent, Paying Agent, Exchange Agent, Registrar and Transfer Agent with specified offices in accordance with the Conditions and at all times maintain any other agents required by the Conditions;

(b) give notice in writing to the Fiscal Agent and the Security Agent promptly upon becoming aware of the occurrence of an Issuer Event, Transferability and Convertibility Event or Event of Default and without waiting for the Fiscal Agent or the Security Agent to take any further action;

(c) keep proper books of account and permit, to the extent permitted by applicable law, the Security Agent and any persons appointed by the Security Agent to whom the Issuer shall have no reasonable objection free access to such books of account at all reasonable times during normal working hours; *provided* that nothing in this paragraph shall oblige the Issuer to disclose confidential information concerning customers of the Issuer or regarding any matters for which the Issuer would be entitled to claim exemption from disclosure by reason of applicable law or regulation binding on it;

(d) administer and manage the Cover Pool in the manner described in Schedule 2 (*The Cover Pool*) of the Security Agency Agreement;

(e) maintain the Cover Register in accordance with the requirements of the Covered Bonds Communiqué and ensure that it is up-to-date at all times;

(f) ensure at all times that the Cover Pool Assets are identified in such manner as is required to benefit from Statutory Segregation;

(g) give to the Security Agent at all times such opinions, certificates, information and evidence as it shall reasonably require for the purpose of the discharge of the duties, powers, trusts, authorities and discretions vested in it under the Security Agency Agreement, the Transaction Security Documents, the Offshore Bank Account Agreement and the Calculation Agency Agreement or by operation of law; *provided* always that the foregoing shall not oblige the Issuer to give any information non-disclosure of which is required by any applicable law;

(h) deliver to the Fiscal Agent for distribution to any Covered Bondholder upon such Covered Bondholder's written request to the Fiscal Agent:

    (i) 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

(ii) 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 consolidated financial statements for such six month period, prepared in accordance with IFRS consistently applied, together with the financial statements for the corresponding period of the previous financial year;

(i) so far as permitted by law, at all times execute all such further documents and do all such further acts and things that are necessary at any time or times in the reasonable opinion of the Security Agent to give effect to the terms and conditions of the Transaction Security Documents, the Offshore Bank Account Agreement and the Calculation Agency Agreement;

(j) send to the Fiscal Agent and the Security Agent a copy of each notice given to the Covered Bondholders of any one or more Series in accordance with Condition 14 (*Notices*);

(k) give prior notice to the Fiscal Agent and the Security Agent of any proposed redemption pursuant to Condition 6.2 (*Redemption for Tax Reasons*) or Condition 6.3 (*Redemption at the Option of the Issuer*) (*Issuer Call*) and, if it shall have given notice to the relevant Covered Bondholders in accordance with the Conditions of its intention, duly proceed to redeem any relevant Covered Bonds accordingly;

(l) in the event of the unconditional payment to a Paying Agent or the Security Agent (in any case) of any sum due in respect of principal, redemption amount, premium (if any) and/or interest on the Covered Bonds of any Series or any of them being made after the due date for payment thereof, forthwith give or procure the Fiscal Agent to give notice to the Covered Bondholders of such Series in accordance with Condition 14 (*Notices*) that such payment has been made;

(m) give or procure that there be given notice to the Covered Bondholders in accordance with the Conditions of any appointment (other than the initial appointment), resignation or removal of the Fiscal Agent, Exchange Agent, Registrar or any Transfer Agent or Paying Agent as shown on the Covered Bonds or so published in accordance with the Conditions as soon as practicable and in any event within 14 days after such event taking effect and within 30 days of notice received from the Fiscal Agent, Exchange Agent, Registrar or any Transfer Agent or Paying Agent of a change in its specified office, give notice to the Security Agent and to the Covered Bondholders of such change;

(n) in order to enable the Fiscal Agent and/or the Security Agent to ascertain the Principal Amount Outstanding of Covered Bonds of each Series for the time being outstanding (other than for the purpose of ascertaining the amount of Covered Bonds of each Series for the time being outstanding for the purpose of the Programme Limit), deliver to the Fiscal Agent and/or the Security Agent forthwith after being so requested in writing by the Fiscal Agent and/or the Security Agent, as applicable, a certificate in writing signed by an authorised signatory of the Issuer setting out the total numbers and Principal Amount Outstanding of the Covered Bonds of each Series which up to and including the date of such certificate have been purchased by or for the account of the Issuer, any holding company of the Issuer or any Subsidiary of the Issuer or such holding company, in each case held by them as beneficial owner, and the Principal Amount Outstanding of the Covered Bonds of each Series so purchased which have been cancelled;

(o) notify the Fiscal Agent and the Security Agent promptly upon becoming aware of any change in the ratings assigned by the Relevant Rating Agencies to the Covered Bonds or any Series of Covered Bonds;

(p) maintain its principal office in Turkey and that it will maintain at all times its Turkish banking licence issued to it by the BRSA in accordance with the Banking Law (Law No. 5411) of Turkey;

(q) maintain all necessary Authorisations to be an issuer of mortgage covered bonds (within the meaning of the Covered Bonds Communiqué);

(r) permit any of the Security Agent and the Cover Monitor or the auditors of the Security Agent or the Cover Monitor and, with the Issuer's prior approval (such approval not to be unreasonably withheld or delayed), any auditor or professional adviser of the Security Agent or the Cover Monitor at any time during normal business hours upon reasonable notice to have access to all books of record, account and other relevant records relating to the administration of the Cover Pool Assets and related matters in accordance with the Security Agency Agreement; *provided* that access to the books and records herein shall always comply with Turkish law, including, but not limited to, the Turkish Covered Bonds Legislation and the confidentiality terms of the banking legislation of Turkey;

(s) give, within seven İstanbul Business Days after demand by the Security Agent or the Cover Monitor, any information required to comply with the terms of the Turkish Covered Bonds Legislation;

(t) so far as permitted by law, from time to time upon request from a Relevant Rating Agency, provide such further information as such Relevant Rating Agency reasonably requests;

(u) observe and comply with its obligations under the Turkish Covered Bonds Legislation;

(v) observe and comply with its obligations under the Transaction Documents (to the extent not otherwise provided for above);

(w) from the First Issue Date and on each London Business Day thereafter, maintain the Reserve Fund in an amount equal to the Reserved Fund Required Amount; *provided* that the Issuer shall not be considered to be in breach of its obligations under this clause if, during the continuance of a Transferability and Convertibility Event, it is impossible for the Issuer to deposit monies to the Reserve Fund as a result of such Transferability and Convertibility Event;

(x) maintain records in relation to the Designated Account(s) in accordance with the Transaction Documents;

(y) maintain the Cover Pool in accordance with the requirements for Cover Pool Assets and Hedging Agreements set out in the Covered Bonds Communiqué;

(z) perform such checks and reviews as are required on each Statutory Test Date and Issue Date to ensure that each Cover Pool Asset included in the Statutory Test calculations is in compliance with the Individual Asset Eligibility Criteria and the Covered Bonds Communiqué;

(aa) comply with the Statutory Tests (*i.e.*, that Nominal Value Test, the Cash Flow Matching Test, the Net Present Value Test and the Stress Test). The Statutory Tests (both their nature and their method of calculation) may vary from time to time to the extent that the Covered Bonds Communiqué is amended; *it being understood* that all Series of Covered Bonds are subject to the Statutory Tests as in force at the time of their issuance unless expressly provided otherwise by the Turkish Covered Bonds Legislation.

The method of calculating the Statutory Tests shall (within the requirements of the Covered Bonds Communiqué) be determined by the Issuer, acting reasonably (and subject to any guidance, pronouncement, rule, official directive or guideline (whether or not having the force of law) issued by the CMB to the Issuer specifically or to covered bond issuers generally in relation to the method of calculating the Statutory Tests);

(bb) in addition to the Statutory Tests, ensure that the Nominal Value of the Cover Pool is not less than the product of: (i) the Turkish Lira Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds outstanding and (ii) the sum of one plus the decimal equivalent of the highest then-existing Required Overcollateralisation Percentage among all then-outstanding Series. The then-existing Required Overcollateralisation Percentage for each Series shall be specified in each Investor Report;

(cc) if, on a Statutory Test Date, there is a Potential Breach of Statutory Test, cure any breach(es) of the relevant Statutory Tests within one month of such Statutory Test Date;

(dd) if, in its own monitoring of the Statutory Tests, the Issuer identifies a Potential Breach of Statutory Test, promptly notify the Fiscal Agent, the Security Agent and the Cover Monitor of such breach and cure such breach within one month of its detection of such breach;

(ee) maintain the Cover Pool for the benefit of all Covered Bondholders in compliance with the Statutory Tests;

(ff) to the extent that any mortgage loan included in the Cover Pool is not in compliance with the Individual Asset Eligibility Criteria, make such substitutions in the Cover Pool as are necessary to ensure compliance with the Individual Asset Eligibility Criteria; *provided* that no such substitution shall be required if the Statutory Tests are otherwise satisfied and the Issuer is otherwise complying with its obligations under the Covered Bonds Communiqué;

(gg) establish and maintain the Cover Register in accordance with the Turkish Covered Bonds Legislation;

(hh) create Statutory Segregation over each Cover Pool Asset and segregate the Cover Pool for the satisfaction of the rights of the Covered Bondholders, the Hedging Counterparties and (subject to the provisions of Article 29 of the Covered Bonds Communiqué) the Other Secured Creditors.

For the avoidance of doubt, a mortgage loan or derivative contract intended to become a Cover Pool Asset is required to meet the asset requirements set out in Article 10 (in the case of mortgage loans) and Article 11 (in the case of derivative contracts) of the Covered Bonds Communiqué at the time of inclusion in the Cover Register. In the event that a Cover Pool Asset thereafter ceases to meet the asset requirements of the Covered Bonds Communiqué (or failed to have satisfied such requirements at the time of its inclusion in the Cover Register), the Issuer is obliged under Article 13(5) of the Covered Bonds Communiqué to replace such assets with Cover Pool Assets that do satisfy the requirements of Articles 10 and 11 (as applicable) of the Covered Bonds Communiqué unless the Statutory Tests are otherwise satisfied and the Issuer is otherwise complying with its obligations under the Covered Bonds Communiqué (in which case, the Issuer is not obliged to remove any such ineligible Cover Pool Asset);

(ii) apply the relevant proceeds of Ancillary Rights in satisfaction of any indebtedness owed by the Issuer under the Transaction Documents to the Secured Creditors as an unsecured contractual obligation only; *it being understood* that such Ancillary Rights shall not be Cover Pool Assets and thus not benefit from Statutory Segregation;

(jj) at any time after the service of a Notice of Default (which has not been revoked (such revocation to be provided in the same manner as the service of a Notice of Default)), as an unsecured contractual obligation only, transfer (within two İstanbul Business Days of receipt)

all Related Payments to the Security Agent for the benefit of the Secured Creditors to be applied in satisfaction of the Secured Obligations; *it being understood* that any such Related Payments shall not be deposited into the Collection Account or the Designated Accounts and shall otherwise remain segregated from the Cover Pool Assets;

(kk) at any time after the service of a Notice of Default (which has not been revoked (such revocation to be provided in the same manner as the service of a Notice of Default)), transfer (within two İstanbul Business Days of receipt) all payments made to the Issuer on Cover Pool Assets (other than Hedging Agreements) in currencies other than Turkish Lira to the applicable Non-TL Designated Account(s);

(ll) in respect of Substitute Assets, comply with the Substitute Asset Limit and the requirements of the Covered Bonds Communiqué relating to Mandatory Excess Cover Cover Pool Assets;

(mm) act in a manner consistent with that of a Prudent Lender and Servicer of Mortgage Assets in respect of the Mortgage Assets in the Cover Pool; *provided* that:

(i) during the continuance of an Issuer Event, the Issuer may not make any Mortgage Asset Modification(s) other than in accordance with its then prevailing servicing and collection procedures in respect of mortgage assets that are not part of the Cover Pool; and

(ii) the Issuer shall service such Mortgage Assets with no less care than the Issuer exercises or would exercise in connection with the servicing of mortgage assets held for its own account as if such Mortgage Assets were not part of the Cover Pool;

(nn) only make changes to the Cover Pool as set out below:

The Issuer shall be entitled (and, in the circumstances set out in Article 13(5) of the Covered Bonds Communiqué, shall be obliged to substitute Cover Pool Assets as set out in (ii) below), subject to making appropriate Security Update Registration(s) to:

(i) allocate to the Cover Pool additional assets at any time, including for the purposes of issuing further Series of Covered Bonds, complying with the Statutory Tests and/or the Required Overcollateralisation Percentage of any Series, maintaining the rating(s) assigned to any Series of the Covered Bonds and/or maintaining or increasing the creditworthiness of the Cover Pool; *provided* that such new assets meet the requirements of the Covered Bonds Communiqué, comply with the Individual Asset Eligibility Criteria and do not cause the Substitute Assets in the Cover Pool to exceed the Substitute Asset Limit; and

(ii) remove (including to substitute) one or more Cover Pool Assets (including any Cover Pool Assets that cease to comply or did not comply at the time of their registration in the Cover Register with the requirements of the Covered Bonds Communiqué and the Individual Asset Eligibility Criteria) at any time in accordance with the Covered Bonds Communiqué and to the extent not prohibited by the Transaction Documents; *provided* that, in addition to the requirements of the Covered Bonds Communiqué: (A) any assets added to the Cover Pool by way of substitution must comply with the Individual Asset Eligibility Criteria; (B) any assets added to the Cover Pool by way of substitution or any removal of assets from the Cover Pool does not cause the Substitute Assets in the Cover Pool to exceed the Substitute Asset Limit; (C) neither any Potential Breach of Statutory Test nor any Issuer Event of the type described in sub-paragraphs (a) through (f) of the definition thereof would occur as a result of such removal or Cover Pool Asset Substitution; and (D) any collections in respect of any such removed Cover Pool Assets will no longer be transferred to the Collection Account. The Issuer is obliged to substitute any Cover Pool Assets that cease to comply with the requirements of the Covered Bonds Communiqué or the Individual

Asset Eligibility Criteria unless the Statutory Tests are otherwise satisfied and the Issuer is otherwise complying with its obligations under the Covered Bonds Communiqué (in which case, the Issuer may either keep such ineligible Cover Pool Asset within the Cover Pool or remove such ineligible Cover Pool Asset without new eligible assets being registered in the Cover Pool).

It is agreed that: (A) upon the occurrence of any Potential Breach of Statutory Test or an Issuer Event that is continuing, no Cover Pool Assets can be removed or substituted from the Cover Pool unless such removal or substitution is required pursuant to the provisions of the Covered Bonds Communiqué; and (B) upon the occurrence of an Event of Default that is continuing, no Cover Pool Assets can be removed or substituted from the Cover Pool unless: (1) such removal or substitution is required pursuant to the provisions of the Covered Bonds Communiqué; or (2) such substitution or removal is made by the Administrator in accordance with the provisions of the Covered Bonds Communiqué or by the Security Agent in accordance with the Transaction Documents; and

(oo) on or before the Investor Report Date after each Collection Period, the Issuer will produce an Investor Report for such Collection Period.

Pursuant to the terms of the Security Agency Agreement, the Issuer has covenanted to establish and maintain the Collection Account and the TL Designated Account.

So long as an Issuer Event or Event of Default does not exist, the Issuer will deposit within one İstanbul Business Day of receipt all collections of interest and principal and any other amounts it receives on the Cover Pool Assets denominated in Turkish Lira (including all moneys received from Authorised Investments denominated in Turkish Lira, if any) other than payments under Hedging Agreements (if any) included in the Cover Pool Assets into the Collection Account. The Issuer will not commingle any of its other funds and general assets (including any Related Payments) with amounts standing to the credit of the Collection Account.

Cash amounts standing to the credit of: (a) the Collection Account (and investments made with such amounts) shall not comprise part of the Cover Pool for the purposes of the Statutory Tests and (b) the TL Designated Account (and investments made with such amounts) shall comprise part of the Cover Pool for the purposes of the Statutory Tests.

All amounts deposited in, and standing to the credit of, the Collection Account and the TL Designated Account shall constitute segregated property distinct from all other property of the Issuer pursuant to Article 13 of the Covered Bonds Communiqué.

Unless an Issuer Event of the type described in sub-paragraphs (a) through (f) of the definition thereof or an Event of Default is then continuing, the Issuer will be entitled to withdraw amounts from time to time standing to the credit of the Collection Account, if any, that (if such amounts were transferred to the TL Designated Account) would result in there being funds that are in excess of any cash amounts required to satisfy the Statutory Tests (for the avoidance of doubt, the Issuer shall not withdraw any amount from such accounts if a Potential Breach of Statutory Test is continuing on the applicable withdrawal date).

Unless an Issuer Event of the type described in sub-paragraphs (a) through (f) of the definition thereof or an Event of Default is then continuing, the Issuer will be entitled to withdraw amounts from time to time standing to the credit of the relevant Designated Account(s), if any, that are in excess of any cash amounts required to satisfy the Statutory Tests; *provided* that the Issuer shall not be entitled to withdraw amounts from the Non-TL Designated Account(s) during the continuance of a Transferability and Convertibility Event other than in accordance with the provisions of the Calculation Agency Agreement and the Offshore Bank Account Agreement to pay Secured Creditors (for the avoidance of doubt, the Issuer shall not withdraw any amount from such accounts if a Potential Breach of Statutory Test is continuing on the applicable withdrawal date).

After the occurrence of a Potential Breach of Statutory Test or an Issuer Event, the Issuer shall procure that within two İstanbul Business Days of its detection thereof (and on each İstanbul Business Day thereafter for so long as such Potential Breach of Statutory Test or Issuer Event is continuing), all amounts on deposit in the Collection Account are transferred to the TL Designated Account. The Issuer will not commingle any of its other funds and general assets with amounts standing to the credit of the TL Designated Account.

The Non-TL Hedge Collection Account(s) and the Hedge Collateral Account(s) are described in "*Offshore Bank Account Agreement*" below.

"**London Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London, England.

The Security Agency Agreement is governed by the laws of England.

**Offshore Bank Account Agreement**

Pursuant to the terms of the Offshore Bank Account Agreement entered into on the Programme Closing Date between the Issuer, the Offshore Account Bank, the Security Agent and the Calculation Agent, the Issuer has appointed (and the Offshore Account Bank accepted such appointment) the Offshore Account Bank to perform certain duties, including:

(a) acting on the instructions of the Issuer, the Security Agent, the Calculation Agent and/or the Administrator, as applicable;

(b) making payments from the Offshore Bank Accounts as instructed by the Issuer (or, if an Administrator has been appointed, the Administrator), the Security Agent and/or the Calculation Agent, as applicable;

(c) providing the Issuer (or, if an Administrator has been appointed, the Administrator), the Security Agent and/or the Calculation Agent with details of the amounts standing to the credit of the Offshore Bank Accounts from time to time that the Issuer (or, if an Administrator has been appointed, the Administrator), the Security Agent and/or the Calculation Agent may require in order for it to make the calculations required in performing the services and cash management services; and

(d) providing the Calculation Agent and/or the Security Agent, as applicable, with details of the amounts standing to the credit of the Non-TL Hedge Account(s) from time to time that the Calculation Agent and/or the Security Agent may require in order for it to make the calculations required under the relevant Hedging Agreements and related payments.

As of the Programme Closing Date, the following accounts have been opened at the Offshore Account Bank:

(a) the Euro Non-TL Designated Account in the name of the Issuer (as to which see Clause 5 (*Non-TL Designated Account(s)*) of the Offshore Bank Account Agreement) (which account is a Non-TL Designated Account);

(b) the U.S. Dollar Non-TL Designated Account in the name of the Issuer (as to which see Clause 5 (*Non-TL Designated Account(s)*) of the Offshore Bank Account Agreement) (which account is a Non-TL Designated Account); and

(c) the Agency Account (as to which see Clause 9 (*Agency Account*) of the Offshore Bank Account Agreement) in the name of the Security Agent (which account is not a Non-TL Designated Account).

*Non-TL Designated Accounts*

With respect to amounts received on Substitute Assets in currencies other than Turkish Lira, a separate Non-TL Designated Account will be established in the name of the Issuer pursuant to the Offshore Account Bank Agreement for each applicable currency. Notwithstanding the above, such amounts may be payable directly to the Issuer (including within Turkey and/or through a clearing system such as Euroclear or Clearstream); *provided* that the Issuer shall transfer (within two İstanbul Business Days of receipt) all such amounts to the applicable Non-TL Designated Account(s).

Other than to make Authorised Investments, no amounts shall be withdrawn from the Non-TL Designated Accounts (by the Issuer or otherwise) other than for the purposes of making payment to a Secured Creditor in accordance with the process of Clause 5.3 (*Instructions from the Issuer and/or the Administrator*) of the Offshore Bank Account Agreement unless the Security Agent provides its prior written consent. Such consent shall be provided by the Security Agent following its receipt of certification by the Issuer that: (a) no Reconciliation Event has occurred and is continuing; (b) no Event of Default has occurred and is continuing; and (c) following such withdrawal, the Statutory Tests and the Required Overcollateralisation Percentage continue to be satisfied.

"**Reconciliation Event**" means the occurrence of an Issuer Event described in sub-paragraphs (a) through (f) of the definition thereof or the occurrence of a Transferability and Convertibility Event, in each case which is continuing.

Subject to Clauses 2.4 (*No Negative Balance*) and 13.3 (*Consequences of Security Agent Notice*) of the Offshore Bank Account Agreement, the Offshore Account Bank shall comply with any direction of the Issuer (or, if an Administrator has been appointed, the Administrator) given on any London Business Day to effect a payment to a Secured Creditor by debiting any one of Non-TL Designated Account(s): (a) if such direction: (i) is in writing in a manner required by the Offshore Bank Account Agreement, and (ii) complies with the mandates delivered by the Issuer or the Security Agent to the Offshore Account Bank (such direction shall constitute an irrevocable payment instruction) and (b) unless notified by the Calculation Agent of the occurrence of a Reconciliation Reporting Event (if a Reconciliation Event has occurred and is then continuing).

Amounts to be credited into the Non-TL Designated Account(s) include: (a) any amounts received by the Issuer in respect of the Substitute Assets and Authorised Investments that are Cover Pool Assets and are not denominated in Turkish Lira; (b) any amounts credited into the applicable Non-TL Designated Account(s) by the Issuer from its own funds for effecting payments to Secured Creditors of Secured Obligations that are not denominated in Turkish Lira; and (c) any amounts transferred by the Issuer or the Administrator, as applicable, in connection with the sale of Cover Pool Assets that are not denominated in Turkish Lira.

Subject to the Substitute Asset Limit, cash amounts standing to the credit of the Non-TL Designated Account(s) (and Authorised Investments made with such amounts) shall comprise part of the Cover Pool for the purposes of the Statutory Tests; *it being understood* that the amounts described in sub-paragraph (c) of the previous paragraph derived from Mortgage Assets are not subject to the Substitute Asset Limit as they are collections on such Mortgage Assets. All amounts deposited in, and standing to the credit of, the Non-TL Designated Account(s) shall constitute segregated property distinct from all other property of the Issuer pursuant to Article 13 of the Covered Bonds Communiqué.

*Hedge Collateral Accounts*

With respect to credit support provided by Hedging Counterparties to the Issuer pursuant to the Hedging Agreements, a separate Hedge Collateral Account will be established and maintained pursuant to the Offshore Bank Account Agreement for each applicable currency (other than Turkish Lira) and for each applicable Hedging Counterparty in respect of each relevant Hedging Agreement with the Offshore Account Bank in the name of the Security Agent for the benefit of and on trust for the Secured Creditors (to the extent such Hedge Collateral does not constitute Excess Hedge

Collateral) and for the benefit of and on trust for the relevant Hedging Counterparty (to the extent such Hedge Collateral constitutes Excess Hedge Collateral). Hedge Collateral provided to the Issuer by a Hedging Counterparty under a Hedging Agreement shall be credited to the relevant Hedge Collateral Account.

For the avoidance of doubt, Hedge Collateral will be deposited in a Hedge Collateral Account regardless of whether a Reconciliation Event or an Event of Default has occurred.

Payments, deliveries and/or transfers of Hedge Collateral to the relevant Hedge Collateral Account shall be made in accordance with the provisions of the relevant Hedging Agreement.

Subject to Clauses 6.5 and 6.6 of the Offshore Bank Account Agreement, payments, deliveries and/or transfers of Hedge Collateral from the relevant Hedge Collateral Account shall be made solely for the purpose of making payments or deliveries in respect of: (a) any Settlement Amount (as defined in the ISDA Master Agreement), any Close-out Amount (as defined in the ISDA Master Agreement) or analogous payment; (b) any Return Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.); (c) any Interest Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.); (d) any Delivery Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.); (e) any substitution; (f) any amounts in respect of default interest; or (g) any amounts analogous to any of the above, in each case: (i) other than in respect of any amounts referred to in sub-clause 6.3(a) of the Offshore Bank Account Agreement, due to the relevant Hedging Counterparty under a collateral agreement entered into under or in connection with the relevant Hedging Agreement (including but without limitation the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.) or any analogous agreement; and (ii) in the case of amounts referred to in sub-clause 6.3(a) of the Offshore Bank Account Agreement, due to the Issuer or the relevant Hedging Counterparty following the termination (in whole or in part, as applicable) of the relevant Hedging Agreement, as applicable.

The Security Agent shall make such payments, deliveries and/or transfers (or direct or instruct the payment, delivery and/or transfer, as applicable) of Hedge Collateral to the relevant Hedging Counterparty unless notified by the Calculation Agent of the occurrence of a Reconciliation Reporting Event (if a Reconciliation Event has occurred and is then continuing) as to the relevant payment, delivery and/or transfer, as applicable.

"**Reconciliation Reporting Event**" means: (a) the detection by the Calculation Agent of a manifest error in a Reconciliation; (b) the relevant payment, delivery or transfer, as applicable, cannot be reconciled by the Calculation Agent against the approved form; (c) the relevant payee is not a Secured Creditor; and/or (d) that the Calculation Agent is otherwise unable to validate the relevant payment, transfer or delivery, as applicable, due to, including without limitation, the absence of an approved form.

"**Reconciliation**" means that the Calculation Agent shall compare the requested payment against an approved form required by the Calculation Agency Agreement and: (a) confirm that the relevant payee is a Secured Creditor; (b) calculate (or check the computation) of the relevant payment, transfer or delivery, as applicable, to be made; and (c) in the case of payments under each Hedging Agreement and the transfer or delivery of Hedge Collateral, as applicable, check that the account details and specified payee or transferee for the requested payment, transfer or delivery, as applicable are correct.

Where a Hedging Counterparty provides Hedge Collateral to the Issuer in accordance with the terms of a Hedging Agreement, such collateral will be credited to the relevant Hedge Collateral Account. Any Hedge Collateral applied in satisfying any termination payments payable by the Hedging

Counterparty to the Issuer in respect of the relevant Hedging Agreement may be applied by the Security Agent in satisfaction of the Secured Obligations owed to the Secured Creditors. Excess Hedge Collateral standing to the credit of the Hedge Collateral Account(s) shall not be available to Secured Creditors (other than to the relevant Hedging Counterparty) and shall be returned to the relevant Hedging Counterparty.

"**Secured Obligations**" means any and all moneys, all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity) and all other amounts due, owing, payable or owed by the Issuer to the Secured Creditors under the Covered Bonds and/or the Transaction Documents and secured by the Transaction Security, and references to Secured Obligations includes references to any of them.

Each of the Offshore Account Bank, the Issuer, the Calculation Agent and the Security Agent has acknowledged and agreed that the Hedge Collateral Account(s) are accounts of the Security Agent over which a trust has been declared by the Security Agent for the benefit of the Secured Creditors (in respect of Excess Hedge Collateral, being held for the benefit of the relevant Hedging Counterparty only).

All amounts deposited in, and standing to the credit of, the Hedge Collateral Account(s) shall constitute segregated property distinct from all other property of the Issuer pursuant to Article 13 of the Covered Bonds Communiqué.

*Non-TL Hedge Collection Accounts*

With respect to payments on the Hedging Agreements in currencies other than Turkish Lira, a separate Non-TL Hedge Collection Account will be established and maintained pursuant to the Offshore Bank Account Agreement for each applicable currency with the Offshore Account Bank in the name of the Security Agent for the benefit of and on trust for the Secured Creditors; *it being understood* that the delivery of Hedge Collateral is not a payment on a Hedging Agreement. For the avoidance of doubt, any amounts that are not denominated in Turkish Lira, which are paid to the Issuer or the Security Agent, as applicable, by the Hedging Counterparties under the Hedging Agreements (including all scheduled payments, principal exchange amounts, termination payments, final payments on cross-currency swaps or other unscheduled sums due and payable to each Hedging Counterparty under any Hedging Agreement, but excluding Hedge Collateral) shall be paid into a Non-TL Hedge Collection Account regardless of whether a Reconciliation Event or an Event of Default has occurred.

All payments that are not in Turkish Lira due to the Issuer under each Hedging Agreement shall be paid into the relevant Non-TL Hedge Collection Account; *it being understood* that the transfer or delivery of Hedge Collateral is not a payment on a Hedging Agreement. Amounts may be withdrawn from the relevant Non-TL Hedge Collection Account(s) solely for the purposes of paying amounts due or otherwise scheduled to be paid on the Covered Bonds and Hedging Agreements, unless the Issuer has otherwise delivered to the Agents the necessary amounts to make all such payments that are then due and payable, in which case the funds in the Non-TL Hedge Collection Account(s) shall be transferred, at the request of the Issuer, to the relevant Non-TL Designated Account(s).

In respect of Hedging Agreements, the Security Agent shall pay (or direct or instruct the payment of, as applicable) payments due or otherwise scheduled to be paid by the Issuer thereunder unless notified by the Calculation Agent of the occurrence of a Reconciliation Reporting Event (if a Reconciliation Event has occurred and is then continuing) as to the relevant payment or transfer, as applicable.

Each of the Offshore Account Bank, the Issuer, the Calculation Agent and the Security Agent has acknowledged and agreed that the Non-TL Hedge Collection Account(s) are accounts of the Security Agent over which a trust has been declared by the Security Agent for the benefit of the Secured Creditors.

All amounts deposited in, and standing to the credit of, the Non-TL Hedge Collection Account(s) shall constitute segregated property distinct from all other property of the Issuer pursuant to Article 13 of the Covered Bonds Communiqué.

*Agency Account*

The Offshore Account Bank has established a reserve fund maintained in an U.S. Dollar-denominated account (the "**Agency Account**") maintained at the Offshore Account Bank (the "**Reserve Fund**"). From the First Issue Date and on each London Business Day thereafter whilst any Covered Bonds are outstanding, the Reserve Fund will be fully funded by the Issuer at all times in an amount at least equal to the greater of: (a) two years' estimated fees of the Agents, any Covered Bond Calculation Agent, the Calculation Agent, the Security Agent, the Offshore Account Bank and any other Person jointly designated by the Issuer and the Security Agent as a Reserve Fund Secured Creditor from time to time (the "**Reserve Fund Secured Creditors**") that are not payable in Turkish Lira (as reasonably determined by the Issuer) from each such London Business Day and (b) such other amount as may be agreed from time to time between the Issuer and any of the Reserve Fund Secured Creditors (the "**Reserve Fund Required Amount**"); *it being understood* that such fees do not include any fees (including any Series-related fees) that are payable before or at the time of any issuance of Covered Bonds; *and provided* that the Issuer shall not be considered to be in breach of its obligations under this clause if, during the continuance of a Transferability and Convertibility Event, it is impossible for the Issuer to deposit monies to the Reserve Fund as a result of such Transferability and Convertibility Event.

Fees included in the calculation of the Reserve Fund Required Amount not denominated in U.S. Dollars shall be converted into U.S. Dollars using the Applicable Exchange Rate at the relevant date of calculation. The Reserve Fund may (without the consent of any other Person) be debited by the Security Agent to meet the outstanding fees and reimbursable costs and expenses of (and all other amounts due and payable under and in respect of the Transaction Documents to) the Reserved Fund Secured Creditors upon the occurrence and during the continuance of a Reconciliation Event or an Event of Default, in each case where the Issuer has otherwise failed to pay such amounts.

In lieu of funds held in the Agency Account, the Issuer may also provide Authorised Investments (or instruct the Security Agent to use funds in the Agency Account for the purchase of Authorised Investments); *however*, the parties hereto agree that separate custody arrangements in accordance with the Security Agent's standard custody terms will need to be put in place to hold such securities. For purpose of calculating whether the Agency Account holds the Reserve Fund Required Amount, any such securities shall be valued at the lower of: (a) the outstanding principal amount and (b) if applicable, market value as of close of business in the applicable market on the last applicable business day of the most recent calendar month.

Cash amounts standing to the credit of the Agency Account (and Authorised Investments with respect thereto) do not comprise part of the Cover Pool (for the purposes of the Statutory Tests or otherwise).

Each of the Offshore Account Bank, the Issuer, the Calculation Agent and the Security Agent has acknowledged and agreed that the Agency Account is an account of the Security Agent over which a trust has been declared by the Security Agent for the benefit of the Reserve Fund Secured Creditors.

Following the redemption in full of all Covered Bonds under the Programme and the satisfaction in full of the outstanding fees and reimbursable costs and expenses of (and all other amounts due and payable under and in respect of the Transaction Documents to) the Reserve Fund Secured Creditors, any remaining balance in the Reserve Fund shall be transferred to the Issuer promptly after its request to the Offshore Account Bank.

The Offshore Account Bank will notify the Issuer of its applicable ratings promptly after the end of each calendar month; *it being understood* that the Issuer is independently responsible for monitoring the Offshore Account Bank's ratings for purposes of determining whether an Offshore Account Bank Event occurs. In the event that an Offshore Account Bank Event occurs, the Issuer and the Security

Agent will use their respective commercially reasonable endeavours to procure that the Offshore Bank Accounts are transferred to another financial institution which has the Offshore Account Bank Required Rating pursuant to an agreement with such institution in substantially the form of the Offshore Bank Account Agreement within a period not exceeding 30 calendar days from the date on which such Offshore Account Bank Event occurs, and the Offshore Account Bank will, at the request and cost of the Issuer, use its commercially reasonable endeavours to assist with the same.

The Offshore Account Bank Agreement is governed by the laws of England.

**Calculation Agency Agreement**

Pursuant to the terms of the Calculation Agency Agreement entered into on the Programme Closing Date by the Issuer, the Security Agent and the Calculation Agent, the Security Agent has appointed the Calculation Agent as its agent to make certain Reconciliations as required pursuant to the provisions of the Offshore Bank Account Agreement, including:

(a) in relation to the Non-TL Designated Account(s) following the occurrence of a Reconciliation Event:

  (i) reconciling amounts payable from the relevant Non-TL Designated Account to Other Secured Creditors; and

  (ii) notifying the Issuer, the Security Agent and the Offshore Account Bank in the case of a Reconciliation Reporting Event;

(b) in relation to the Hedge Collateral Account(s) following the occurrence of a Reconciliation Event:

  (i) reconciling the amounts to be transferred or delivered in respect of Hedge Collateral to or from the relevant Hedge Collateral Account in accordance with the relevant Hedging Agreement; and

  (ii) notifying the Issuer, the Security Agent, the Offshore Account Bank and the relevant Hedging Counterparty in the case of a Reconciliation Reporting Event; and

(c) in relation to the Non-TL Hedge Collection Account(s) following the occurrence of a Reconciliation Event:

  (i) reconciling payments under each Hedging Agreement to or from the relevant Non-TL Hedge Collection Account in accordance with the relevant Hedging Agreement; *it being understood* that the transfer or delivery of Hedge Collateral is not a payment under a Hedging Agreement; and

  (ii) notifying the Issuer, the Security Agent, the Offshore Account Bank and the relevant Hedging Counterparty in the case of a Reconciliation Reporting Event,

*provided* that:

  (A) the Calculation Agent shall not be required to calculate (or check the computation of):

    (1) any Settlement Amount (as defined in the ISDA Master Agreement), any Close-out Amount (as defined in the ISDA Master Agreement) or analogous payment;

    (2) any Return Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.);

(3) any Interest Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.);

(4) any Delivery Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.);

(5) any substitution notice delivered pursuant to a credit support annex;

(6) any amounts in respect of default interest in respect of a Hedging Agreement; or

(7) any amounts analogous to any of the above;

(B) the Calculation Agent shall not be obliged to perform a Reconciliation in respect of any payment, delivery or transfer, as applicable unless such payment, delivery or transfer, as applicable can be reconciled against an approved form or other supporting evidence as may have been provided by the relevant Secured Creditor, the relevant Hedging Counterparty, the Issuer, an Agent or the Security Agent, as applicable.

Without prejudice to Clause 6.7 (*Request for Information*) of the Calculation Agency Agreement, the Issuer agrees to co-operate with reasonable requests from the Security Agent and the Calculation Agent to enable a Reconciliation to be performed by the Calculation Agent in a timely manner in respect of the relevant payment, transfer or delivery, as applicable; and

(C) the Calculation Agent shall not be obliged to perform a Reconciliation in respect of any payment or withdrawal from the Agency Account.

Absent a Reconciliation Reporting Event, no further notice, consent or approval shall be required from the Calculation Agent in order for the relevant payment, transfer or delivery, as applicable, to be made.

The Calculation Agent shall at all times promptly perform its obligations at the request of the Security Agent.

The Issuer has agreed to pay the Calculation Agent a fee for carrying out such services and to reimburse the Calculation Agent for certain expenses.

The Calculation Agent may, without giving any reason, resign at any time by giving at least 45 days' written notice to the Issuer and the Security Agent and may be removed at any time by the Security Agent or the Issuer on at least 45 days' written notice to the Calculation Agent; *provided* that no such resignation or removal shall be effective unless a successor calculation agent has been appointed.

The Calculation Agency Agreement is governed by the laws of England.

**Programme Agreement**

Under the terms of a Programme Agreement dated the Programme Closing Date between the Issuer and the Dealers, the Issuer and the Dealers have agreed that the Dealers shall be appointed as Dealers under the Programme and will purchase Covered Bonds from the Issuer pursuant to the terms of the Programme Agreement and the relevant Subscription Agreement.

The Programme Agreement is governed by the laws of England.

**Agency Agreement**

Under the terms of the Agency Agreement, the Agents have each agreed to provide the Issuer with certain agency services. In particular, each Paying Agent has agreed to hold available for inspection at its specified office during normal business hours copies of all documents required to be so available by the Conditions of any Covered Bonds or the rules of any relevant Stock Exchange (or any other relevant authority). For these purposes, the Issuer shall provide the Paying Agents with sufficient copies of each of the relevant documents.

Pursuant to the provisions of the Agency Agreement, the Issuer may (without the consent of the Security Agent and the other Secured Creditors; *it being understood* that each other party to the applicable Transaction Document(s) shall, and (as applicable) shall be deemed to be instructed to, acknowledge such amendments) make:

(a) any amendment to the Conditions, the Deed of Covenant or any of the provisions of the Agency Agreement or any other Transaction Document which amendment is, in the opinion of the Issuer, either: (i) of a formal, minor or technical nature or which is made for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained therein or (ii) not materially prejudicial to the interests of the Covered Bondholders;

(b) amendments to any of the Transaction Documents if the Issuer proposes to: (i) appoint a rating agency to assign a credit rating to one or more Series of Covered Bonds or (ii) revise any provision of the Transaction Documents in accordance with the then current rating agency criteria of one or more of the Relevant Rating Agencies (such as to establish or alter the Offshore Account Bank Required Rating relating to such Rating Agency); *provided* that: (A) the Issuer certifies to the Security Agent and the Fiscal Agent that such amendment is necessary or desirable in order to give effect to the appointment of the additional Relevant Rating Agency and the assignment of its initial credit rating to the relevant Covered Bonds or conform any provision of the Transaction Documents to the then current rating agency criteria of one or more of the Relevant Rating Agencies and (B) subject to Clause 32.4 of the Agency Agreement, Rating Agency Confirmation has been obtained in respect of such amendment;

(c) any modification to a Hedging Agreement which is requested by the Issuer or the relevant Hedging Counterparty in order to enable the Issuer and/or the relevant Hedging Counterparty to comply with any requirements which apply to it under EMIR or Dodd-Frank or MiFID 2 (or comparable legislation in any jurisdiction to which the Issuer or the relevant Hedging Counterparty is subject), including any New EMIR Requirements or New Dodd-Frank Requirements or New MiFID 2 Requirements or New Turkish Law Regulatory Requirements (or comparable legislation in any jurisdiction to which the Issuer or the relevant Hedging Counterparty is subject), as applicable, in relation to the relevant Hedging Agreement, subject to the Issuer and/or the relevant Hedging Counterparty, as applicable, providing the Fiscal Agent and the Security Agent with written certification that the Issuer and/or the relevant Hedging Counterparty is only seeking to implement changes it considers appropriate to comply with EMIR or Dodd-Frank or MiFID 2 or New Turkish Law Regulatory Requirements (or comparable legislation in any jurisdiction to which the Issuer and/or the relevant Hedging Counterparty is subject) or to meet the New EMIR Requirements or New Dodd-Frank Requirements or New MiFID 2 Requirements or New Turkish Law Regulatory Requirements (or comparable legislation in any jurisdiction to which the Issuer and/or the relevant Hedging Counterparty is subject), as applicable, together with any modification to any other Transaction Document(s) that may be necessary as a consequence of such modification to the relevant Hedging Agreement; *provided* that any modification or change to the payment instructions contained in such Hedging Agreement shall require the consent of the Security Agent (as directed by the Covered Bondholder Representative);

(d) amendments to any of the Transaction Documents (including a change in the definitions of Cover Pool, Cover Pool Asset, Individual Asset Eligibility Criteria, Substitute Asset Limit, Required Overcollateralisation Percentage and Statutory Test (and their corresponding subsidiary definitions)) (to the extent not otherwise permitted by the Transaction Documents, including per (a) and (b) above and (j) below) as a result of any amendment, restatement, modification or other change to the Turkish Covered Bonds Legislation; *provided* that: (i) the Issuer provides the Security Agent and the Fiscal Agent with written certification that the Issuer is only seeking to implement mandatory provisions of the Turkish Covered Bonds Legislation applicable to the Programme and (ii) each Relevant Rating Agency has been notified in writing in respect of such amendment not less than 5 Business Days prior to the proposed amendment;

(e) amendments to effect the substitution of the Issuer in accordance with the provisions of the Covered Bonds Communiqué, together with any modification to any other Transaction Document that may be necessary as a consequence of such substitution;

(f) amendments to effect the appointment of a third party service provider (within the meaning of the Covered Bonds Communiqué) or an Administrator, together with the modification to any other Transaction Document that may be necessary for the sole purpose of enabling such third party service provider or Administrator to carry out its statutory duties and for no other purpose;

(g) amendments to effect the appointment or replacement of any Agent; *provided* that: (i) such appointment or replacement is otherwise made in accordance with the provisions of the relevant Transaction Documents applicable to such Agent and (ii) each Relevant Rating Agency has been notified in writing of such amendment not less than 5 Business Days prior to the proposed amendment;

(h) amendments to effect the appointment of a replacement Cover Monitor to the Programme; *provided* that: (i) such appointment is otherwise made in accordance with the provisions of the Cover Monitor Agreement (if relevant) and the Covered Bonds Communiqué and (ii) each Relevant Rating Agency has been notified in writing of such amendment not less than 5 Business Days prior to the proposed amendment;

(i) amendments to any of the Transaction Documents to facilitate the inclusion of a guarantor or other enhancer for future Series of Covered Bonds, which amendment the Issuer certifies to the Security Agent and the Fiscal Agent is not materially prejudicial to the then-existing Covered Bondholders; *it being understood* that any such amendment that permits the guarantor/enhancer to: (i) receive its interest/premium/fee on a pro rata basis with interest on the Covered Bonds, (ii) receive interest and/or principal (or reimbursement for making a guaranty/enhancement payment for interest and/or principal) on a pro rata basis with interest and/or principal, as applicable, on the Covered Bonds, (iii) receive indemnities and other payments on a *pro rata* basis with similar payments to Covered Bondholders and (iv) be a Secured Creditor will not be considered to be materially prejudicial to the then-existing Covered Bondholders;

(j) amendments to the Individual Asset Eligibility Criteria as a result of the inclusion of additional Cover Pool Assets in the Programme or to comply with the Issuer's then current underwriting, servicing and collection procedures; *provided* that: (i) any such change is in compliance with the provisions of the Covered Bonds Communiqué, (ii) any requirements in the Transaction Documents as to the inclusion of additional Cover Pool Assets in the Programme are satisfied, and (iii) subject to Clause 32.4 of the Agency Agreement, Rating Agency Confirmation has been obtained in respect of such amendment; and

(k) at any time after a change in applicable Turkish law (including in the Covered Bonds Communiqué) that permits the Additional Cover to be made available to some or all of the Other Secured Parties on a *pari passu* or priority basis to the Total Liabilities, any amendment

to the Agency Agreement, the Security Assignment or any other Transaction Document to provide for such *pari passu* or priority treatment.

Any such amendment or modification shall be binding on the Agents, Covered Bondholders, Receiptholders, Couponholders and other Secured Creditors and, unless the Fiscal Agent agrees otherwise, any such modification shall be notified by the Issuer to the Covered Bondholders, Receiptholders and Couponholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*). Notwithstanding the above, such amendment and modification provisions do not apply to any Series Reserved Matter or Programme Reserved Matter.

Notwithstanding anything in the above to the contrary, any amendment or modification that decreases the rights of any Agent or the Security Agent (in their respective individual capacities), as applicable, or increases the obligations and/or liabilities of any Agent or the Security Agent, as applicable, shall require the consent of such Agent or the Security Agent, as applicable, which shall be in its sole discretion.

Any amendments, modifications or waivers in relation to the Conditions or the other Transaction Documents which are not covered by the above are, subject to the requirements for Programme Reserved Matters and Series Reserved Matters, required to be effected by Extraordinary Resolution and (except for waivers of compliance by the Issuer) require the consent of the Issuer.

Clause 32.4 of the Agency Agreement provides that whenever the implementation of certain matters is, pursuant to the Conditions and/or the other Transaction Documents, subject to a Rating Agency Confirmation, the requirement shall be satisfied by receipt of (or access to) the Rating Agency Confirmation by the Security Agent; provided that: (a) if the applicable Relevant Rating Agency provides a waiver or acknowledgement indicating its decision not to review (or otherwise declining to review) the matter for which the Rating Agency Confirmation is sought, the requirement for the Rating Agency Confirmation from such Relevant Rating Agency with respect to such matter will be deemed waived, and (b) the Security Agent shall, where directed by the Covered Bondholder Representative or as otherwise provided in the Conditions and/or the other Transaction Documents, waive the requirement for a Rating Agency Confirmation to be obtained.

A "**Series Reserved Matter**" means, with respect to any Series:

(a) modification of the Final Maturity Date or Extended Final Maturity Date of such Series or reduction or cancellation of the Principal Amount Outstanding of such Series payable at maturity;

(b) reduction or cancellation of the amount payable or modification of the payment date in respect of any interest in respect of such Series or variation of the method of calculating the rate of interest in respect of such Series;

(c) reduction of any Minimum Rate of Interest and/or Maximum Rate of Interest specified in the applicable Final Terms;

(d) modification of the currency in which payments under such Series (or is related Coupons or Receipts) are to be made;

(e) modification of the Deed of Covenant;

(f) modification of the majority required to pass an Extraordinary Resolution;

(g) the sanctioning of any scheme or proposal described in paragraph 4.9(i) of the Agency Agreement; or

(h) alteration of this definition or the proviso to paragraph 3.7 of Schedule 3 (*Provisions for Meetings of Covered Bondholders*) of the Agency Agreement,

A Series Reserved Matter is required to be passed by an Extraordinary Resolution of the relevant Series of Covered Bonds. For the purposes of a Series Reserved Matter, the quorum shall be one or more eligible persons present and holding or representing in the aggregate not less than two thirds in Principal Amount Outstanding of the relevant Series of Covered Bonds for the time being outstanding.

An "**Extraordinary Resolution**" when used:

(a) in respect of the Covered Bonds for the time being outstanding means: (i) a resolution passed at a meeting of the Covered Bondholders duly convened and held in accordance with the provisions of Schedule 3 (*Provisions for Meetings of Covered Bondholders*) of the Agency Agreement by a majority consisting of not less than 75% of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75% of the votes given on the poll, (ii) a resolution in writing signed by or on behalf of all the Covered Bondholders, which resolution in writing may be contained in one document or in several documents in similar form each signed by or on behalf of one or more of the Covered Bondholders, or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than 75% in Principal Amount Outstanding of the Covered Bonds for the time being outstanding; and

(b) in respect of a Series of Covered Bonds means: (i) a resolution passed at a meeting of the Covered Bondholders of the relevant Series duly convened and held in accordance with the provisions of Schedule 3 (*Provisions for Meetings of Covered Bondholders*) of the Agency Agreement by a majority consisting of not less than 75% of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75%. of the votes given on the poll or (ii) a resolution in writing signed by or on behalf of all the Covered Bondholders of the relevant Series, which resolution in writing may be contained in one document or in several documents in similar form each signed by or on behalf of one or more of the Covered Bondholders of the relevant Series.

A "**Programme Reserved Matter**" means:

(a) a modification which would have the effect of altering the majority required to pass a specific resolution or the quorum required at any Programme Meeting;

(b) an amendment of this definition or the definition of Programme Meeting; and

(c) a modification which would have the effect of altering the requirements to declare an Event of Default under Condition 10 (*Events of Default*) or the taking of enforcement action under Condition 10.2 (*Enforcement*) of the Covered Bonds.

A Programme Reserved Matter is required to be passed by a Programme Resolution.

A "**Programme Resolution**" means: (a) a resolution in writing signed by or on behalf of 100% of the Principal Amount Outstanding of all Covered Bonds who, for the time being, are entitled to receive notice of a Programme Meeting in accordance with the Agency Agreement; and/or (b) a resolution of a Programme Meeting duly convened and held in accordance with the provisions of the Agency Agreement which has been passed by a clear majority of votes cast at such Programme Meeting.

A "**Programme Meeting**" means a meeting of all Covered Bondholders (whether originally convened or resumed following an adjournment) which has been convened to consider a Programme Reserved Matter.

The Agency Agreement is governed by the laws of England.

**Deed of Covenant**

Under the terms of the Deed of Covenant, the Issuer covenants with accountholders holding interests in the Covered Bonds through a depositary for one or more Clearing Systems that such accountholders will acquire direct rights of enforcement against the Issuer if the relevant Global Note becomes void.

The Deed of Covenant is governed by the laws of England.

**Hedging Agreements**

To provide a hedge against possible variances in the rates of interest payable on or currency risks associated with the Mortgage Assets/and or the Covered Bonds, the Issuer may enter into one or more Interest Rate Swap(s) with one or more Interest Rate Swap Provider(s) and/or one or more Currency Swap(s) with one or more Currency Swap Provider(s) under the relevant Interest Rate Swap Agreement(s) and/or Currency Swap Agreement(s), respectively.

With respect to Tranches not denominated in Turkish Lira, the Issuer would likely enter into a Currency Swap. Such Currency Swaps would likely provide that: (a) on or about the Issue Date of a Tranche of Covered Bonds, the Issuer would pay to the applicable Hedging Counterparty an amount equal to the relevant portion of the amount received by the Issuer in respect of the aggregate Principal Amount Outstanding of such Tranche and in return the Hedging Counterparty would pay to the Issuer the Turkish Lira Equivalent of such amount, and (b) thereafter: (i) the Hedging Counterparty would pay to the applicable Non-TL Hedge Collection Account on each Interest Payment Date an amount equal to the relevant portion of the amounts that are payable by the Issuer in respect of interest and principal payable under such Tranche, and (ii) the Issuer will periodically pay to the applicable Hedging Counterparty an amount in Turkish Lira calculated by reference to the applicable floating rate or fixed rate, as applicable, specified in the relevant Hedging Agreement plus a spread and, where relevant, the Turkish Lira Equivalent of the relevant portion of any principal due to be repaid in respect of such Tranche.

A Hedging Agreement might, in the event that the Issuer fails to pay the principal amount payable to the Covered Bondholders in respect of a Tranche on the applicable Final Maturity Date of such Tranche and, where an Extended Maturity Date is applicable to such Tranche, provide for payments to be made to and by the Hedging Counterparty on a different basis and timing.

The terms of a Hedging Agreement might provide that, in the event that the relevant rating of the relevant Hedging Counterparty or any guarantor of the Hedging Counterparty's obligations is downgraded below the rating specified in the relevant Hedging Agreement, the Hedging Counterparty will be required to take certain remedial measures, which may include (without limitation) providing Hedge Collateral for its obligations under the Hedging Agreement, arranging for its obligations under the Hedging Agreement to be transferred to an entity with sufficient ratings or procuring another entity with sufficient ratings to become co-obligor or guarantor in respect of its obligations under the Hedging Agreement. A failure to take such steps within the time periods set out in a Hedging Agreement would likely, subject to certain conditions, allow the Issuer to terminate such Hedging Agreement.

A Hedging Agreement might also provide that the applicable Hedging Counterparty might transfer all of its interest and obligations in and under such Hedging Agreement to a transferee that satisfies minimum ratings without any prior written consent of the Issuer or the Security Agent.

**Cover Monitor Agreement**

The Cover Monitor has agreed to be appointed by the Issuer in accordance with the Communiqué to carry out any and all assessments, checks and notification duties specified in the Cover Monitor Agreement (including those referenced in the form of the Cover Monitor Report set out in Schedule 1 of the Cover Monitor Agreement), including in relation to the checks and calculations performed by the Issuer on the Cover Pool in relation to the Individual Asset Eligibility Criteria and the Statutory

Tests subject to and in accordance with the Communiqué and the terms of the Cover Monitor Agreement.

The Issuer shall, amongst other things:

(a) keep the Cover Register pursuant to the Communiqué, keep such Cover Register up to date and make such Cover Register available to the Cover Monitor on demand during normal business hours;

(b) monitor compliance with the Statutory Tests at every change to the Cover Register (meaning removal of a Cover Pool Asset or addition to the Cover Pool Assets) and, in any case, at least once per calendar month;

(c) to the extent not contrary to applicable law (including with respect to customer data protection), submit the information and documents that are required by the Cover Monitor in accordance with the Covered Bonds Communiqué and provide such information as is in the Issuer's knowledge and/or possession that the Cover Monitor reasonably requests in respect of the Cover Pool;

(d) demonstrate to the Cover Monitor within two İstanbul Business Days of its detection of a Potential Breach of Statutory Test or an Issuer Event that all collections of interest and principal on the Cover Pool Assets on deposit in the Collection Account have been transferred to the TL Designated Account; and

(e) demonstrate to the Cover Monitor within one month after its detection of a Potential Breach of Statutory Test or an Issuer Event, that (until the Issuer has cured all Potential Breach of Statutory Tests and Issuer Events): (i) any and all present and future payments due under the Cover Pool Assets are being accumulated in the applicable Designated Account (whether by an obligor thereof paying the sums due directly to the applicable Designated Account, by the Issuer's redirecting amounts that it receives from an obligor (including by way of set-off from an account such obligor maintains with the Issuer) or otherwise); and (ii) all such amounts will be dedicated exclusively to the payment of the Total Liabilities unless otherwise agreed with the CMB.

The Cover Monitor Agreement confirms that the Issuer shall be entitled, in accordance with the Covered Bonds Communiqué and subject to making any Security Update Registrations, to reduce the Cover Pool by removing one or more Cover Pool Asset(s); *provided* that: (a) any asset removals must not cause the Substitute Assets in the Cover Pool to exceed the Substitute Asset Limit, (b) neither any Potential Breach of Statutory Test nor any Issuer Event of the type described in sub-paragraphs (a) through (f) of the definition thereof would occur as a result of such removal, and (c) any collections in respect of any such removed Cover Pool Assets will no longer be transferred to the Collection Account.

At the discretion of the CMB, all removals of Cover Pool Assets from the Cover Pool and all deletions of entries from the Cover Register may require the consent of the Cover Monitor.

The Issuer shall notify the Cover Monitor of the occurrence of any Potential Breach of Statutory Test or Issuer Event of the type described in sub-paragraphs (a) through (f) of the definition thereof promptly after its detection of such occurrence indicating whether any such event(s) included a failure to fulfil its payment obligations under the Total Liabilities either partially or fully.

Subject to the terms of the Cover Monitor Agreement, the Cover Monitor shall, amongst other things: (a) verify that the Cover Register has been created and is maintained and preserved in accordance with the provisions of the Covered Bonds Communiqué, (b) analyse and confirm whether the Cover Pool Assets meet the Individual Asset Eligibility Criteria based on a sampling basis, (c) reconcile the entries in the Cover Register with any additions of Cover Pool Assets made by the Issuer to the Cover Pool and (d) analyse and verify whether the Statutory Tests set forth in the Communiqué are satisfied

(including whether the Stress Test measurements are accurate) as of the relevant Cover Monitor Calculation Date.

Other than in relation to the checking by the Cover Monitor of the arithmetic or other accuracy of the checks and calculations performed by the Issuer in accordance with the provisions of the Cover Monitor Agreement, the Cover Monitor is entitled to assume that all information provided to it by the Issuer pursuant to the Cover Monitor Agreement is true and correct and is not misleading, and the Cover Monitor is not required to conduct an audit or other similar examination in respect of or otherwise take steps to verify the accuracy or non-misleading nature of such information. On completion of its calculations and procedures in respect of a Cover Monitor Calculation Date, the Cover Monitor will deliver a cover monitor report, in the form set out in the Cover Monitor Agreement (the "**Cover Monitor Report**"), to the CMB, the Issuer, the Security Agent, the Dealers, the Arrangers and the Relevant Rating Agencies (in their respective capacities, collectively referred to as the "**Recipients**").

The Issuer shall pay to the Cover Monitor a fee for its services in the amount and at the times set out in a separate fee letter between the Issuer and the Cover Monitor.

The Cover Monitor may, at any time, subject to the reasons of such resignation being submitted to the CMB in writing and its approval being obtained, resign from its appointment under the Cover Monitor Agreement upon providing the Issuer with at least 60 days' prior written notice (the Issuer shall provide a copy of such notice to the Relevant Rating Agencies and to the Security Agent); *provided* that such termination may not be effected unless and until a replacement has been found for the Cover Monitor by the Issuer, which replacement agrees to perform the duties (or substantially similar duties) of the Cover Monitor set out in the cover Monitor Agreement, and the agreement appointing such replacement ("**Replacement Cover Monitor Agreement**") is approved by the CMB.

In addition to the preceding paragraph, the Cover Monitor may resign, subject to the reasons of such resignation being submitted to the CMB in writing and its approval being obtained, from its appointment under the Cover Monitor Agreement upon giving at least 30 days' prior written notice if any action taken by any one or more of the Recipients causes a professional conflict of interest for the Cover Monitor under the rules of the professional and/or regulatory bodies regulating the activities of the Cover Monitor; *provided* that such termination may not be effected unless and until a replacement has been found for the Cover Monitor by the Issuer, which replacement agrees to perform the duties (or substantially similar duties) of the Cover Monitor set out in a Replacement Cover Monitor Agreement, and such Replacement Cover Monitor Agreement is approved by the CMB. The Cover Monitor will inform the Recipients as soon as reasonably practicable of any action of which the Cover Monitor is aware that may cause a professional conflict of interest for the Cover Monitor which could result in termination under this provision.

The Issuer may, at any time, terminate the appointment of the Cover Monitor under the Cover Monitor Agreement upon providing the Cover Monitor with at least 60 days' prior written notice; *provided* that such termination may not be effected: (a) unless the reasons of such termination are submitted to the CMB in writing and its approval is obtained and (b) until a replacement has been found by the Issuer, which replacement agrees to perform the duties (or substantially similar duties) of the Cover Monitor set out in the Cover Monitor Agreement, and a Replacement Cover Monitor Agreement is approved by the CMB.

The Cover Monitor Agreement is governed by Turkish law.

## USE OF PROCEEDS

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

## SUMMARY FINANCIAL AND OTHER DATA

The following summary financial and other data have been extracted (except as noted in the "Key Ratios" table) from the IFRS Financial Statements incorporated by reference into this Base Prospectus, without material adjustment. This information should be read in conjunction with the information contained in such IFRS Financial Statements (including the notes thereto), which have been audited by Deloitte. See "*Risk Factors - Risks relating to the Group's Business - Audit Qualification*". Note that the Group's consolidated capital adequacy ratios are calculated based upon numbers prepared in accordance with BRSA regulations.

| | **2012**[(2)] | **2013**[(2)] | **2014** |
|---|---|---|---|
| | | (*TL thousands*) | |
| Net interest income | 6,407,461 | 7,118,805 | 8,349,687 |
| Net fee and commission income | 2,072,749 | 2,667,043 | 2,852,232 |
| Other operating income | 1,207,005 | 1,075,048 | 1,740,781 |
| **Total operating income** | **9,687,215** | **10,860,896** | **12,942,700** |
| Impairment losses, net[(1)] | (1,247,431) | (1,588,314) | (1,664,161) |
| Other operating expenses | (4,110,413) | (4,848,288) | (6,396,981) |
| **Total operating expenses** | **(5,357,844)** | **(6,436,602)** | **(8,061,142)** |
| **Income before tax** | **4,329,371** | **4,424,294** | **4,881,558** |
| Taxation charge | (897,795) | (895,085) | (1,035,293) |
| **Net income for the period** | **3,431,576** | **3,529,209** | **3,846,265** |

(1) "Impairment losses, net" includes provisions for loan losses, net.

(2) The effects of corrections to foreign exchange gain in "other operating income" and "taxation charge" made by the Bank for 2012 and 2013 consolidated financial statements amounted to TL 52,324 thousand of foreign exchange gain and TL 10,465 thousand of deferred tax expense for 2012 and TL 83,320 thousand of foreign exchange loss and TL 16,664 thousand of deferred tax income for 2013.

| | As of 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | % of Total | 2013 | % of Total | 2014 | % of Total |
| | *(TL thousands, except for percentages)* | | | | | |
| ***Assets*** | | | | | | |
| Cash and balances with central banks | 4,519,405 | 2.5 | 6,849,292 | 3.2 | 6,596,475 | 2.7 |
| Financial assets at fair value through profit or loss | 550,926 | 0.3 | 538,145 | 0.2 | 1,086,670 | 0.4 |
| Loans and advances to banks | 9,409,593 | 5.3 | 11,639,668 | 5.4 | 10,815,218 | 4.5 |
| Loans and advances to customers | 102,260,080 | 57.6 | 131,315,161 | 60.3 | 148,081,415 | 60.7 |
| Other assets[(1)(3)] | 18,761,561 | 10.6 | 26,141,641 | 12.0 | 29,868,872 | 12.2 |
| Investment securities | 39,861,281 | 22.5 | 38,609,492 | 17.7 | 44,197,153 | 18.1 |
| Investment in equity participations | 25,340 | - | 41,788 | - | 40,896 | - |
| Tangible assets, net | 1,643,451 | 0.9 | 2,018,893 | 0.9 | 2,319,268 | 1.0 |
| Deferred tax asset | 467,898 | 0.3 | 581,695 | 0.3 | 901,126 | 0.4 |
| **Total assets** | **177,499,535** | **100.0** | **217,735,775** | **100.0** | **243,907,093** | **100.0** |
| ***Liabilities*** | | | | | | |
| Deposits from banks | 5,583,786 | 3.1 | 6,733,280 | 3.1 | 7,114,771 | 2.9 |
| Deposits from customers | 92,191,501 | 51.9 | 112,461,129 | 51.6 | 126,292,539 | 51.8 |
| Obligations under repurchase agreements and money market fundings | 14,106,944 | 7.9 | 16,007,738 | 7.3 | 12,021,165 | 4.9 |
| Loans and advances from banks and other institutions | 25,879,355 | 14.6 | 34,189,584 | 15.7 | 38,218,041 | 15.7 |
| Bonds payable | 6,125,986 | 3.5 | 10,835,298 | 5.0 | 14,438,356 | 5.9 |
| Subordinated liabilities | 148,680 | 0.1 | 147,491 | 0.1 | 140,766 | 0.1 |
| Current tax liabilities | 340,879 | 0.2 | 133,384 | 0.1 | 450,209 | 0.2 |
| Provisions, other liabilities and accrued expenses[(2)(3)(4)] | 11,200,449 | 6.3 | 13,752,702 | 6.3 | 17,975,618 | 7.3 |
| **Total liabilities** | **155,577,580** | **87.6** | **194,260,606** | **89.2** | **216,651,465** | **88.8** |
| **Total shareholders' equity and non-controlling interests** | **21,921,955** | **12.4** | **23,475,169** | **10.8** | **27,255,628** | **11.2** |
| **Total liabilities, shareholders' equity and non-controlling interests** | **177,499,535** | **100.0** | **217,735,775** | **100.0** | **243,907,093** | **100.0** |

(1) Includes "Goodwill, net".
(2) Includes deferred tax liabilities.
(3) Receivables from securities lending market and payables to securities lending market are netted-off in the balance sheet as of 31 December 2012 for presentation purposes. Accordingly, such items are also netted-off in the above table for comparison purposes.
(4) The effects of corrections to other provisions current tax liability and shareholders' equity made by the Bank in 2013 for the calculation of SDIF premia between the years 2007-2012 on the prior periods' consolidated financial statements, amounted to TL 19,702 thousand, TL 3,941 thousand and TL 15,761 thousand as of 31 December 2012.

Since the end of 2014 to the date of this Base Prospectus, the Bank has issued various series of notes under its Global Medium Term Note Programme, which notes had an aggregate nominal amount equivalent to approximately US$39.6 million as of the date of this Base Prospectus.

**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 | | |
|---|---|---|---|
| | 2012[13][15] | 2013[15] | 2014[14] |
| Net interest margin[1] | 3.8% | 3.6% | 3.6% |
| Adjusted net interest margin[2] | 3.1% | 2.8% | 3.0% |
| Net yield[3] | 4.5% | 4.4% | 4.5% |
| Adjusted net interest income as a percentage of average interest-earning assets[3][4] | 4.0% | 3.6% | 4.2% |
| Net fee and commission income to total operating income | 24.4% | 28.6% | 25.1% |
| Cost-to-income ratio[5] | 47.8% | 50.2% | 50.4% |
| Operating expenses as a percentage of total average assets[6] | 2.2% | 2.3% | 2.2% |
| Non-performing loans to total gross cash loans | 2.8% | 2.9% | 3.1% |
| Free capital ratio[7] | 11.1% | 9.6% | 10.0% |
| Group's capital adequacy ratios[8] | | | |
| Tier I capital adequacy ratio[9] | 15.50% | 12.76% | 12.77% |
| Total capital adequacy ratio[9] | 16.87% | 13.70% | 13.86% |
| Allowance for probable loan losses to non-performing loans[10] | 93.7% | 96.0% | 96.3% |
| Return on average total assets[11] | 2.0% | 1.8% | 1.7% |
| Return on average shareholders' equity[12] | 17.2% | 15.5% | 15.2% |

(1) Net interest income as a percentage of total average assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). The above is calculated on the basis of IFRS.

(2) Net interest income reduced by provision for loan losses, as a percentage of total average assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period).

(3) Net interest income as a percentage of average interest-earning assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period).

(4) Adjusted net interest income is net interest income plus/minus net foreign exchange gains/losses minus provision for probable loan losses.

(5) "Cost" includes total operating expenses excluding impairment losses, net, reserve for employee severance indemnities and foreign exchange and trading losses. "Income" includes operating income minus foreign exchange and trading losses and impairment losses, net, except for provisions made on a portfolio basis to cover any inherent risk of loss for cash loans and non-cash loans. If "income" were calculated without subtracting impairment losses, net, then the ratios would be 41.8%, 44.3% and 44.5% for 2012, 2013 and 2014, respectively.

(6) Operating expenses for purposes of this calculation are total operating expenses excluding impairment losses, net, depreciation and amortisation expenses, reserve for employee severance indemnities and foreign exchange and trading losses. Total average assets are calculated as the average of the opening, quarter-end and closing balances for the applicable period.

(7) Total shareholders' equity minus goodwill, tangible assets, assets held for resale, investment property, investments in equity participations and net non-performing loans excluding allowance made on a portfolio basis to cover any inherent risk of loss, as a percentage of total assets.

(8) Calculated in accordance with BRSA regulations for the Group.

(9) The total capital adequacy ratio is calculated by dividing: (a) the "Tier I" capital (*i.e.*, its share capital reserves and retained earnings) *plus* the "Tier II" capital (*i.e.*, the "supplementary capital," which comprises general provisions, subordinated debt, unrealised gains/losses on available-for-sale assets and revaluation surplus (reduced by certain items such as leasehold improvements and 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. The "Tier I" capital adequacy ratio is calculated by dividing the "Tier I" capital by the aggregate of the value at credit risk, value at market risk and value at operational risk. Capital adequacy ratios are based upon BRSA regulations. See "*Capital Adequacy*" below, including with respect to calculations made after 1 January 2014.

(10) Excluding allowances made on a portfolio basis to cover any inherent risk of loss.

(11) Net income for the period as a percentage of average total assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period).

(12) Net income for the period as a percentage of average shareholders' equity (calculated as the average of the opening, quarter-end and closing balances for the applicable period).

(13) The effects of corrections made by the Bank in 2013 for the calculation of SDIF premia between the years 2007-2012 on the prior periods' consolidated financial statements have been adjusted.

(14) The capital adequacy ratio for 31 December 2014 is calculated in accordance with Basel III rules, which came into effect on 1 January 2014.

(15) The effects of corrections to foreign exchange gain in "other operating income" and "taxation charge" made by the Bank for 2012 and 2013 consolidated financial statements amounted to TL 52,324 thousand of foreign exchange gain and TL 10,465 thousand of deferred tax expense for 2012 and TL 83,320 thousand of foreign exchange loss and TL 16,664 thousand of deferred tax income for 2013.

## CAPITALISATION OF THE GROUP

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

| | As of 31 December | | |
|---|---|---|---|
| | **2012**[3][4] | **2013**[4] | **2014** |
| Share capital | 5,143,305 | 5,146,371 | 5,146,371 |
| Share premium | 11,880 | 11,880 | 11,880 |
| Non-controlling interests | 140,524 | 162,825 | 193,733 |
| Unrealised (losses)/gains on available-for-sale assets | 1,093,683 | (494,581) | 88,631 |
| Hedging reserve[1] | (55,377) | (239,657) | (220,828) |
| Actuarial gain/(loss) | - | (1,458) | (53,170) |
| Translation reserve[1] | 165,702 | 554,878 | 367,064 |
| Legal reserves | 956,192 | 1,156,024 | 1,182,824 |
| Retained earnings | 14,466,046 | 17,178,887 | 20,539,123 |
| **Total shareholders' equity and non-controlling interests** | **21,921,955** | **23,475,169** | **27,255,628** |
| Long-term debt[2] | 15,567,653 | 23,160,413 | 24,888,212 |
| **Total Capitalisation** | **37,489,608** | **46,635,582** | **52,143,840** |

(1) The Group started applying net investment hedges for its investments in foreign operations from 1 July 2013; accordingly, the Group's hedging reserves and translation reserves of prior years have been shown in gross amounts for comparison purposes.

(2) Long-term debt is comprised of long-term debts classified under "loans and advances from banks" and "subordinated liabilities" (excluding expense accruals) in the IFRS Financial Statements.

(3) The effects of corrections made by the Bank in 2013 for the calculation of SDIF premia between the years 2007-2012 on the prior periods' consolidated financial statements have been adjusted.

(4) The effects of corrections made by the Bank to "translation reserve" and "retained earnings" in 2012 and 2013 consolidated financial statements due to the foreign exchange effects on paid-in capitals of the foreign subsidiaries amounted to TL 131,090 thousand and TL 197,746 thousand, respectively.

## 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 IFRS 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 2014) the second largest private banking group in Turkey in terms of total assets. The Group's customers are comprised mainly of large, midsize and small Turkish corporations, foreign multinational corporations with operations in Turkey and customers from across the Turkish consumer market.

The Group served approximately 13 million customers as of 31 December 2014 (11.8 million retail customers, 1.2 million SME customers, 49,500 commercial customers and 2,000 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 2014, the Bank's services in Turkey were provided through a nationwide network of 994 domestic branches and offices as well as through DCs, such as ATMs, call centres, internet banking and mobile banking. Internationally, the Bank also has eight foreign branches (one in Malta, one in the Grand Duchy of Luxembourg and six 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 three representative offices (one each in London, Düsseldorf and Shanghai), together with bank subsidiaries in the Netherlands (Garanti Bank International N.V.), Russia (Garanti Bank Moscow) and Romania (Garanti Bank SA).

Based upon the 31 December 2014 IFRS Financial Statements, the Group had total assets of TL 243.9 billion, total cash loans of TL 148.1 billion and shareholders' equity (including non-controlling interests) of TL 27.3 billion. The Group's return on average equity was 15.2% for 2014. The Bank's shares have been listed on the Borsa İstanbul (or its predecessor the İstanbul Stock Exchange) since 1990 and it listed global depositary receipts on the London Stock Exchange in 1993. In 2012, the Bank joined the top tier of the U.S. Over-the-Counter (OTC) market, OTCQX International Premier, which was followed in 2014 by the Bank becoming the only Turkish entity included in the OTCQX ADR 30 Index (which is a market capitalization-weighted index representing the 30 largest and most liquid companies on the OTCQX marketplace).

#### *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 Doğuş 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, Doğuş Holding sold 25.5% of the Bank's issued share capital and 49.2% of the Bank's founders' shares to 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 Doğuş 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 has since 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, the Sellers entered into the 2014 Share Purchase Agreement with BBVA under which BBVA agreed to purchase from the Sellers 62,538,000,000 shares of the Bank (representing 14.89% of the Bank's issued share capital) for an aggregate purchase price of TL 5,497,090,200. This transfer of shares is subject to the approval of regulatory authorities in Turkey (including the BRSA, the CMB and the Turkish Competition Board), Spain, the European Union and other jurisdictions, which approvals might not be obtained for some time (if at all). Upon receipt of the all necessary approvals and finalisation of the share transfer, the Doğuş Shareholders' and BBVA's shares in the Bank are expected to be 10.00% and 39.90%, respectively. See "*Ownership – 2014 Share Purchase Agreement*".

The Doğuş Shareholders and BBVA are parties to the 2010 Shareholders' Agreement, pursuant to which they have agreed to act in concert, thereby enabling them to establish a significant voting block to jointly control and manage the Bank. Concurrently with the 2014 Share Purchase Agreement, on 19 November 2014, the Doğuş Shareholders and BBVA entered into the Amended Shareholders' Agreement to amend and restate their 2010 Shareholders' Agreement, providing for the revision of certain provisions relating to the governance and management of the Bank, which amendments will become effective simultaneously with the consummation of the share transfer; *it being understood* that such will not apply if the share transfer is not consummated within a period of seven months after 19 November 2014 unless extended for a further three months upon the request of either BBVA or Doğuş Holding or further upon mutual agreement of both BBVA and Doğuş Holding. The Bank is not a party to this shareholders' agreement. See "*Ownership – Amended Shareholders' Agreement*".

The Doğuş Group is one of the leading conglomerates in Turkey, with its primary interests in the banking, financial services, technology, automotive, construction, transportation, tourism and food sectors. See "*Ownership - The Doğuş Group*".

***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 balance sheet and favourable 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 has a strong brand and market position as well as a 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 and person-to-person mobile money transfers.

- The Group's customer-centric and innovation-driven approach focuses on customer satisfaction and retention rates and allows for greater cross-selling through the use of sophisticated customer 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's high-quality and dynamic employee base is supported by the Group's experienced management team. Approximately 85% 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. Although the Bank hires many new employees, the Bank's management also recognises the importance of its existing employees' familiarity with the culture of the Group and, accordingly, approximately 90% of posts are filled as a result of internal promotions.

- 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 risk management and a disciplined credit approval process.

- The Group has established conservative loan loss provisions that are complemented by a sophisticated and efficient collection procedure in order to seek maintain strong asset quality.

- 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 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 994 branches (as of 31 December 2014). Backed by its investments in technology since the 1990s, the share that digital channels held in the financial transactions at the Bank increased to 85% in 2014 from 66% in 2004. The Group operates over 4,100 ATMs (facilitating over 200 different transactions), has a leading financial call centre (more than 68 million customer contacts in 2014) and has significant market shares in internet and mobile banking.

***Strategy***

The Group's overall strategic goal is to maintain and build upon its position as a leading Turkish banking group. It intends to achieve this goal by continuing to implement the following key strategies:

- *Identifying opportunities for growth in the Group's lending portfolio while maintaining strong credit quality*. The Group intends to continue to focus on the credit needs of its customers when demand for credit grows. The Group's strategy is to continue its history of strong loan origination with a view to growth in higher-yielding loan categories such as consumer loans, credit cards and SME lending, but with a continued focus on maintaining the strong credit quality of its loan portfolio. The Bank's management believes that the Group operates a rigorous credit approval process to preserve its asset quality and it intends to maintain such process as it continues to grow its loan portfolio.

- *Continuing efforts to preserve solid and diversified funding mix*. The Bank's management believes that, notwithstanding the availability of alternative sources of funding given the high

credibility of the Group in both national and international markets, deposits will continue to be the major source of funding for the Group. The Group intends to continue to focus on deposit collection through its extensive distribution network. In particular, a relatively high focus is placed on deposits diversifying the Group's deposit base with deposits that are less price-sensitive and more sustainable than large and wholesale deposits. Alternative funding sources, such as corporate bond issuances, structured financings, repos and international money markets funding, are also utilised to strengthen and further diversify the Group's funding base.

- *Focusing on sustainable and diverse sources of non-interest revenue*. The Bank's management believes that focusing on sustainable and diverse non-interest revenue streams is a key to the Group's long-term profitability, particularly in a low interest rate environment. Some of the pillars of this strategy include: (a) the Group's focus on business segments that do not require significant capital (such as cash and asset management) and that generate non-interest income and (b) the development of innovative non-interest revenue generating products such as cardless remittances, last-minute electronic fund transfers, mobile phone money transfer and shopping, e-trade and collection of invoices via credit cards.

- *Further refining its customer-centric approach*. The Group segments its customers and intends to continue to develop service models tailored to its identified segments. To meet the diverse needs of these segments efficiently, the Group strategically identifies new locations to expand its branch network continues to invest in digital channels and seeks to expand its product and service range.

- *Maintaining disciplined control over expenses*. The Group's management intends to maintain the Group's focus on expense ratios, including by continuing to make its operations more efficient through the use of technology. The Group plans to continue to: (a) invest significantly in technology in order to further lower costs and (b) promote the increased usage of DCs, which are more cost efficient in the delivery of banking services, for increasing market penetration and minimising workforce growth even as the Bank expands its branch network.

**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 treasury. 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 12 million retail banking customers as of 31 December 2014.

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 branch network for many years (from 478 at the end of 2006 to 1,000 as of 31 December 2014) 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 35.1 billion of Turkish Lira deposits and US$9.1 billion of foreign currency deposits as of 31 December 2014 (TL 31.9 billion of Turkish Lira deposits and US$8.1 billion of foreign currency deposits as of 31 December 2013).

*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 36.1% to TL 24.6 billion in 2013 and then increased a further 15.4% in 2014 to TL 28.4 billion.

The Bank's primary consumer loan products are described below:

- *Mortgages:* The Bank's retail mortgage loan book (representing the total amount of mortgage loans granted by the Bank) grew by 20% in 2012, despite the continuing global financial turmoil impacting the housing sector, as a result of the generally very low penetration of mortgages in Turkey. In 2013 and 2014, the retail mortgage loan book grew by a further 29.8% and 13.4%, respectively. 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 75%, 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 65% as of 31 December 2014. The average original term of its mortgages on such date was 6.48 years, with most loans having an original maturity of either 5 or 10 years. The Bank has been a market leader in Turkey since mid-2007, with a market share of 13.4% (with respect to outstanding balance) as of 31 December 2014 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 enacted in 2009 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 2013, the Bank's vehicle loan book grew 15.2% and then declined by 8.0% in 2014. The Bank's market share (by outstanding balance) was 20.0% as of 31 December 2014 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 44.6% during 2013 and then a further 21.0% in 2014. The Bank's market share (including overdraft, by outstanding balance) was 11.0% as of 31 December 2014 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 2014, the number of overdraft accounts operated by the Group was approximately 1.4 million, with an aggregate overdraft risk of TL 471 million.

*Investment Products*. The Bank's retail banking investment products include mutual funds, government bonds and equity securities. As of 31 December 2014, the Bank had TL 2.5 billion of assets under management in investment products. The Bank's principal strategies to increase its retail investment product sales and profitability include conducting cross-selling campaigns to deposit customers and utilising capital-protected mutual funds (*i.e.*, a fund that combines both fixed-income products and option contracts to provide investors with both capital protection and capital appreciation).

*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 B-type money market funds (which are generally invested in Turkish government securities). The product has been successful to date, reaching approximately 860,000 customers as of 31 December 2014.

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 5.6 million in December 2014. Moreover, the Bank extensively utilises DCs in providing cash management services - for example, more than 14.9 million cardless transactions in 2014 (*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 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 2014, the Bank had approximately 6,700 customers in its "affluent" category. These customers comprised approximately 0.06% of the Bank's retail customers as of such date. 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 75,000 and US$500,000. As of 31 December 2014, the Bank had approximately 359,500 customers in its upscale segment, including customers with the potential of having personal financial assets of over TL 75,000. These customers comprised approximately 3.1% 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 2014, the Bank had approximately 11.4 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, through its subsidiary Garanti Payments Systems, issues debit and credit cards (the loans under which are made by the Bank), acquires merchant vouchers and participates in related product development. In 2014, the Group was the second largest issuer bank in terms of issuing volume and second largest processor of acquiring sales volume in Turkey 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. As of 31 December 2014, the Group had 541,000 point of sale ("**POS**") terminals (including shared POSs and virtual POSs), with a cumulative market share as of such date of 19.79% in acquiring volume according to the BKM. On the issuance side, as of 31 December 2014, the total number of credit cards in issue was approximately 9.4 million (of which 5.7 million were active (*i.e.*, used at least once in the last three months)), with an issuing volume market share as of such date of 18.29% according to the BKM.

Set out below is a description of the Group's principal credit card programs:

- The "Bonus Card," which is the flagship credit card brand of the Group, had more than 7.1 million cards in issue and approximately 243,025 merchant partners as of 31 December 2014. The Group issues VISA, Mastercard and AMEX branded cards pursuant to customary licensing arrangements.

- The "Miles&Smiles" card is designed to serve frequent flyers in cooperation with Turkish Airlines. Miles&Smiles is the only official credit card of Turkish Airlines and offers the cardholders the opportunity to earn flight miles from credit card purchases. As of 31 December 2014, there were 775,103 Miles&Smiles cards in issue. Turkish Airlines tenders this programme every few years and, while an expensive programme to participate in, the Group's participation is profitable overall for the Group due to the acquisition of high-quality customers that it provides.

- In February 2006, the Group 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 2014, there were approximately 165,400 Flexi cards in issue.

- "Money Card" was introduced in 2009 and provides the Group access to over 1,350 sales points of Migros (a large Turkish grocery store) and affiliated stores (outlets) and their millions of customers. As of 31 December 2014, there were 352,613 Money Cards. Migros tenders this programme every few years and the Group's participation is profitable for the Group due to the volume of customer acquisition that it provides.

- The Group launched American Express Credit Cards in January 2007 and provides a broad range of American Express products. Moreover, the Group has an active and strong presence in the market for cards for corporate employees and virtual cards.

- GPS has also licensed the Bonus Card brand to other banks, which as of 31 December 2014 had over 5 million "Bonus Card"-branded cards in issue. While the Bank does not carry the loans made under these cards, Garanti Payment Services receives fees in connection with this business and the greater volume of Bonus Cards in circulation adds to GPS' 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 8,000,000 in annual sales and a maximum of fifty employees). 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 2014, the Bank served approximately 1.3 million 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 was re-designed in 2010, permitting SMEs to access more extensive content (including recent data, financial recommendations and solutions for their businesses). In addition, mobile banking, which had approximately 156,000 active SME customers as of 31 December 2014, helps 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 and number of employees: "Micro" (being those with annual sales of under TL 1,000,000 and up to ten employees) and "Small" (being those with annual sales of between TL 1,000,000 and TL 8,000,000 and up to 50 employees). As of 31 December 2014, 82% and 18% of the SME Banking Department's customers were in the Micro and Small sub-segments, respectively.

The Bank further segments its SME clients by industry as each industry has different needs that require tailored banking products. For example, SMEs that are in the agricultural business generally have highly seasonal cash flow (*e.g.*, post-harvest) and loan requirements (*e.g.*, at seeding) that require tailored loans, whereas manufacturing exporters require trade-finance support.

***Commercial Banking***

The Bank's Commercial Banking Department provides products and services to larger companies, with the department having separate "İstanbul-Ankara" 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. In each such unit, customers are segmented as "Large Scale Commercial" (companies with more than 250 employees and/or annual sales and asset size over TL 40,000,000) and "Commercial" (companies with more than 50 employees and/or annual sales and asset size over TL 8,000,000). 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 48,746 customers as of 31 December 2014, the Bank's Commercial Banking Department increased the number of commercial branches and employs 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 2,200 corporate clients as of 31 December 2014. These clients belonged to over 320 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.

***Treasury***

The Group's operations and results rely to a large extent upon the Bank's Treasury Department, in which the Group centralises its asset and liability management operations, trading (both customer driven and proprietary) and certain other important functions.

The Treasury Department principally consists of the Asset and Liability Management department (which continuously monitors the Group's asset and liability positions), the Trading department (which coordinates the Group's trading functions and manages the risks inherent therein), the Treasury Marketing and Financial Solutions department (which allows the Bank's customers easier access to the financial markets) and the Derivatives (Risk Control & Compliance) 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.

*Asset and Liability Management Department*

The Asset & Liability Management ("**ALM**") Department manages the Bank's interest rate, sovereign credit and liquidity risks in accordance with the objectives set by the Asset & Liability Committee ("**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 the prevailing market conditions, interest rate, volume trends on the balance sheet items and risk parameters, the ALM creates and acts on 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 transfer to ALM. Hence, through FTP, ALM conducts a centralised market risk management. In addition, by differentiating the transfer prices for different products with different risk factors, ALM is able to develop and implement its strategic guidance on products and risk factors.

*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 Treasury 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 Bank's Board of Directors. 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 Treasury 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 Treasury 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).

*Treasury Marketing and Financial Solutions Department*

The Treasury Marketing 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 Treasury Marketing 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.

*Derivatives* (*Risk Control & Compliance*) *Department*

The Structured Products Unit, one of the units of the Treasury's Derivatives 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 Treasury's Derivatives department. The Risk Control Unit also monitors the profitability and volume of treasury 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 Treasury's Derivatives department, which unit also examines the confirmations of treasury 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 (Garanti Bank International NV, which has offices in Amsterdam and Germany), Russia (Garanti Bank Moscow) and Romania (Garanti Bank SA).

The following tables reflect the contribution of the Bank and a certain number of its consolidated subsidiaries to the Group's net income and total assets as of the indicated dates:

| | | As of 31 December | | |
|---|---|---|---|---|
| **Assets** | **Ownership[1]** | **2012** | **2013** | **2014** |
| Türkiye Garanti Bankası | N/A | 84.2% | 82.6% | 81.8% |
| GBI | 100% | 5.8% | 5.8% | 5.2% |
| Garanti Pension and Life | 84.91% | 2.3% | 2.3% | 2.8% |
| Garanti Holding and Romania businesses[2] | 100% | 2.3% | 2.4% | 2.1% |
| Garanti Leasing/Fleet[3] | 100% | 1.7% | 1.7% | 1.8% |
| Garanti Factoring | 81.84% | 1.1% | 0.9% | 1.1% |
| GBM | 100% | 0.4% | 0.4% | 0.2% |
| Garanti Securities | 100% | 0.1% | 0.0% | 0.0% |
| Garanti Asset Management | 100% | 0.0% | 0.0% | 0.0% |
| Garanti Technology | 100% | 0.0% | 0.0% | 0.0% |
| Garanti Diversified Payment Rights Finance Company[5] | - | 2.1% | 2.9% | 3.4% |
| RPV Company[5] | - | - | 1.0% | 1.6% |

| Net Income[4] | Ownership[1] | For the year ended 31 December 2012 | 2013 | 2014 |
|---|---|---|---|---|
| Türkiye Garanti Bankası | N/A | 90.9% | 87.9% | 86.2% |
| Garanti Pension and Life | 84.91% | 4.0% | 3.8% | 4.5% |
| GBI | 100% | 3.0% | 4.0% | 3.6% |
| Garanti Leasing/Fleet[3] | 100% | 1.8% | 1.5% | 3.5% |
| Garanti Holding and Romania businesses[2] | 100% | (1.2%) | 1.6% | 0.5% |
| Garanti Factoring | 81.84% | 0.6% | 0.4% | 0.5% |
| Garanti Technology | 100% | 0.2% | 0.1% | 0.4% |
| GBM | 100% | 0.5% | 0.4% | 0.3% |
| Garanti Asset Management | 100% | 0.1% | 0.1% | 0.3% |
| Garanti Securities | 100% | 0.1% | 0.2% | 0.2% |
| Garanti Diversified Payment Rights Finance Company[5] | - | 0.0% | 0.0% | 0.0% |
| RPV Company[5] | - | - | 0.0% | 0.0% |

(1) Ownership refers to the Bank's direct and indirect ownership in the relevant subsidiary.

(2) Garanti Holding and Romania businesses include 100% ownership in Garanti Holding BV and in the following Romanian businesses as of 31 December 2014: Garanti Romania, Motoractive and Ralfi through G Netherlands BV. The ownership in the Romanian businesses increased from 73.27% to 100.00% in December 2010 following the acquisition of Leasemart Holding BV, the other shareholder of G Netherlands. On 14 November 2014, Domenia was acquired by Garanti Romania as a result of a merger process.

(3) Garanti Fleet is almost fully owned by the Bank's subsidiaries (principally Garanti Leasing) and subject to full consolidation in order to reflect the Bank's and its subsidiaries' ownership of Garanti Leasing. In October 2014, the Bank's interest in Garanti Leasing increased from 99.96% to 100%.

(4) As fees and commissions paid by one Group member to another increase the recipient's income and the payer's expenses, these numbers do not necessarily reflect fully the benefits that the Bank's subsidiaries provide to the Group.

(5) Garanti Diversified Payment Rights Finance Company and RPV Company are special purpose entities established for the Bank's fund-raising transactions, and are consolidated in the accompanying consolidated financial statements. Neither the Bank nor any its affiliates has any shareholding interests in these companies. These companies have assets and liabilities in their financial statements resulting from the fund-raising processes, many of which are eliminated during the consolidation processes.

The following provides brief summaries of each of the Bank's material subsidiaries (including GPS and Garanti Mortgage, which are not consolidated in the IFRS Financial Statements due to the immateriality of their individual balance sheet sizes) but excluding Garanti Technology, which is described in "*Information Technology*" below.

*Garanti Bank International*

Established in Amsterdam in 1990 as a wholly-owned subsidiary of the Bank, GBI operates through its head office in the Netherlands, its branch in Germany and representative offices in Turkey, Switzerland and Ukraine. GBI is supervised by De Nederlandsche Bank an de Autoriteit Financiele Markten under Dutch and European Union laws and regulations. As a "global boutique bank", GBI offers financial solutions to its customers worldwide in the areas of trade and commodity finance, private banking and structured finance.

GBI generated a net income of €48.3 million in 2014 (€61.2 million for 2013). GBI's total assets amounted to €4,870 million as of 31 December 2014 (€4,642 million as of 31 December 2013).

*Garanti Pension and Life*

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 was the leader of the sector by number of participants with 870,953 pension participants and an 17.1% market share according to the Pension Monitoring Centre (*Emeklilik Gözetim Merkezi*) as of 26 December 2014. Garanti Pension and Life managed a portfolio of TL 5.6 billion and held a 16.1% market share in pension fund assets under management as of 26 December 2014 according to the Pension Monitoring Centre. In connection with its pensions business, the company earns income from fund management and administrative and entrance fees.

In the life insurance business, as of 31 December 2014 the company had approximately 1.8 million insurance policies outstanding, on which business it generated TL 319 million in written premia in 2014 (TL 298 million in premia in 2013). Garanti Pension and Life increased its direct premium production by 7% in 2014 as compared to 2013 and increased its market share to 9.9% as of 31 December 2014 as published by the Turkey Insurance and Reinsurance and Retirement Companies Association (*Türkiye Sigorta ve Reasürans ve Emeklilik Şirketleri Birliği*). According to the Pension Monitoring Centre, Garanti Pension and Life ranked second in risk life products as of December 2014, generating a significant portion of its premiums through alternative distribution channels.

Since 2007, Garanti Pension and Life has also marketed, promoted and sold certain general insurance products of its previous 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 income of TL 171,424 thousand in 2014 (TL 137,335 thousand in 2013).

*Garanti Leasing and Garanti Fleet*

In 1990, the Bank established a leasing company, Garanti Leasing. In 2014, Garanti Leasing executed 3,171 new financial leasing deals (principally for the leases of real estate) and recorded a total of US$943 million in new leases, as compared to 3,018 new financial leasing deals (US$889 million in new leases) in 2013. As of December 2014, the company was the leader in the Turkish leasing sector with a market share of 15.62% for new contracts and it also was third in the market with a 12.34% market share in terms of transaction volume, each according to the Turkish Financial Institutions Association (*Finansal Kurumlar Birliği*). As of 31 December 2014, Garanti Leasing's consolidated total assets (including Garanti Fleet) were TL 4,744,396 thousand (TL 4,046,293 thousand as of 31 December 2013).

Garanti Fleet was established in 2007 under Garanti Leasing in order to serve in operational leasing. The company started its activities by leasing light commercial vehicles and passenger cars, the most common application for operational leasing in Turkey. Garanti Fleet, besides sales-marketing teams located in its head office, also uses the regional sales teams of Garanti Leasing and the Bank's widespread branch network for sales and marketing activities. The company launched a high service quality approach in 2009 and reached TL 632,076 thousand in total assets as of 31 December 2014 (TL 408,686 thousand as of 31 December 2013) and had a fleet size of 12,043 vehicles as of such date.

In 2014, Garanti Leasing (on a consolidated basis with Garanti Fleet) had net income of TL 134,741 thousand.

*Garanti Holding and Romania Businesses*

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 Doğuş Holding all of the shares of GHBV, which is the sole shareholder of G Netherlands. G Netherlands is the shareholder of Garanti Romania, Motoractive and 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 2014, 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 label 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 2014, Garanti Romania operated 84 branches, 32 of which were located in the capital city Bucharest. The bank offers a full scope of universal banking products and services to its 324,144 customers from the retail, SME and corporate segments. With 236,883 credit and debit cards and 5,407 active (8,683 in total) POS terminals, Garanti Romania ranked in the top ten in terms of the numbers of issued credit cards (with a market share of 5.44% (including non-banking financial institutions) and 7.81% excluding non-banking financial institutions), in the issued credit cards market as of 31 December 2014 and POS terminals (with a market share of 6.41%) in Romania, according to the public figures available from the Romanian National Bank as of 31 December 2014.

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 1,270 customers with 3,192 active contracts as of 31 December 2014 and has an extensive partnership network.

Ralfi's main activity is to provide consumer loans to retail customers, particularly sales finance and personal loans. As of 31 December 2014, Ralfi had 135,824 clients and partnerships with major retailers in Romania.

The consolidated asset size of GHBV was approximately €1,991 million as of 31 December 2014 (€1,906 million as of 31 December 2013). GHBV contributed €6.7 million to the Group's consolidated net income in 2014, as compared to €20.4 million in 2013.

*Garanti Factoring*

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$7,808 million in volume of receivables financed through factoring in 2014 (US$5,094 million in 2013), representing a market share of 15.00% as of 31 December 2014 (10.64% as of 31 December 2013) in Turkey according to the Association of Financial Institutions (*Finansal Kurumlar Birliği*). In the Group's consolidated net income for 2014, a net income of TL 20,516 thousand was included for the company (TL 15,302 thousand in 2013). Garanti Factoring's total assets amounted to TL 2,989,573 thousand as of 31 December 2014 (TL 2,059,653 thousand as of 31 December 2013).

*Garanti Bank - Moscow*

The Bank's subsidiary in Russia, GBM, commenced operations in October 1996. GBM is focused on delivering corporate and commercial banking services in Russia. GBM's registered office is located at "Capital City" Business Centre, 8, Bld. 1, 10th Floor, Presnenskaya nab., 123317, Moscow.

A member of the Russian Savings Deposit Insurance System, GBM had one branch and 85 employees as of 31 December 2014. As of 31 December 2014, GBM's total assets amounted to US$238 million (US$488 million as of 31 December 2013) and its net income in 2014 was US$5.4 million (US$7.1 million in 2013).

Having defined its core businesses as corporate and commercial banking, GBM provides services to well-known medium- to large-size Russian companies as well as leading Turkish and Spanish companies operating in the country. The loan portfolio is diversified and is focused on key sectors of the economy, such as the manufacturing, automotive, iron and steel, mining, agriculture, machinery, food production, and transportation sectors. GBM also offers services to large-scale Turkish tourism operators in Russia.

*Garanti Securities*

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 $46 billion from its establishment in May 1991 through 31 December 2014 ($5 billion in 2014 alone).

Garanti Securities provides equity brokerage services to its retail clients through the Bank's branch network and to its institutional clients through its sales team. As of 31 December 2014, Garanti Securities provided brokerage services to 311,420 customers (300,646 customers as of 31 December 2013). As of the second half of 2014, Garanti Securities' treasury department began providing foreign exchange services, creating investment opportunities in 44 currency pairs and precious metals. From the date that Garanti Securities started providing foreign exchange services to 31 December 2014, Garanti Securities achieved 50% growth in client transaction volume, which increased to $8.8 billion.

*Garanti Asset Management*

Founded in June 1997 as the first asset management company in Turkey, Garanti Asset Management is a wholly-owned subsidiary of the Bank. As of 31 December 2014, Garanti Asset Management managed 20 mutual funds of the Bank and Garanti Securities, two mutual funds established under BBVA Durbana International Fund (SICAV), the Istanbull Hedge Fund of the Bank, 20 pension funds of Garanti Pension and Life, six pension funds of other pension companies and the portfolio of Garanti Investment Trust (a closed-end fund listed on the Borsa İstanbul). The company also provides portfolio management services for both institutional and individual clients.

Garanti Asset Management's market share in terms of mutual funds was 10.81% as of 31 December 2014 according to Rasyonet, a third-party data vendor. Total assets under management amounted to TL 10,356 million as of 31 December 2014. Market shares of pension funds and discretionary portfolio management were 16.12% (according to Rasyonet) and 4.30% (according to the CMB), respectively, as of 31 December 2014. The mutual funds managed by the company had a market value of US$1.7 billion as of 31 December 2014. Garanti Asset Management distributes its mutual funds solely through the Bank's branches and DCs.

*Garanti Payment Systems*

GPS was established by the Bank in 1999 to provide services in the cards market as the product developer of chip-based multi- and joint-branded card programs, commercial cards, virtual cards, business-based marketing and e-commerce services. As of the date of this Base Prospectus, the Bank owns a 99.96% stake in GPS, which as of 31 December 2014 booked total issuing volume amounting to US$39.7 billion on approximately 9.4 million credit cards, approximately 8.0 million bank debit cards and approximately 541,000 point of sale devices. In 2014, total merchant partner acquiring volume was US$43.5 billion (US$44.3 billion in 2013). GPS earns the interchange fee for processing credit card payments and certain other revenues whereas the Bank is the lender, takes the credit risk and earns all interest and certain fees.

*Garanti Mortgage*

Garanti Konut Finansmanı Danışmanlık Hizmetleri A.Ş. ("**Garanti Mortgage**"), wholly owned by the Bank and established in October 2007, specialises in housing loans and offers consultancy and support services to mortgage companies. The Group's market share in Turkish mortgage loans was 13.42% by outstanding mortgage loan balances as of 26 December 2014 according to the BRSA's weekly report, and the Group (including Garanti Mortgage) sustained the market leadership position it has held since 2007. Garanti Mortgage has established collaborative relations with numerous

construction firms and projects around Turkey. Various products have been launched by Garanti Mortgage, each of which addresses different product and payment method needs of consumers.

***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, Garanti Romania and GBM, 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 2014 the Bank's international network included more than 3,250 correspondent banks in over 160 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 11.0% share in Turkey's imports by value for 2014. 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 2014, the Bank had 994 domestic branches and offices. 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 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). The Bank, having reached its targeted level of 1,000 branches, does not plan a major investment to its branch network in the near future. The Bank's branch network growth has been partly driven by the increase in the number of "small-branches".

***Digital Channels***

In addition to its large branch network, the Bank has developed an extensive DC network that includes internet banking, ATMs, two 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 allowing them to conduct a variety of financial transactions through its extensive DC network) and has helped the Bank develop deeper relationships with its customers. Going forward, the Bank intends to better integrate all DCs so that customers can benefit from a variety of alternative channels to conduct their transactions.

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 TL 462.1 million for 2014 (342.0 million in 2013).

- *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 2014, 3.2 million banking products were sold to customers through the internet, mobile banking and ATMs.

In addition to high-quality banking services, DCs also provide convenience-oriented value-added services like Western Union remittances both online and via ATMs, cardless remittances via ATMs, mobile remittances, video agent services as well as online/mobile instant stock exchange services. In February 2013, the Bank launched the "Alo Garanti Call Steering" application, the first "call steering" application of its kind in the Turkish financial sector. This application allows customers to quickly conduct transactions by verbally stating the transaction to be conducted without having the need to listen to the key in menu.

In 2014, the Bank's DC network received two important awards from Global Finance magazine: the "best consumer internet bank in Western Europe" and the "best corporate/institutional internet bank in Western Europe". In addition, in 2014, independent research company Forrester's analysts and experts evaluated the Bank's mobile banking, without any application process, and awarded the Bank 80 out of 100 points and announced the Bank as having the best mobile banking of the 32 banks tested worldwide.

The Bank also created many mobile finance applications, which have been downloaded from www.garanti.com.tr under the name of the Garanti Application Store more than 6.95 million times through 31 December 2014.

In May 2013, the Bank launched iGaranti, a mobile-only application where consumers can conduct a variety of transactions including, quick response-based cardless POS, e commerce and ATM payments, find location based offers and carry on voice call steering, without the need to access a branch.

The Bank designed the first financial application for the Windows 8 application store. In collaboration with Casper, the Bank's application is available on all computers introduced to the market with Windows 8 and on the Nokia Lumia 920, the first mobile phone model to be marketed in Turkey that is built on the Windows 8 operating system. After developing mobile banking applications for iPhones, iPads and Android phones, an application specially developed for Android tablets was also put into service. The design of wap.garanti.com.tr and Mobile Banking, accessed via wap, was also renewed. Since 2014, mobile financial services have also been enabled for corporate customers via Kurumsal Cep Şubesi, the Bank's corporate mobile banking application.

Consistent with advances in technology and customer preferences, the Bank's customers are shifting their choice of distribution channel. In 2014, 85% of all transactions 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*: As of 31 December 2014, the Bank had 2.71 million active internet banking users and (according to the Banks Association of Turkey) a market share of 23% (based upon the volume of financial transactions). The Bank's internet banking service processed over 140 million financial transactions in 2014 and offered more than 400 types of transactions.

- *Mobile Banking*: The Bank offers mobile banking services on four different platforms including on iOS devices (the iPhone operating system), iPad devices, all Android-operated devices and all WAP browsers. As of 31 December 2014, the Bank had approximately 1.55 million active mobile customers and (according to the Banks Association of Turkey) a 30% market share based upon the number of financial transactions made on mobile banking channels.

- *ATMs*: The Bank's 4,152 ATMs, as of 31 December 2014, provide around 200 different transactions (including remittances and cardless transactions). Approximately half of the transactions executed via the Bank's "Paramatik" ATMs are transactions other than cash

withdrawals. As of such date, the Bank's ATM network included 1,178 "Cash Recycling ATMs," which use deposited cash to provide withdrawals and have helped reduce operational costs. Additionally, the Bank estimates that more than one million unbanked customers (*i.e.*, customers without any bank accounts) use the Bank's ATM network each month, for many of which transactions the Bank receives a fee.

- *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 call centre. The call centre personnel seek to actively cross-sell the Group's products. In 2014, the call centres had 50 million customer contacts and the accumulated individual sales of products through call centres was three million.

**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 2014, the Bank had approximately 19,000 employees and the Group had approximately 42,000 employees.

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). In contrast, specialised jobs might have higher salary packages with regard to their salary bands. None of these incentive policies include arrangements for the involvement of employees in the capital of the Bank.

**Properties**

As of 31 December 2014, the total net book value of the Group's tangible assets (including land, buildings and furniture) was TL 2,319,268 thousand, which was 1.0% 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.

Garanti Technology also provides services to other companies in the Doğuş Group, including its tourism, media and automotive operations. See "*Related Party Transactions*".

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 2014, Garanti Technology was responsible for the processing of approximately 450 million transactions a day on average, with up to 531 million transactions a day on peak days. The financial and core banking applications within Garanti Technology are developed by a team of over 400 software and computer engineers.

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 Terrorist and Anti-Bribery Policies**

Turkey is a member country of the Financial Action Task Force (the "**FATF**") and has enacted laws and regulations to combat money-laundering, terrorist financing and other financial crimes. Minimum standards and duties include customer identification, record keeping, suspicious activity reporting, employee training, an audit function and designation of a compliance officer. Suspicious transactions must be reported to the Turkish Financial Intelligence Unit, which is the Financial Crimes Investigation Board. In Turkey, all banks and their employees are obliged to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money-laundering.

The main provisions of the applicable law include regulation of: (a) client identification, (b) reporting of suspicious activity, (c) training, internal audit and control, risk management systems and other measures, (d) periodical reporting, (e) information and document disclosure, (f) retention of records and data, (g) data access systems to public records, (h) protection of individuals and legal entities and (i) written declaration of beneficial owners by transacting customers, among other provisions. Suspicious transactions must be reported to the Turkish Financial Intelligence Unit, which is the Financial Crimes Investigation Board.

To ensure 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, regulations and practices might arise from these recommendations, which the Bank will monitor.

**Compliance with Sanctions Laws**

OFAC administers regulations that restrict the ability of U.S. persons to invest in, or otherwise engage in business with, SDNs, and similar rules have been put in place by other U.S. government agencies (including the State Department), the EU, the United Kingdom, the United Nations and Turkey. The Bank maintains policies and procedures designed to ensure that it complies with all such laws, regulations and orders (including those of OFAC, the EU and the United Nations) 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 ensures that such customer is not listed as a Sanction Target. In addition, the names of all customers and all incoming and outgoing transactions are continuously and automatically screened against 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 Standard & Poor's, Moody's, Fitch and JCR Eurasia as of the date of this Base Prospectus is set out below. Each of Standard & Poor's, Moody's and Fitch is established in the EU and is registered under the CRA Regulation. JCR Eurasia is not established in the EU and is not registered in accordance with the CRA Regulation. JCR Eurasia is therefore not included in the list of credit rating agencies published by the ESMA on its website in accordance with the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

*Standard & Poor's* (*27 June 2014*)

| | |
|---|---|
| Outlook | Negative |
| Long Term Foreign Currency Issuer Credit Rating: | "BB+" |
| Long Term Turkish Lira Issuer Credit Rating: | "BB+" |
| Stand-alone Credit Profile: | "bb+" |

*Moody's* (*30 March 2015*)

| | |
|---|---|
| Deposit Outlook: | Negative |
| Long Term Foreign Currency Deposit: | "Baa3" |
| Long Term Turkish Lira Deposit: | "Baa3" |
| Short Term Foreign Currency Deposit: | "Prime-3" |
| Short Term Turkish Lira Deposit | "Prime-3" |
| Senior Debt Rating Outlook | Negative |
| Senior Debt Rating | "Baa3" |
| Financial Strength Rating Outlook: | Stable |
| Financial Strength Rating (BFSR): | "D+" |
| Baseline Credit Assessment (BCA): | "Ba1" |
| Long Term National: | "Aa3.tr" |
| Short Term National: | "TR-1" |

*Fitch* (*1 December 2014*)

| | |
|---|---|
| Outlook: | Stable |
| Long Term Foreign Currency: | "BBB*" |
| Short Term Foreign Currency: | "F3" |
| Long Term Turkish Lira: | "BBB" |
| Short Term Turkish Lira: | "F3" |
| Viability Rating: | "bbb" |
| Support: | "3*" |
| National: | "AA+ (tur)" |

[*]*Rating Watch Positive (RWP) since 1 December 2014*

*JCR Eurasia (28 April 2014)*

| | |
|---|---|
| Outlook - FC/LC: | Stable |
| Long Term International FC: | "BBB" |
| Long Term International TL: | "BBB+" |
| Long Term National Local Rating: | "AAA(TrK)" |
| Short Term International FC: | "A-3" |
| Short Term International TL: | "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 programs. 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) on the Bank with the possibility of the Bank's appealing the decision to the Council of State. The Bank has appealed such fine following its receipt of the detailed decision of the Turkish Competition Board; *however*, according to the Law on Protection of Competition No. 4054, appealing 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. The appeal process 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 has objected to this decision through proceedings in the administrative courts, which proceedings are still pending as of the date of this Base Prospectus. 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, may face claims from individual customers on the grounds that such customers have suffered damages and could sue the Bank. So far, there are two legal proceedings initiated against 12 banks (including the Bank) in this respect. The first lawsuit was dismissed by the court for lack of jurisdiction. The second lawsuit was filed on 7 January 2014 and the records of National Judiciary Information System (*UYAP*) show that the annulment action filed by the Bank before the 2nd Administration Court of Ankara was rejected. The Bank appealed the court's decision of rejection on 17 April 2015. There is no precedent Turkish court decision approving the legal validity of any such claims by customers and there are no resolved cases opened by any customers against the Bank. While the burden of proof lies with the customers and the Bank's management is of the view that no real damage was caused, there can be no guarantee that the Turkish courts would agree with such analysis and the number of such claims may increase. The Bank's management has indicated that 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 ("**Custom Ministry**") initiated an audit in the Bank regarding its consumer transactions. Specifically, the Custom Ministry officials are reviewing 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), all kinds of fees and commissions which are charged to the consumers under the consumer transactions and all kinds of advertisements and announcements of the Bank addressing to the consumers and which are published in the media.

The audit is still ongoing and so far there is no report served on the Bank. In the event the Custom Ministry determines that there is a breach of Consumer Protection Law as a result of its audit, it may impose an administrative fine on the Bank.

## MORTGAGE ORIGINATION, APPROVAL AND SERVICING

The Bank's residential mortgage loan portfolio is almost entirely generated by the Bank, which also services its own residential mortgage loan portfolio. The following summarises the Bank's origination process, its approval process and its servicing of the residential mortgage loan portfolio.

*Origination.* The Bank offers approximately 18 different residential mortgage loan products, including purpose-based products (*e.g.*, products for home purchase, refinancing or home equity loans), payment plan-based products (*e.g.*, annual or other customised payment plans) and other special products (*e.g.*, zero cash-down mortgage loans). The Bank has been the market leader in the mortgage market since June 2007 and (based upon the outstanding principal amount of residential mortgage loans) had a market share of approximately 14% as of 31 December 2014 (source: BRSA).

While certain of the Bank's residential mortgage loan products are of greater application for certain categories of potential borrowers, almost all of its mortgage loans are generated through four points of contact with the Bank - directly at its branches, remotely through the internet and a call centre, through independent real estate agents and through real estate projects.

The origination process is mostly initiated through the Bank's branches, which originated residential mortgage loans representing 57% of the total principal amount of residential mortgage loans originated by the Bank in 2014. The Bank has at least one mortgage expert in each of its retail branches, each of whom has direct contact with branch customers to answer questions, assist with their submission of a loan application and continue as the primary point of contact with the customer throughout the application process.

Referrals from independent real estate agents resulted in a further 27% of the residential mortgage loan portfolio in 2014. Each real estate agent who refers a successful origination process is paid by the Bank a fee varying between TL 100 and TL 500 (in average, TL 140 was paid to real estate agents for each successful origination in 2014). As real estate agents are not dedicated solely to the Bank, they are free to provide their customers with information about loan products offered by the Bank's competitors, so the Bank is focused on maintaining good relationships with real estate agents.

A further 6% of the Bank's residential mortgage loans in 2014 were referred to the Bank by real estate projects. Unlike real estate agents, in these projects, the Bank has an agency arrangement with the developer of the project and (while borrowers can choose whichever lender they wish) the developer cannot market mortgage loan products from the Bank's competitors. In these projects, the Bank generally grants mortgage loans during the construction phase, with the developer of the project providing a guaranty for any non-payment by any borrower. The Bank carefully selects the projects and developers with whom it works in these transactions, and principally focuses on projects that have a state enterprise as the land owner or smaller developers. The Bank occasionally participates in larger developments, though this is less common due to the much higher levels of concentration, construction and other risks.

The remaining mortgage loans in 2014 were originated through the Bank's own call centre, which utilises customer contacts collected from the Bank's internet portal. Supporting this and the Bank's other residential mortgage lending business, the Bank engages in both mass and targeted marketing in various media.

*Approval.* Upon submission of a mortgage loan application to a branch or a call centre (whether initiated at the Bank or from a referral from a real estate agent or project), the Bank gathers information and documents from and about the applicant (*e.g.*, income statements, employment details and credit history) in order to start the approval process. The Bank undertakes an automated evaluation of the requested loan using an internally developed "scorecard" that rates applicants based upon various criteria. Where a co-signer or guarantor would be liable on the mortgage loan, the analysis of the application takes into account their creditworthiness.

In this analysis, the Bank (upon receipt of all needed information) undertakes a credit assessment of the applicant using the same processes applicable to other potential credits to such an applicant and evaluates the credit application via an internal automatic decision system. Considerations in this analysis included whether the employee is a private or public sector worker, a shareholder of a company, a retired individual or an individual continuing to work after retirement, an individual with additional income such as rent or interest income or an individual with farming income).

The call centre agent or an employee of a branch collects various information about each applicant through the credit application system, including the following: (a) the profession, income and address of the customer, (b) the purpose, term and amount of the requested credit and (c) other demographical information to be used for the evaluation of the application. The information received from the credit application system is then verified against the documents received from the customer and scanned into the Bank's electronic system. The information and documents collected and verified during the credit application process are maintained in the Bank's internal systems and are used for control purposes. The credit utilisation documents are printed in the branch, while other documents are kept in the Bank's electronic archive system and may be accessed by the audit department or the credit approval authority online.

Recognizing that the automated system's results are directly dependent upon the quality of the information input into the system, the Bank has developed a sophisticated internal model for estimating future income, calculating an applicant's monthly payment capacity, identifying a probability of default by the applicant and valuing the real property that would be mortgaged. Certain of these calculations benefit from information obtained from third parties, such as the Central Bank or Turkey's credit bureaus, while other information comes directly from the Bank's history with the applicant (*e.g.*, is he or she a payroll customer of the Bank, has he or she obtained loans from the Bank in the past, what levels of deposits and other funds does he or she maintain with the Group?).

The re-payment capacity and debt level of a mortgage applicant are basic factors in determining the limit for any credit that might be provided. The applicant's monthly debt payment capacity is determined by a model developed by the Bank for estimating future income, the income/salary declared or documented by the applicant and the amount of the applicant's monthly debt service. The LTV ratio, which is calculated according to an appraisal report on the relevant property, is determined within the scope of legal limits. The reasons that most frequently result in the rejection of an application include: (a) a history of non-payment being disclosed in the applicant's report from Turkey's credit bureau, (b) negative records of the applicant in the Bank's own database based upon the Bank's history with the applicant, (c) appearance of the applicant in the blacklist of the Bank's fraud database, (d) incomplete or false information in the application documentation and (e) insufficient monthly income of the applicant.

An important element of the analysis of an application is the appraisal report of the real property that would be mortgaged. All appraisal reports are prepared by independent appraisal firms. Three independent regulatory institutions (the BRSA, the CMB and the Appraisers Association of Turkey (*Türkiye Değerleme Uzmanları Birliği*)) monitor and authorise each real property appraisal business in Turkey. As of 31 December 2014, there were 124 real property appraisal companies licensed by the BRSA and 132 real property appraisal companies licensed by the CMB. The appraisal companies each use three appraisal methodologies for each property: a comparison approach, an income approach and a cost approach. Upon receiving a mortgage loan application, the Bank's banking system randomly selects an appraisal firm to which to send an appraisal request. Following receipt of an appraisal order, an appraiser will: (a) visit the relevant Land Registry Office, municipality and (for on-site measurements) the real property to be mortgaged, (b) conduct research regarding reference values and (c) prepare and submit an appraisal report to the Bank. The Bank's appraisal team review and either accepts or rejects each report. The applicable appraisal report must be reviewed and approved by the Bank's appraisal team before a mortgage loan application can be considered.

*Servicing*. Once a residential mortgage loan is funded, the Bank's branches are charged with monitoring the loan on the Bank's banking system. This process includes ensuring that payments are made promptly and that any necessary evidence of insurance is delivered.

In all of the Bank's residential mortgage loans as of 31 December 2014, payment is made by the Bank removing the relevant payment from a bank account maintained by the borrower with the Bank. Each borrower is required to maintain an account with the Bank throughout the life of the mortgage loan and ensure that it is funded as needed so that the Bank can apply such funds to the mortgage payment in a timely fashion.

If a borrower misses two consecutive payments within an approximately 31 day period, then the Bank sends a notification to the borrower declaring the loan due and payable and requesting repayment in full to be made within 45 days. Once a mortgage loan is 90 days in arrears, it is labelled as "delinquent". If the customer does not make the necessary payments while its loan is "delinquent," the Bank sends a warning letter via public notary, transfers the loan balance to a "problematic receivables" account and labels the loan as an NPL. If no collection is made from the customer in a further 30 days, then the loan is transferred to the Bank's legal services department for legal process or other appropriate remedial action.

Where legal process is initiated, the Bank issues a warrant of execution and submits an application for the appraisal of the mortgaged property via the office of a Turkish bailiff. The bailiff commences a public auction for the mortgaged property and starts with a minimum bid price of 50% of the appraised value. If the property cannot be sold at the first auction, then a second public auction is announced for a date at least 25 days after the first auction and the minimum bid price is again set at 50% of the appraised value. In both auctions, the Bank has the option to buy the property. Following a legally required objection period provided to the debtor, the bailiff finalises the sale of the property to the winning bidder and transfers to the Bank the amount required to repay the mortgage loan in full (or as much thereof as possible). The period of collection may be extended due to: (a) the debtor making an objection to the appraisal value of the real estate (in which case the debtor must present a final decision of the enforcement court) and (b) the debtor initiating a lawsuit for cancellation of the auction; *provided* that the debtor deposits 20% of the winning auction price before initiating a lawsuit for cancellation of the auction (such deposit is retained by the court if the court does not decide in favour of the debtor).

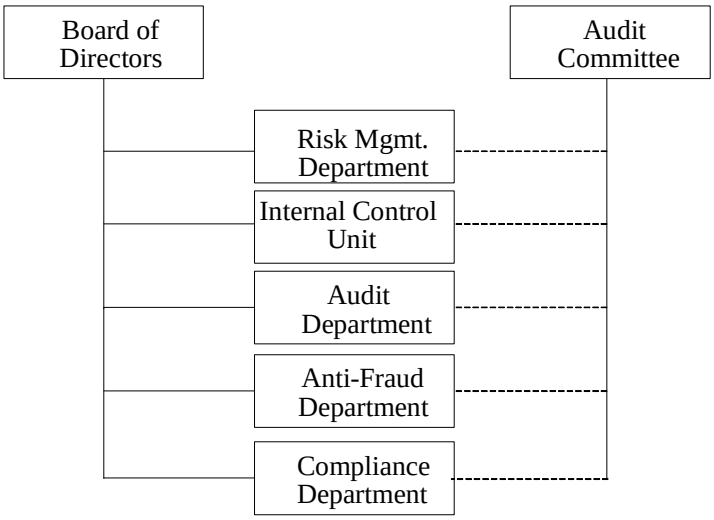
The ratio of NPLs in the Bank's portfolio of residential mortgage loans was 0.41% as of 31 December 2014, as compared to 0.50% in the Turkish banking sector as of the same date. The recovery rate of the Bank's residential mortgage loan NPLs was (in 2014): (a) 55.5% in the first 12 months after the initial payment default, (b) 85.2% in the first 24 months and (c) 93.4% in the first 36 months, largely representing value obtained through the sale of the related mortgaged property.

## RISK MANAGEMENT

### General

As with any financial institution, the Bank is exposed to various risks inherent to its business such as credit risk, liquidity risk, market risk and operational risk. The Bank's Board of Directors is ultimately responsible for establishing and ensuring the effective functioning of risk management and internal audit systems and for devising, implementing and maintaining risk management and internal audit and control strategies and policies that are compatible with the Bank's capital and risk level. For further information on the risks faced by the Bank, please see "*Risk Factors*".

In fulfilling such responsibilities, and in line with applicable law, the Board of Directors has established within the Bank an Internal Audit department, an Internal Control department, a Risk Management department, an Anti-fraud department and a Compliance department. Each of these is independent of executive functions and directly reports to the Board of Directors. The following diagram shows the interaction between these various departments.




In line with the importance given by the Bank to the corporate governance principles, the Bank's Board of Directors created an Audit Committee whose job is to ensure that the Board of Directors' supervision and review functions are duly carried out. The Audit Committee reports to the Board of Directors on the results of internal control, anti-fraud monitoring, risk management and audit activities and on any action that it deems necessary as well as its views on any other issue that it deems to be important from the standpoint of the continued well-being of the Bank and the conduct of its activities. For more information on the Audit Committee, see "*Management - Board of Directors - Corporate Governance - Risk Management Committees*".

The principal responsibility for the Bank's risk management is held by the Risk Management department, which is responsible for the establishment of an integrated risk management system that measures and manages risks arising from the activities of the Bank (including in accordance with applicable legislation) and seeks to obtain an optimum risk-return-capital balance. The risk management system consists of processes for the establishment of standards, information flow, compliance, monitoring, decision-making and implementation necessary to monitor, control and change, when deemed necessary, the risk-return structure and the future cash flows of the Bank and the nature and level of related activities.

Fostering a risk management culture throughout the Bank and guided by a vision of having an integrated risk management system, the Bank employs analytical methods that take into account

international standards (such as Basel II and the EU's Capital Requirements Directive) to quantify and monitor market, credit and other risks (benefiting from its many years of detailed operations data).

A summary of the Bank's management of credit, market, operational and liquidity risks is set forth below. See note 26 to the 31 December 2014 IFRS Financial Statements for additional information on the management of these and other risks as of the date thereof.

***Credit Risk Management***

The Bank is subject to credit risk through its trading, lending, hedging and investing activities and in cases where it acts as an intermediary on behalf of third parties. For credit risk relating to lending activities, which constitute the Bank's primary credit risk exposures, the Bank uses various statistical-based internal risk rating models and scorecards based upon customer segmentation and also obtains information from certain credit reporting bureaus. Risk ratings and scores generated by these models are used in the credit assessment process. Risk rating is also one of the parameters in determining credit authorisation limits.

In the risk-rating models and scorecards, statistical methods are applied to information concerning customers' previous performance in order to rate them on the basis of objective criteria and assess the likelihood of a particular customer's defaulting in the future. Different models are currently in use for corporate/commercial companies, retail customers and SMEs.

The model for corporate/commercial/small enterprise companies employs financial and qualitative criteria and assigns a probability of default for each borrower, classifying them within a scale of 17 grades. Using these ratings, the expected and unexpected losses and the associated amounts of economic capital needed for the portfolio are calculated. Due to the changing structure of the Bank's credit portfolio since 2003, the Bank has developed this model further by splitting it into different models tailored to the specific circumstances of each of its corporate, commercial and small enterprise segments. The models will be used after integration into the system is complete.

For the retail loan and credit card portfolio, once they have been fully integrated, umbrella scorecards that are produced with the combination of application, behavioural and bureau scorecards are used in the application and granting process. The Bank frequently updates these systems based upon market conditions and advances in experience.

Loan applications from SME sole-traders are assessed by application scorecards, which generate scores for general purpose loans, auto loans, home/office loans, overdrafts and credit cards. For the rest of the SME portfolio, the Bank employs an experience-based scoring model that also serves as a tool for data collection. Behavioural scorecards are also being developed by the Bank.

Assessment models have also been developed for Specialised Lending loans using a Supervisory Slotting Criteria approach developed by the Risk Management Department.

The Corporate Banking Unit-Bank and Country Risk Analysis & Research Service is in charge of the bank and country risk analysis and the assessment of credit lines. The country limits are set on a yearly basis through extensive sovereign analysis. The department monitors the associated bank and country risks on a daily basis. These analyses are based upon the Bank's country risk rating model, which takes both objective and subjective risk factors into account. Objective risk factors make up 70% of the total score. While the subjective part forms the minority, it plays an essential role in differentiating the risk. The risk rating methodology includes a country's economic performance, political structure, ratings from major agencies, banking sector performance and Turkey's relations with the specific country. On a yearly basis, the results are approved by the Bank's senior management.

The medium to high level risk-rated countries are monitored through daily news, rating actions/rating reports and other analysis on a regular basis. Brief country reports for high or moderate risk countries are prepared on a case by case basis and, when needed, included in the credit folders of the banks for whom line proposals are made to the Credit Committee.

The Bank has established an internal Basel Steering Committee under the coordination of the Risk Management Department. This committee has planned all the activities that will be necessary for compliance by the Bank with the new Basel II rules. The BRSA's standardised method is used for the calculation of credit risk exposure, which is a component of the regulatory capital adequacy ratio. The Bank has adopted procedures to monitor its compliance with the BRSA's capital adequacy requirements and has been preparing an internal rating-based approach structure.

The Bank has established a robust system to validate accuracy and consistency of its internal rating system and processes. In addition, recovery performances of the non-performing loan portfolios are calculated and monitored regularly and stress testing and concentration risk calculations are regularly done.

***Market Risk Management***

As described in "*Risk Factors - Risks relating to the Group's Business - Securities Portfolio Risk*," "*Interest Rate Risk*," "*Trading Activities Risk*" and "*Foreign Exchange and Currency Risk*," the Bank's operations are exposed to significant market risks such as fluctuations in interest rates and exchange rates. The Bank's asset and liability management personnel, including its ALCO, monitor market risk and adopt and implement procedures and policies to optimise net income within the approved risk levels.

Among these procedures, the Bank's trading risk and the associated economic capital is calculated on each business day using a VaR model to determine the risks to which the Bank is exposed on account of market price movements in the trading positions that are maintained both on and off its balance sheet. For the purpose of determining the risks that could arise in major market fluctuations, the VaR model is regularly employed to perform stress tests and scenario analyses. Before taking a position in a considerable amount or trading a new type of instrument, effects on the portfolio are measured by a "what-if" analysis. The reliability of the VaR model is regularly checked by means of back tests.

The VaR limit is determined according to the distribution of capital approved by the Bank's Board of Directors and is monitored each business day. In addition, trading desk, transaction and stop loss limits are tracked. VaR figures and VaR limit utilisations are reported each business day to the Bank's Treasury Department, CEO and the board member in charge of risk management and also weekly to the ALCO. Approval, update, follow-up, breach and notification procedures of these limits are executed and modified upon the approval of the Bank's Board of Directors.

For regulatory capital adequacy purposes, the BRSA's standard method is used. The Bank has adopted procedures to monitor its compliance with the BRSA's capital adequacy requirements (further details of which can be found in "*Turkish Regulatory Environment*"). Balance sheet management is performed by the ALM in line with the main strategies determined by the ALCO. Hedging transactions for the Bank's own balance sheet are carried out in accordance with the policies and procedures adopted by the ALCO. From an internal management perspective, the ALM eliminates the market risk from the Bank's branches and departments through a transfer pricing system, which thus enables the Bank to manage its market risks on a centralised and net basis.

Reports on duration/gap and sensitivity analyses are prepared to determine the interest rate risk the Bank faces as a result of maturity mismatches on its balance sheet. The ALCO and the ALM use the duration/gap reports to manage balance-sheet interest rate risk.

The banking book's interest rate risk is limited by a regulatory limit that is calculated by the standard shock method. The legal limit is monitored by the Bank and reported to the BRSA on a monthly basis.

***Operational Risk Management***

As described in "*Risk Factors - Risks relating to the Group's Business - Operational Risk*," the Bank is subject to various operational risks, including risks resulting from inadequate or failed internal processes, people and systems or from external events. For the measurement and management of the Bank's operational risks, a risk matrix has been developed in which the existing and potential

operational risks of the Bank are grouped according to the business lines, causes, consequences and categories to which these risks apply. A loss database has been created for the principal business lines in this matrix. The Bank's Internal Control and Internal Audit departments have primary responsibility for monitoring and updating the operational risk matrix.

Credit cards, internet banking and application fraud teams that were previously working under different departments were brought together under a centralised Fraud department in September 2007. The purpose of this department is to prevent fraudulent acts with an enterprise approach, to minimise the risks arising from such acts, to reduce the losses incurred by the Bank in this regard and to take more effective operational security measures.

Capital requirements relating to operational risk are, per BRSA requirements, calculated according to the Basel II basic indicator approach for operational risk. Nevertheless, it is the Bank's goal to measure for internal purposes operational risk with the Basel II advanced measurement approach. For this purpose, the Bank: (a) in December 2008, completed an internal database to gather operational risk loss data in a more systematic centralised environment in accordance with Basel II standards, (b) in August 2009, implemented the operational risk economic capital software and (c) in December 2009, built a framework to define operational risk-related key risk indicators and to collect data for them. The Bank's management believes that these more advanced standards will further enhance its operational risk management.

The Bank seeks to manage reputational risk as part of its risk management. The Bank's policy for the management of reputational risk is to avoid transactions and activities that can cause reputational risk. The Bank executes all transactions and activities in the context of the following principles: compliance with legal regulations, compliance with corporate governance principles and compliance with social, ethical and environmental values.

Management of reputational risk is ultimately the responsibility of the Board of Directors but it is also a responsibility of all the employees of the Bank.

***Liquidity Risk Management***

Liquidity risk is defined as the risk that the Bank might not be able to fulfil its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank. The Bank's policy in liquidity management is to maintain sufficient levels of liquid assets to sustain the current funding, benefit from investment opportunities and meet loan demands and eventual liquidity shortages. The Bank has established a Liquidity Risk Management Committee (the "**LRMC**"), a description of which can be found in "*Management - Corporate Governance*". Trends of the early warning indicators, benchmark ratios and limits are followed by the Risk Management Department and reported to the LRMC on a monthly basis.

The Bank maintains a desired level of liquidity by maintaining foreign currency and Turkish Lira assets in the form of short-term money market placements and marketable securities. In creating assets in the context of effective liquidity management, the Bank considers their ability to be liquidated easily, having a regular cash flow and being able to liquidate easily any collateral taken. Oversight of compliance with legal liquidity ratios is also monitored.

The Bank has a "Liquidity Risk Management Contingency Funding Plan" that includes mechanisms to try to avoid increases in liquidity risk during normal and liquidity crisis scenarios for different conditions and levels. Available liquidity sources are determined by considering the liquidity risk scenario. Within this plan, the Bank monitors liquidity risk in terms of early warning indicators, stress levels determined according to probable scenarios and severity of the crisis and possible actions that can be taken in each stress level. In the determination of the stress levels used in the plan, early warning indicators are taken into consideration. The Bank's contingency funding plan includes actions to be conducted in accordance with the scenarios and stress levels defined in the plan.

Daily liquidity management is performed by the ALM. In executing this duty, the ALM considers legal liquidity ratios and monitors early warning indicators associated with eventual liquidity shortages. Medium-and long-term liquidity management is executed by the ALM in line with ALCO decisions.

**Risk Management of Subsidiaries**

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.

## MANAGEMENT

### Board of Directors

The Bank's Board of Directors 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 Bank's Board of Directors makes all major management decisions affecting the Bank. The Board of Directors 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 Bank's Board of Directors, which should consist of at least seven members. Currently, the General Assembly has set the number of members at ten. Each member has a right of one vote and it is not permissible that members vote on behalf of another member by proxy. The members of the Board of Directors are appointed for a period of three years and a member may be re-elected.

The members of the Board of Directors 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. The 2010 Shareholders' Agreement executed between the Doğuş Shareholders and BBVA (and to which the Bank is not a party) provides that the Doğuş Shareholders and BBVA will vote their respective shares in the Bank to procure that they each may each nominate for appointment four of the Bank's ten directors.

*The Amended Shareholders' Agreement*

The Amended Shareholders' Agreement, which will become effective simultaneously with the consummation of transfer of the Seller's shares representing 14.89% of the Bank's issued share capital to BBVA pursuant to the 2014 Share Purchase Agreement, contains the parties' agreement regarding the composition of the Bank's board of directors in proportion to the shareholding that Doğuş Shareholders retain in the Bank, as described below:

- if the Doğuş Shareholders own more than 9.95% of the Bank's shares, then the parties have agreed to vote their shares at the Bank's general assembly such that: (a) the board of directors of the Bank will consist of 10 members, (b) board members nominated by BBVA will occupy seven board seats (two of which will be members of the Audit Committee and be deemed independent board members pursuant to Corporate Governance Communiqué), (c) board members nominated by the Doğuş Shareholders will occupy two board seats and (d) a board member jointly selected by BBVA and the Doğuş Shareholders will occupy the remaining board seat, who will also be the third independent member of the board of directors,

- if the Doğuş Shareholders own 9.95% of the Bank's shares, then the parties have agreed to vote their shares at the Bank's general assembly such that: (a) the board of directors of the Bank will consist of 10 members, (b) board members nominated by BBVA will occupy eight board seats (two of which will be members of the Audit Committee and be deemed independent board members pursuant to Corporate Governance Communiqué), (c) board member nominated by the Doğuş Shareholders will occupy one board seat and (d) a board member jointly selected by BBVA and the Doğuş Shareholders will occupy the remaining board seat, who will also be the third independent member of the board of directors, and

- if the Doğuş Shareholders own less than 9.95% of the Bank's shares, then the parties have agreed to vote their shares at the Bank's general assembly such that the number and identity of members of the board of directors will be as selected by BBVA (which should consist of at least seven members according to the Bank's articles of association).

Upon receipt of the all necessary approvals and finalisation of the share transfer under the Share Purchase Agreement, the Doğuş Shareholders and BBVA's shares in the Bank are expected to be 10.00% and 39.90%, respectively.

The Amended Shareholders' Agreement also provides that the parties' directors will vote at board meetings such that: (a) the Bank's Chief Executive Officer and the Chairman of its board of directors will be as selected by BBVA and (b) the meeting and decision quorum at the board of directors meeting will be six or more persons.

*Reserved Matters.* The Amended Shareholders' Agreement contains the parties' agreement with respect to the following matters that BBVA (whether as shareholder of the Bank or, for board meetings, through its appointed directors) is required to vote against unless the Doğuş Shareholders consent: (a) decisions that might adversely affect the voting rights or other rights attached to the Doğuş Shareholders' shares, (b) amendments to the constitutional documents of the Bank or any of the Bank's material subsidiaries that conflict with the rights of the Doğuş Shareholders as holders of 9.95% or more of the share capital of the Bank, (c) the liquidation of, or initiation of insolvency proceedings in relation to, the Bank or any of its material subsidiaries, (d) granting rights to any person that restricts the pre-emptive rights of the Doğuş Shareholders in capital increases and (e) the disposal or discontinuance of, or material changes to, any line of business or business entity within the Group that has a book value of 25% or more of the Group's total net assets in one financial year. Should the Doğuş Shareholders own 9.95% or less of the Bank's shares, then they will only have the rights provided to shareholders under Turkish law or the Bank's by-laws.

**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 of directors. A number of principles are compulsory, while the remaining principles apply on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalisation and the market value of their free float shares, subject to recalculation on an annual basis. The Bank is classified as a "Tier I" 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 ensuring 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 of Directors***

The directors of the Bank (the "**Directors**") are the following:

| Director | Year First Appointed | Current End of Term |
|---|---|---|
| Ferit Faik Şahenk (Chairman) | 1990 (Chairman since 2001) | May 2015 |
| Süleyman Sözen (Vice Chairman) | 1997 (Vice Chairman since 2003) | May 2015 |
| Sait Ergun Özen (President and CEO) | 2003 | May 2015 |
| A. Kamil Esirtgen, PhD | 1992 | May 2015 |
| Cüneyt Sezgin, PhD | 2004 | May 2015 |
| Angel Cano Fernandez | 2011 | May 2015 |
| Manuel Pedro Galatas Sanchez-Harguindey | 2012 | May 2015 |
| Manuel Castro Aladro | 2012 | May 2015 |
| Belkıs Sema Yurdum | 2013 | May 2015 |
| Jaime Saenz de Tejada Pulido | 2014 | May 2015 |

Additional information on each of the Directors is set forth below:

*Ferit Faik Şahenk* (*Chairman*)

Mr. Şahenk has an undergraduate degree in Marketing and Human Resources from Boston College. He attended Harvard Business School for its "Owner/President" Management Programme. He was a founder of Garanti Securities. He has previously served as Vice President of Garanti Securities, CEO of Doğuş Holding and Chairman of Doğuş Otomotiv. Currently, Mr. Şahenk is the Chairman of Doğuş Holding and is a director of Doğuş Otomotiv Servis ve Ticaret A.Ş. He served as the Chairman of the Turkish-American Business Council of the Foreign Economic Relations Board (DEİK) and is currently serving as Chairman of the Turkish-German Business Council and is a member of the Turkish-United Arab Emirates Business Council. He is a member of the World Economic Forum and the Alliance of Civilisations Initiative. He is also the Regional Executive Board Member of Massachusetts Institute of Technology's (MIT) Sloan School of Management Europe, Middle East, South Asia and Africa.

*Süleyman Sözen* (*Vice Chairman*)

Mr. Sözen is a graduate of the Faculty of Political Sciences of Ankara University. He worked as a Chief Auditor at the Turkish Ministry of Finance and the Treasury. Since 1981, he has served in various positions in the private sector, mainly in financial institutions. Mr. Sözen has been serving on the board of directors of various Doğuş Group entities and subsidiaries of the Bank since 1997. He holds a Certified Public Accountant license.

*Sait Ergun Özen* (*President and CEO*)

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 is a Board Member of Garanti Bank Moscow, GBI, the Banks Association of Turkey, the Institute of International Finance (IIF), the Turkish Industrialists' and Businessmen's Association (TÜSIAD), the İstanbul Foundation for Culture and Arts (IKSV) and the Trustees of TED İstanbul Koleji Foundation. He is also the Chairman of Garanti Securities, Garanti Asset Management, Garanti Pension and Life, Eureko Sigorta A.Ş., Garanti Factoring and Garanti Leasing.

*A. Kamil Esirtgen, PhD*

After graduating from the Faculty of Economics of İstanbul University, Mr. Esirtgen received an MBA from Stanford's Graduate School of Business and a PhD from İstanbul University's School of Business Administration. He worked at various private sector corporations after concluding his academic career in 1975. In 1987, he joined the Doğuş Group as Finance Group President. He is a board member of several subsidiaries of the Bank, as well as certain other companies in the private sector.

*Cüneyt Sezgin, PhD*

Mr. Sezgin received a Bachelor of Arts degree from the Middle East Technical University, an MBA from Western Michigan University and a PhD from İstanbul University's School of Economics. He has served in executive positions at several private banks. Mr. Sezgin is the Country Director of the Global Association of Risk Professionals. He is a board member at Garanti Pension and Life, Garanti Factoring, Garanti Leasing, Eureko Sigorta A.Ş. and the World Wildlife Fund-Turkey.

*Angel Cano Fernandez*

Mr. Cano Fernandez has an undergraduate degree in Economics and Business from Oviedo University. He is the President and Chief Operating Officer of BBVA.

*Manuel Pedro Galatas Sanchez-Harguindey*

Mr. Manuel Galatas Sanchez-Harguindey has a degree in Business Administration and International Finance from Georgetown University. In 1994, after working as an executive at various private corporations, he joined Argentaria (now BBVA). Before joining the Bank, he was based in Hong Kong as the General Manager in charge of all BBVA branches and representative offices in the Asia-Pacific region. He is also the General Manager of BBVA's representative office in Turkey.

*Manuel Castro Aladro*

After graduating from Universidad Pontificia Comillas (ICADE), Mr. Castro Aladro received an MBA from the University of Chicago. After working as an executive at various private companies and banks, he joined BBVA in 1999. He is the Chief Risk Officer and a member of the Executive Board of BBVA.

*Belkıs 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.

*Jaime Saenz de Tejada Pulido*

Mr. Jaime Saenz de Tejada Pulido holds an undergraduate degree from Universidad Pontificia Comillas (ICADE) in Economics and Business and a graduate degree in Law from the same university. He has worked at various private sector corporations. Mr. Saenz de Tejada Pulido joined BBVA in 1998 and is currently the Chief Financial Officer at BBVA.

**The Executives**

In addition to the Bank's President and CEO, Sait Ergun Özen, the Bank's senior executives (the "**Executives"**) as of the date of this Base Prospectus include the following:

| Executive | Title | Responsibility | Year Joined Bank |
|---|---|---|---|
| Didem Dinçer Başer | Executive Vice President | Delivery Channels and Social Platforms | 2005 |
| Aydın Düren | Executive Vice President | Legal Services and Retail Risk Monitoring | 2009 |
| B. Ebru Edin | Executive Vice President | Project Finance | 1997 |
| Ali Fuat Erbil | Executive Vice President | Financial Institutions and Corporate Banking | 1997 |
| Halil Hüsnü Erel | Executive Vice President | Technology Operations Management and Central Marketing | 1994 |
| Gökhan Erün | Executive Vice President | Human Resources & Training, Treasury and Investment Banking | 1994 |
| Onur Genç | Executive Vice President | Retail Banking and Credit Cards | 2012 |
| Turgay Gönensin | Executive Vice President | Domestic and Overseas Subsidiary Coordination | 1987 |
| F. Nafiz Karadere | Executive Vice President | SME Banking | 1999 |
| Adnan Memiş | Executive Vice President | Support Services | 1978 |
| Murat Mergin | Executive Vice President | Strategic Planning | 1994 |
| Aydın Şenel | Executive Vice President | Purchasing and Tax Management | 1981 |
| Erhan Adalı | Executive Vice President | Loans | 1989 |
| Recep Baştuğ | Executive Vice President | Commercial Banking | 1989 |
| İbrahim Aydınlı | Executive Vice President | General Accounting, Economic Research and Customer Satisfaction | 2009 |

Additional information on each of the Executives is set forth below.

*Didem Dinçer Başer*

Ms. Baser graduated from the Department of Civil Engineering of Boğaziçi University and earned her graduate degree from the University of California, Berkeley College of Engineering. She worked at McKinsey & Company for seven years as an Associate Partner before joining the Bank in 2005 as a coordinator in the Bank's Retail Banking division. In March 2012, Ms. Baser was appointed to her current position.

*Aydın Düren*

Mr. Düren graduated from the Law Department of İstanbul University and the master of laws programme at American University's Washington College of Law. He worked as a lawyer, managing partner and co-founder at various companies. He was appointed as the Executive Vice President for Legal Services in 2009.

*B. Ebru Edin*

Mrs. Edin graduated from the Civil Engineering Department of Boğaziçi University. She has been the Executive Vice President of the Bank's Project Finance Department since 2009. She worked as a senior executive at various private banks prior to joining the Bank in 1997.

*Ali Fuat Erbil, PhD*

Mr. Erbil graduated from the Computer Engineering Department of Middle East Technical University. 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 as the Senior Vice President of the Distribution Channels Department in 1997. Mr. Erbil served as the Executive Vice President of Retail Banking and Distribution Channels between the years 1999 to 2012 where he was also responsible for mortgages and private banking. In 2012, Mr. Erbil was appointed as the Executive Vice President of Financial Institutions and Corporate Banking. He is also a board member of Garanti Pension and Life, Garanti Securities and Garanti Bank Pension Fund Foundation.

*Halil Hüsnü Erel*

Mr. Erel graduated from the Electronics and Communications Engineering Department of İstanbul Technical University. Prior to joining the Bank he served as an executive at various private companies and banks. He joined Garanti Technology as General Manager in 1994 and was appointed to his current position in 1997. Mr. Erel is a board member of GPS.

*Gökhan Erün*

Mr. Erün earned an undergraduate degree from the Electronics and Communications Department of İstanbul Technical University and a graduate degree from the Business Administration Department of Yeditepe University. He joined the Bank's Treasury Department in 1994 and served as Senior Vice President of the Commercial Marketing and Sales Department between 1999-2004. He became CEO of Garanti Pension and Life in September 2004 and was appointed to his current position in 2012. Mr. Erün is Chairman of T. Garanti Bankası A.S. Emekli ve Yardım Sandığı Vakfı, Vice Chairman of Garanti Pension and Life and Teacher's Academy Foundation and a board member of Eureko Sigorta A.Ş., Garanti Asset Management and Garanti Securities.

*Onur Genç*

Mr. Genç graduated from the Department of Electrical and Electronics Engineering at Boğaziçi University and earned his graduate degree from Business Administration at Carnegie Mellon University. He started his career in 1996 in the U.S. and, prior to joining the Bank, he held the position of Senior Partner and Country Director at a global management consultancy. In March 2012, Mr. Genç joined the Bank as Executive Vice President responsible for Retail and Private Banking. In May 2012, Mr. Genç's responsibilities were extended as a result of his appointment as Chief Executive Officer of GPS.

*Turgay Gönensin*

Mr. Gönensin graduated from the Business Administration Department of Boğaziçi University. In 1987 he joined the Bank, where he worked at various departments. Between 1997-2000, he served as CEO of Garanti Bank International and was the CEO of Osmanlı Bankası from 2000-2001. Mr. Gönensin was appointed to his current position in 2012 and is the Vice Chairman of Garanti Leasing and Garanti Factoring and a board member of GBI.

*F. Nafiz Karadere*

Mr. Karadere graduated from the International Relations Department of Ankara University. He worked as a senior executive at various private banks and was appointed to his current position in 1999. Mr. Karadere is a board member of Garanti Pension and Life, GPS and Teacher's Academy Foundation.

*Adnan Memiş*

Mr. Memiş obtained an undergraduate degree from the Economics Department of İstanbul University and a graduate degree from the Managerial Economics Institute of the same university. He joined the Bank as an Assistant Internal Auditor in 1978 and was appointed to his current position in 1991. Mr. Memiş is currently the President of the Financial Restructuring Working Group of the Banks Association of Turkey, a director of Darüşşafaka Association and the Fund and Leader of Denizyıldızları Project Group.

*Murat Mergin*

Mr. Mergin graduated from the Economics and Finance Departments of City University of New York. He assumed executive responsibilities in various private banks before joining the Bank in 1994. Mr. Mergin was appointed to his current position in 2002.

*Aydın Şenel*

Mr. Şenel graduated from the Commercial Sciences Faculty of Marmara University. Between 1981 and 1999, he worked as Internal Auditor, Head of the Human Resources, Credit Cards Manager, Financial Analysis Coordination Manager and Financial Monitoring Manager at the Bank. Mr. Şenel was appointed as the Head of General Accounting in 1999 and promoted to his current position in 2006. He is Vice Chairman of the Fund.

*Erhan Adalı*

Mr. Adalı graduated from the Public Administration Department of İstanbul University. He joined the Bank as an Internal Auditor in 1989 and was appointed to his current position in 2012 after working as the CEO of Garanti Insurance.

*Recep Baştuğ*

Mr. Baştuğ graduated from the Economics Department of Cukurova University. He joined the Bank as an Internal Auditor in 1989 and was appointed to his current position in 2012 after working as the Commercial Banking Marketing Department Coordinator.

*İbrahim Aydınlı*

Mr. Aydınlı graduated from Middle East Technical University, Department of Administrative Sciences and has an MBA degree from the University of Illınois. He worked at various governmental organisations between 1994 and 2009. He joined the Bank in 2009 as Finance Co-ordinator and was appointed as an Executive Vice President in 2013.

**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. Under the terms of the 2010 Shareholders' Agreement, BBVA and the Doğuş Shareholders have agreed to vote their shares in the Bank to procure that each of the Directors are, during the term of the agreement, appointed by BBVA and/or members of the Doğuş Group; *however* the Amended Shareholders' Agreement, the amendments of which will become effective simultaneously with the consummation of the share transfer under Share Purchase Agreement, changes the composition of the Bank's board of directors in proportion to the shareholding that Doğuş Group retains in the Bank. See "*Ownership – Amended Shareholders' Agreement*". Furthermore, a number of Directors, including the Bank's Chairman, also currently hold management positions at BBVA or Doğuş Holding. As such, there may be a conflict of interest between the Directors' respective duties to the Bank and any duties they may owe to either BBVA or the Doğuş Group.

**Address**

The business address of the Bank's executive management and the Board of Directors is Garanti 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**

In connection with the Bank's corporate governance obligations, the Bank has established various committees (or directors participate in certain Bank committees) that have been given primary responsibility for certain matters relating to the operation of the Bank. These committees include, among others, the Credit Committee, the Assets and Liabilities Committee, the Remuneration Committee, the Corporate Governance Committee and multiple risk management committees. Certain information relating to these committees and their members is set out below.

***Credit Committee***

In accordance with the Banking Law, the Board of Directors 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, decides on those that are within its approval limits and submits those that exceed its authorised limits but it deems appropriate to the full Board of Directors for further review. In addition to certain members of the Board of Directors, various executives of the Bank are also on this committee.

***Assets and Liabilities Committee***

The Committee is chaired by the Chief Executive Officer and holds weekly meetings. The ALCO is charged with managing the assets and liabilities of the Bank, and its objective is to assess interest rate risk, exchange rate risk, liquidity risk, 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 in relation to the management of the Bank's balance sheet and monitors their practices.

***Remuneration Committee***

Established on 1 January 2012 according to the Regulation regarding Corporate Governance Principles of Banks published by the BRSA, the Remuneration Committee is fully operational in accordance with such regulation. The establishment and operation of this committee satisfy also the requirements of the Corporate Governance Communiqué. The Remuneration Committee reports directly to the Board of Directors. The committee is responsible for:

- overseeing the execution of the monitoring and auditing processes required to ensure that the Bank's remuneration policies and practices comply with applicable laws, regulations and risk management principles;
- reviewing the Bank's remuneration policy annually to ensure compliance with applicable laws and regulations in Turkey as well as with market practices and updating the remuneration policy as required;
- presenting a report including findings and proposed action plans to the Board of Directors at least one time per calendar year; and
- setting and approving salary packages for executive and non-executive members of the Board of Directors, the CEO and the Executive Vice Presidents.

***Corporate Governance Committee***

The Bank's Board of Directors established a Corporate Governance Committee at its meeting held on 14 February 2013 in order to comply with the requirements of both the Regulation regarding Corporate Governance Principles of Banks published by the BRSA and the predecessor to the Corporate Governance Communiqué. This committee is responsible for:

- monitoring the Bank's compliance with the corporate governance principles;
- performing improvement studies;
- determining independent director nominees; and
- offering any possible suggestions to the Board of Directors.

***Risk Management Committees***

The Bank's Board of Directors has established various committees tasked with overseeing identified categories of risk in the Bank's operations and portfolio, including the Audit Committee and the LRMC. See "*Risk Management*" for further information.

*Audit Committee*. The Audit Committee is comprised of two non-executive members of the Board of Directors. The Audit Committee was set up to assist the Board of Directors in the performance of its audit and supervision functions and is responsible for:

- monitoring the effectiveness, operation and adequacy of the Bank's internal control, risk management and internal audit systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information,
- ensuring that the internal audit functions of entities that are subject to consolidation are performed in a consolidated and coordinated manner, including monitoring their compliance with internal control regulations and internal policies and procedures approved by the Board of Directors,
- monitoring whether the auditors perform their duties in an independent and unbiased manner,
- performing the preliminary studies required for the election of independent audit firms and regularly monitoring their activities, evaluating outsourcing service companies and monitoring the services provided, and
- confirming that the financial reports of the Bank and the Group are accurate, contain all necessary information and are prepared in accordance with applicable legislation (and ensuring that errors and irregularities are resolved).

In this context, the duties and authorities of the Audit Committee are defined as follows:

- monitoring compliance with regulations regarding internal control, internal audit and risk management and with internal policies and procedures approved by the Board of Directors and advising the Board of Directors on measures that are deemed necessary,
- monitoring the Internal Audit Unit's fulfilment of its obligations in accordance with internal policies,
- verifying that the internal audit system covers existing and planned activities of the Bank, including risks arising from such activities, and reviewing the Bank's internal audit regulations, which will become effective upon the approval of the Board of Directors,
- advising the Board of Directors on the election and dismissal of the managers of internal systems units reporting to the Audit Committee,
- monitoring whether auditors perform their duties in an independent and unbiased way,
- reviewing internal audit plans,
- monitoring the measures taken by senior management and affiliated units in response to issues identified by auditors and independent auditors,
- confirming that methods, tools and procedures are in place to identify, measure, monitor and control the Bank's risks,
- reviewing and evaluating the independent auditing firm's conclusions relating to the Bank's accounting practices' compliance with applicable legislation,

- confirming that the rating agencies, independent auditing firms and valuation firms with which the Bank enters contracts (including their managers and employees) are able to act independently in their dealings with the Bank and confirm that adequate resources have been set aside for these purposes,

- evaluating the risks involved in the support services obtained by the Bank and monitoring the adequacy of the support services provided by the relevant firms, and

- ensuring that the financial reports of Garanti Bank are accurate, contain all necessary information and are drawn up in accordance with applicable legislation and ensuring that any identified errors and irregularities are corrected.

*Liquidity Risk Management Committee*. *The duties and responsibilities of the LRMC include*:

- determining the Bank's excess liquidity held in foreign currencies,

- reviewing the various liquidity risk management reports and monitoring early warning signals,

- determining the Bank's present stress level and monitoring internal and external data that might affect the Bank's liquidity in a liquidity crisis,

- ensuring the execution of the Bank's liquidity contingency action plan, and

- creating a strategy to ensure the Bank's safe operation, cost of funding, profitability and customer confidence and ensuring internal communication and coordination within the Bank to ensure the implementation of its decisions.

*Anti-Fraud Monitoring Committee*. The Anti-Fraud Monitoring Committee is chaired by a non-executive Board Member. Committee members include the Senior Vice Presidents and Executive Vice Presidents of Technology and Operation Services, Branchless Banking and Retail Loans, the Executive Vice President in charge of Retail Banking and the Executive Vice President in charge of Finance and Risk Management of GPS, the Senior Vice President of the Anti-Fraud Monitoring Department, the Director of the Internal Audit Department and the Senior Vice President of the Internal Control Unit.

The Anti-Fraud Monitoring Committee is responsible for:

- providing feedback and suggestions regarding the strategies and precautionary actions performed by the Anti-Fraud Monitoring Department to prevent external fraud attempts and incidents,

- providing feedback on the strategies and precautionary actions that are implemented or in the process of implementation to prevent fraud attempts and incidents and to minimise resulting financial and non-financial losses,

- assessing the impact of new products and processes to be launched at the Bank to address fraud risk and providing suggestions when necessary,

- communicating all decisions regarding strategies and precautionary actions carried out by the Anti-Fraud Monitoring Department to the business lines in a timely manner, and

- creating a corporate culture of fraud prevention and awareness.

*Sustainability Committee*. Established in 2010, the Sustainability Committee is chaired by a non-executive Board Member. Committee Members include the Executive Vice Presidents of Support Services, Loans and Project Finance, a Corporate and Commercial Loans Coordinator, the Senior Vice Presidents of Project Finance, Investor Relations, Financial Institutions, Corporate Brand Management and Marketing Communications and Internal Control and Compliance. Direct Impact

and Indirect Impact task forces were established to evaluate risks arising from the Bank's direct or indirect impact on the environment.

The Sustainability Committee is responsible for:

- monitoring energy consumption, waste, and similar matters, as well as assessing risks that might arise from the Bank's direct impact on the environment,
- overseeing the assessment of risks that might result from indirect environmental, social and economic effects via projects and other loans financed and providing feedback to relevant decision-making bodies when necessary,
- ensuring the development of an environmental impact assessment system at the Bank to be employed in loan disbursement processes,
- establishing necessary task forces to guarantee the effectiveness of sustainability-related activities and efforts,
- supervising the activities of task forces so formed, and
- providing information to the Board of Directors on the committee's activities when needed.

*Basel Steering Committee*. The Committee is formed by a Board Member, the Executive Vice Presidents of Technology and Operation Services, Loans, General Accounting and Financial Reporting, Treasury, Financial Institutions and Corporate Banking, and the Financial Coordinator. An execution committee was also set up under the committee, as well as task forces thereunder.

The Basel Steering Committee is responsible for:

- ensuring the Bank's alignment with Basel guidelines,
- creating the Bank's Basel roadmap and obtaining the approval of the Board of Directors therefor,
- approving and monitoring efforts to be undertaken to achieve compliance with Basel guidelines,
- setting up task forces and planning the human resources for such activities, and
- planning, determining and supervising the activities of the task forces.

*Other Risk Management Committees*. Sub-committees for market risk, credit risk and operational risk have been set up to facilitate exchange of information and views with the relevant units of the Bank and to promote the use of risk management and internal audit systems within the Bank. These include:

(a) the market risk committee, which monitors market risk arising from trading activities, interest rate risk arising from maturity mismatches, liquidity risk, risk limits and limit utilisations of the trading portfolio and ensures flow of information on changes in the positions exposed to market risk. The committee also reviews the scenarios created and the models and assumptions employed by the Bank to identify the Bank's risk exposure, evaluates their relevance and ensures that necessary adjustments are made. In addition, the committee discusses market projections and evaluates potential risks associated with a new position prior to making any major change in the positions held,

(b) the credit risk committee, which monitors the effectiveness of the methods and models that are being used to measure credit risk results and ensures flow of information on changes in the positions exposed to credit risk, and

(c) the operational risk committee, which performs activities related to the control and management of an operational risk loss database and the follow-up of actions to be taken. The

committee also coordinates key risk indicators, risk and control self-assessment and operational risk scenario analysis activities so as to roll them out across the Bank.

**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 of Directors 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 total remuneration paid to the Executives and the Directors (including deferred or contingent compensation accrued for the year and benefits in kind) during 2014 amounted to approximately TL 78,212 thousand.

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 Social Security Institution of the Republic of Turkey (*Türkiye Cumhuriyeti Sosyal Güvenlik Kurumu*) (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 IAS 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, certain of the assets and liabilities of these funds have to be transferred to the SSF at such time as the Council of Ministers determines. 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 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 IFRS Financial Statements in accordance with IAS 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 Undersecretariat of the Treasury. As per the independent actuary report dated 22 December 2014, the Bank had no excess obligation that needed to be provided for as of 31 December 2014.

## 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 Sahenk 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) for a cash consideration of US$1,555.5 million and 49.2% of the Bank's founders' shares for a cash consideration of US$250 million, making a total cash consideration of US$1,805.5 million. The parties also entered into a shareholders' agreement under which the Bank became jointly-controlled by the Doğuş Group and GEAM. In connection with this transaction, GEAM acquired certain additional shares of the Bank in a tender offer.

On 27 December 2007, GEAM transferred shares representing a 4.65% interest in the Bank back to the Doğuş Group for a consideration of US$674.3 million. This transaction 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.

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 tradable on the Market and on OTCQX International Premier (the U.S. over-the-counter market).

### 2014 Share Purchase Agreement

The Sellers (*i.e.*, Doğuş Holding, Ferit Faik Şahenk, Dianne Şahenk and Defne Şahenk) entered into the 2014 Share Purchase Agreement with BBVA on 19 November 2014 for the sale of the shares of the Bank representing 14.89% of the paid-up capital with a total face value of TL 625,380 thousand. The parties agreed the total purchase price for such shares to be TL 5,497,090 thousand (purchase price per share to be TL 8.79). In addition, the parties have agreed that the Sellers will be entitled to receive from BBVA (as the recipient of dividend from the distributable profit for the calendar year 2014) an additional amount equal to the dividend received by BBVA (net of all taxes applicable to BBVA in Turkey) up to TL 0.11 per share sold to BBVA.

This transfer of shares is subject to the approval of regulatory authorities in Turkey (including the BRSA, the CMB and the Turkish Competition Board), Spain, the European Union and other jurisdictions, which approvals might not be obtained for some time (if at all). Upon receipt of the all necessary approvals and finalisation of the share transfer, the Doğuş Shareholders and BBVA's shares in the Bank are expected to be 10.00% and 39.90%, respectively. As of the date of this Base Prospectus, approvals of the Turkish Competition Board and the European Commission have been obtained.

**The Amended Shareholders' Agreement**

The Doğuş Shareholders and BBVA are parties to the 2010 Shareholders' Agreement pursuant to which they have agreed to act in concert, thereby enabling them to establish a significant voting block in the Bank. None of the Bank, GE Capital Corporation nor its subsidiary GEAM are parties to the 2010 Shareholders' Agreement.

Concurrently with the 2014 Share Purchase Agreement, the Doğuş Shareholders and BBVA entered into the Amended Shareholders' Agreement, to amend and restate their 2010 Shareholders' Agreement, providing for the revision of certain provisions relating to the governance and management of the Bank, which amendments will become effective simultaneously with the consummation of the share transfer; *it being understood* that such will not apply if the share transfer is not consummated within a period of seven months after 19 November 2014 unless extended for a further three months upon the request of either BBVA or Doğuş Holding or further upon mutual agreement of both BBVA and Doğuş Holding.

In the Amended Shareholders' Agreement, the Doğuş Shareholders agreed that they will not sell shares in the Bank to a third party during the first three years following the finalisation of the share transfer (the "**Lock-up Period**"); *however*, if BBVA sells any of its shares in the Bank to a third party prior to the end of the Lock-up Period, then the Doğuş Shareholders will be entitled to sell a percentage of their shares in the Bank that corresponds to the proportion of the shares sold by BBVA against the total amount of shares that BBVA held prior to its sale.

*Right of First Offer*. The Amended Shareholders' Agreement provides that if any of the Doğuş Shareholders (upon the expiry of the Lock-up Period) or BBVA intends to sell all or any portion of its shares to a third party, then the Doğuş Shareholders or BBVA, as applicable, will be entitled to a right of first offer with respect to such shares; *provided* that the requesting party (including its group and related entities) holds at least 10.00% of the Bank's share capital. The Amended Shareholders' Agreement provides that the right of first offer will cease to apply if the selling shareholder (prior to the time of its sale) owns 50.00% or more of the Bank's share capital. The parties are required to comply with the provisions regarding the right of first offer even when the parties intend to sell their shares through a public offering or a private placement.

*Tag Along Right.* The parties agreed in the Amended Shareholders' Agreement that if any of the Doğuş Shareholders or BBVA sells all or a portion of its shares in the Bank to a third party, then the other party will be entitled (but not obligated) to require the selling party to ensure that the purchaser purchases its shares on the same terms and conditions on which the selling party's shares will be sold.

*Adherence to the Amended Shareholders' Agreement.* The Amended Shareholders' Agreement provides that if (upon the expiry of the Lock-up Period) any of the Doğuş Shareholders or BBVA intends to sell all or a portion of its shares to a third party, then the selling party will be obliged to ensure that the purchaser will adhere to and become bound by the provisions of the Amended Shareholders' Agreement in proportion to the shares purchased by such third-party; *provided* that certain limited exceptions will not apply to the purchaser.

*Call Option*. The Amended Shareholders' Agreement revokes a call option that had been granted to BBVA to purchase 1.00% of the Bank's shares from the Doğuş Shareholders

**Shareholdings**

As of 31 December 2014, the Bank's issued shares were held as follows:

| Shareholder | Shares held | % of issued share capital | % of voting rights |
|---|---|---|---|
| Doğuş shareholders[(1)(2)] | 101,747,654,520 | 24.2256% | 24.95% |
| BBVA[(1)(2)] | 105,042,000,000 | 25.0100% | 24.95% |
| Other shareholders | 213,210,345,480 | 50.7644% | 50.10% |
| **Total** | **420,000,000,000** | **100.0000%** | **100.00%** |

(1) Pursuant to the 2010 Shareholders' Agreement to which they are party, the Doğuş Shareholders and BBVA have agreed that, prior to the occurrence of certain events, they will each exercise an equal number of voting rights in the shares in the Bank held by each of them. As such, the Doğuş Shareholders and BBVA each exercise voting rights equivalent to 24.95% of the Bank's issued share capital.

(2) Pursuant to the 2014 Share Purchase Agreement, BBVA agreed to purchase from the Sellers 62,538,000,000 shares of the Bank (representing 14.89% of the Bank's issued share capital). This transfer of shares is subject to the approval of regulatory authorities in Turkey (including the BRSA, the CMB and the Turkish Competition Board), Spain, the European Union and other jurisdictions, which approvals might not be obtained for some time (if at all). Upon receipt of the all necessary approvals and finalisation of the share transfer, the Doğuş Shareholders' and BBVA's shares in the Bank are expected be 10.00% and 39.90%, respectively.

As far as the Bank is aware, other than BBVA and the Doğuş Shareholders, no other person holds a greater than 5% interest in the issued share capital of the Bank.

**The Doğuş Group**

Established in 1951, the Doğuş Group is owned by the Şahenk family and is one of Turkey's largest private sector conglomerates, having TL 20.7 billion in assets as of 31 December 2013. The Doğuş Group provides services in sectors including:

- *Financial Services:* The financial services business is the flagship of the Doğuş Group, and the Bank is the flagship of the Doğuş Group's financial services business.

- *Automotive:* Doğuş Otomotiv Servis ve Ticaret A.Ş. (with its subsidiaries and other investees, the "**Automotive Group**") is the leading automotive importer and one of the biggest automotive distributors in Turkey. The company represents 14 leading international brands in the following sectors: passenger cars, light commercial vehicles, heavy commercial vehicles, industrial and marine engines, and cooling systems. The Automotive Group is able to offer its individual and corporate customers with a portfolio of more than 80 models within the following brands: Volkswagen passenger cars, Audi, SEAT, Skoda, Bentley, Bugatti, Lamborghini, Porsche, Volkswagen commercial vehicles, Scania, Krone and Meiller. In addition, the company competes in the industrial and marine engines market by representing Scania Engines and in the cooling systems market by representing Thermo King. Aside from its activities in automotive financing, spare parts and accessories, logistics, customer services, used car dealership, fleet management and leasing, vehicle inspection and insurance, the Automotive Group has also heavily invested in production. In addition to the "Meiller Doğuş Tipper" factory established in 2008 in Adapazarı with the partnership of leading tipper producer the Meiller Group of Germany, the Automotive Group entered into a joint venture with Germany's Krone Group to establish a commercial trailer factory in Tire, İzmir, which started production in 2012. The Automotive Group also is involved in new investments to convey its successful operations overseas. As a result of the close cooperation developed with the VW Group, the Group has opened D Auto Suisse SA, a Porsche dealer and service station in Lausanne, and founded D-Auto LLC in Iraq to import and distribute Volkswagen passenger cars and Audi brand vehicles, starting with one location in Eribil in northern Iraq.

- *Construction:* The Doğuş Construction Group is one of the most active participants in the regional construction market. Construction activities are diversified and include large infrastructure projects (such as metros, tunnels, dams and hydroelectric power plants, airports, highways, roads, bridges, viaducts, ports, over and under passages and buildings) as well as industrial plants and social facilities.

- *Media:* The Doğuş Media Group is one of the leading companies in the Turkish media industry. Since 1999, the group has created/acquired many brands and now cooperates with global brands and organisations such as: MSNBC, CNBC, Condé Nast and National Geographic. The Group operates eight television channels, eight radio stations, six periodicals, five internet portals and NTV Publications, reaching over 50 million people. Star, NTV and CNBC-e are the Group's flagship television channels.

- *Tourism and Marinas:* The Doğuş Tourism Group's operations consist primarily of hotels in Turkey and Italy and marinas in Turkey, Greece and Croatia, and it also operates a travel agency and provides other travel-related services. The group undertakes joint ventures with Hyatt International LLC, HMS International Hotel GMBH, Giorgio Armani S.p.A., Guccio Gucci S.p.A., Loro Piana S.p.A., Hublot S.A., Arnold&Son S.A. and Porsche Co. KG. The Doğuş Group owns 10 hotels, six of which are 5-star hotels, two of which are boutique hotels, one of which is closed for renovation and all but two of which the Group also operates.

  Through the D-Marin Marinas Group, the Group owns the largest international chain of marinas in the eastern Mediterranean basin and Adriatic Sea. The D-Marin Marinas Group currently owns (solely or in partnership with others) 11 premium marina destinations in the Eastern Mediterranean, making it the largest international chain of marinas in the region with approximately 8,500 berths throughout Turkey, Croatia and Greece. The D-Marin Marinas Group is actively seeking to grow its marina network through strategic acquisitions and management partnerships. The D-Marin Marinas Group's operations include D-Marin Turgutreis, Didim and Göcek in Turkey, Mandalina Marina, Marina Dalmacija and Marina Borik in Croatia and Zea Marina, Gouvia Marina, Lefkas Marina and Flisvos Marina in Greece.

- *Real Estate:* The Doğuş Group is also active in the Turkish real estate sector, managing a large estate portfolio owned by the group and working on potential developments in relation to proposed residential, commercial, hospitality and logistics projects. The group operates İstinye Park (one of Turkey's leading shopping malls) as well as Gebze Centre (the region's first shopping centre).

- *Energy:* The Doğuş Group has interests in hydroelectric and other clean and/or renewable energy sources. The group has designated new investment projects as well as the operation of these assets and energy trading as the core areas of its energy business. Its current portfolio has 1 GW licensed installed capacity, comprising the Artvin Hydroelectric Power Plant (332 MW), in which D Energy holds a 100% share, the Boyabat Hydroelectric Power Plant (513 MW), in which it holds a 33.65% share, and the Aslancık Hydroelectric Power Plant (120 MW), in which it holds a 33.33% share. In June 2012, the group established electricity trading company Doğuş Enerji Toptan Elektrik Ticaret A.Ş., in which it holds 100% stake.

- *Entertainment, Food and Beverage:* After its establishment in April 2012, the Doğuş Group's restaurant group grew to operate 79 restaurants within its first year through acquisitions. As of 31 December 2013, the Doğuş Group promoted 52 brands and 100 locations in the food and beverage and entertainment industries and seeks to expand operations into areas such as production and distribution.

(*Source: Doğuş Group*)

**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 2014, the BBVA Group had a presence in over 30 countries and over 108,770 employees. As of 31 December 2014, the BBVA Group's consolidated total assets were €651,511 million and its net attributable profit for 2014 was €2,618 million (€2,228 million for 2013).

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.

*(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 Bank's Board of Directors 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 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 in its annual reports and on its web-site.

## RELATED PARTY TRANSACTIONS

During the period from 1 January 2012 to the date of this Base Prospectus, the Group had three types of exposure to related parties: (a) its ownership in certain Doğuş Group companies, (b) loans extended to the Doğuş Group and (from 22 March 2011) the BBVA Group and (c) guarantees and other contingent liabilities issued on behalf of such entities. 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 Doğuş Group and the BBVA Group (for dates as of which they were related parties of the Group) as of the dates indicated:

| **Doğuş Group** | **As of 31 December** | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | *(TL thousands, except percentages)* | | |
| Equity interests in Doğuş Group companies (other than the Bank's own subsidiaries) | 576 | 656 | - |
| As a % of assets | 0.0% | 0.0% | 0.0% |
| As a % of shareholders' equity | 0.0% | 0.0% | 0.0% |
| Cash loans | 442,286 | 583,670 | 1,639,634 |
| As a % of assets | 0.2% | 0.3% | 0.7% |
| As a % of shareholders' equity | 2.0% | 2.5% | 6.0% |
| Contingent obligations | 497,366 | 468,638 | 727,778 |
| As a % of contingent obligations | 2.1% | 1.4% | 1.9% |
| As a % of shareholders' equity | 2.3% | 2.0% | 2.7% |
| **Total Doğuş Group Exposure** | **940,228** | **1,052,964** | **2,367,412** |

| | **As of 31 December** | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| **BBVA Group** | *(TL thousands, except percentages)* | | |
| Cash loans | 34 | 64 | 301 |
| As a % of assets | 0.0% | 0.0% | 0.0% |
| As a % of shareholders' equity | 0.0% | 0.0% | 0.0% |
| Contingent obligations | 119,076 | 305,288 | 292,553 |
| As a % of contingent obligations | 0.5% | 0.9% | 0.8% |
| As a % of shareholders' equity | 0.5% | 1.3% | 1.1% |
| **Total BBVA Group Exposure** | **119,110** | **305,352** | **292,854** |

The Group's exposure to the Doğuş Group and 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 Doğuş Group or the BBVA Group.

The contingent exposure to the Doğuş Group and the BBVA 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 Doğuş Group and the BBVA Group as of the indicated dates as follows:

| | As of 31 December | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | (*TL thousands*) | | |
| Doğuş Group | - | - | 5,770 |
| BBVA Group | 3,267,559 | 9,092,999 | 10,825,180 |

The Group had deposits from members of the Doğuş Group and the BBVA Group as of the indicated dates as follows:

| | As of 31 December | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | (*TL thousands*) | | |
| Doğuş Group | 278,106 | 607,720 | 399,232 |
| BBVA Group | 35,278 | 53,697 | 612,029 |

On 22 March 2011, BBVA acquired certain of the Bank's shares owned by Doğuş Holding and the GE Group, representing 6.2902% and 18.60% of the Bank's share capital at that date, respectively. On 7 April 2011, BBVA acquired further shares in the Bank, increasing its interest to 25.01% of the Bank's share capital at that date.

The Sellers (*i.e.*, Doğuş Holding, Ferit Faik Şahenk, Dianne Şahenk and Defne Şahenk) entered into the 2014 Share Purchase Agreement with BBVA on 19 November 2014, for the sale of the shares of the Bank representing 14.89% of the paid-up capital with a total face value of TL 625,380 thousand. The parties agreed the total purchase price for such shares to be TL 5,497,090 thousands (purchase price per share to be TL 8.79). In addition, the parties have agreed that the Sellers will be entitled to receive from BBVA (as the recipient of dividend from the distributable profit for the calendar year 2014) an additional amount equal to the dividend received by BBVA (net of all taxes applicable to BBVA in Turkey) up to TL 0.11 per share sold to BBVA.

Please refer to the IFRS Financial Statements incorporated by reference into this Base Prospectus for additional information on related party transactions.

## INSOLVENCY OF THE ISSUER

The Turkish Covered Bonds Legislation contains provisions relating to the protection of the Bondholders upon the insolvency of the Issuer.

Pursuant to the Turkish Covered Bonds Legislation, the assets in the Cover Pool can only be used to pay the Covered Bondholders, Hedging Counterparties and (to the extent that Additional Cover has been included in the manner described in Article 29 of the Covered Bonds Communiqué) Other Secured Creditors. The assets in the Cover Pool cannot be either pledged, subject to an attachment, or included in the assets of the Issuer in case of bankruptcy. If the assets in the Cover Pool are not sufficient to pay all of the outstanding Total Liabilities, then the Covered Bondholders, Receiptholders, Couponholders and Hedging Counterparties will have a right of recourse to the other assets of the Issuer and any claims of such Secured Creditors will rank *pari passu* with the other creditors of the Issuer (including the Other Secured Creditors) for the unpaid amount with the exception of the preferred rank of the creditors under Turkish law, including, but not limited to, Article 206 of the Turkish Execution and Bankruptcy Law No. 2004 (*İcra ve İflas Kanunu*), as amended from time to time, and the Law on the Central Bank of The Republic of Turkey No. 1211 (*Türkiye Cumhuriyet Merkez Bankası Kanunu*) according to which the proceeds obtained from the sale of the assets of the debtor are distributed amongst the creditors in the following order:

(a) claims against the bankruptcy estate due to debts incurred during the administration of the bankruptcy estate,

(b) taxes, duties, fees and other governmental charges,

(c) secured obligations,

(d) salaries of the employees for the last year, and severance payments of the employees and debts to the employee funds,

(e) certain debts of the bankrupt due to custody and guardianship provisions under Turkish Civil Law No. 4721,

(f) debts of the bankrupt which are determined as privileged receivables of the bankrupt under specific laws, *i.e.*, debts of the bankrupt to its legal counsels, debts of the bankrupt to participate in utilities, etc., and

(g) unsecured receivables (assets).

As the Issuer is a licensed bank in Turkey, the insolvency process of the Issuer will be conducted in accordance with the Banking Law and the Turkish Execution and Bankruptcy Law No. 2004 (*İcra ve İflas Kanunu*).

***Measures under the Banking Law and Transfer to the SDIF***

(i) ***Transfer of Management to the SDIF and Cancellation of Activity License***

Pursuant to the Banking Law, if the results of a consolidated or unconsolidated audit show that the Issuer's financial structure has seriously weakened due to the occurrence of one or more of the following events, then the BRSA) may require the board of directors of the Issuer to take measures to strengthen its financial position:

(a) the assets of the Issuer are insufficient or are likely to become insufficient to cover its obligations as they become due,

(b) the Issuer is not complying with its liquidity requirements,

(c) due to an imbalance in its income and expenses, the Issuer's profitability is such as to make it unable to conduct its business in a secure manner,

(d) the regulatory equity capital of the Issuer is not sufficient or is likely to become insufficient,

(e) the quality of assets of the Issuer have been impaired in a manner weakening its financial structure,

(f) the practices, decisions, by-laws and/or internal regulations of the Issuer are in breach of the Banking Law, relevant regulations or the decisions of the BRSA,

(g) the Issuer fails to: (i) establish internal control, internal audit and risk management systems, (ii) effectively and sufficiently conduct such systems or (iii) any factor impedes the supervision of such systems, or

(h) imprudent acts of the Issuer's managers materially: (i) increase the risks defined under the Banking Law or (ii) weaken the bank's financial structure.

If the BRSA determines that the Issuer is not in compliance with one or more of the requirements set forth under (a), (b), (c), (d) or (e) above then it may require the Issuer, in accordance with Article 68(a) of the Banking Law:

- to increase its equity capital,
- not to distribute dividends for a specific period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund,
- to increase its loan provisions,
- to cease any grant of loan to its shareholders,
- to dispose of its assets in order to strengthen its liquidity,
- to cease or restrict its new investments,
- to limit salaries and other payments,
- to cease its long-term investments, and/or
- to take any other action that is deemed necessary by the BRSA.

In the event the aforementioned actions are not taken (in whole or in part) by the Issuer or its financial structure cannot be strengthened despite it having taken such actions, or the BRSA determines that the Issuer's financial structure has become so weak that it could not be strengthened even if it takes any of the actions above, then the BRSA may require the Issuer, in accordance with Article 69 of the Banking Law to take any of the following corrective actions:

- to strengthen its financial condition,
- to increase its liquidity and/or capital adequacy,
- to dispose of its fixed assets and long-term assets,
- to decrease its operational and administrative costs,
- to postpone its payments, excluding the regular payments to be made to its members, or
- restrict or cease to make any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors.

On the other hand, if the BRSA determines that the Issuer is not in compliance with one or more of the requirements set forth under (f), (g) or (h) above then it may require the Issuer, in accordance with Article 68 of the Banking Law:

- to comply with the relevant banking legislation,
- to review its loan policy and cease its high risk transactions,
- to take all actions to decrease any maturity, foreign exchange and interest rate risks, or
- to take any other action that is deemed necessary by the BRSA.

In the event the aforementioned actions are not taken (in whole or in part) by the Issuer or its financial structure cannot be strengthened despite it having taken such actions, or the BRSA determines that the Issuer's financial structure has become so weak that it could not be strengthened even if it takes any of the actions above, then the BRSA may require the Issuer in accordance with Article 69 of the Banking Law to take any of the following corrective actions:

- to convene an extraordinary general assembly in order to change the board members or assign new member(s) to the board of directors or the removal of the existing board members responsible for the failure to ensure compliance aforementioned actions, and/or
- to implement short, medium or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the Issuer in respect of paragraph (h) above and to request the board members and shareholders holding qualified shares to undertake the implementation of such plan in writing and to deliver the outcome of this on a periodical basis, and/or
- to take any other action that is deemed necessary by the BRSA.

Pursuant to Article 70 of the Banking Law, in the event the aforementioned actions are not (in whole or in part) taken by the Issuer or are not sufficient to cause the Issuer to continue its business in a secure manner the BRSA may require the Issuer:

- to limit or cease its business for a temporary period,
- to apply various restrictions, including restrictions on interest and maturity with respect to resource collection and utilisation,
- to remove from office (in whole or in part) its board members, general manager and deputy general managers and department and branch managers and to obtain approval from the BRSA for the appointment of their replacements,
- to make available long-term loans which will be secured by the shares or other assets of the controlling shareholders,
- to limit or cease its non-performing operations and to dispose of its non-performing assets,
- to merge with one or more other banks,
- to provide new shareholders in order to increase its equity capital,
- to cover its losses with its equity capital, and/or
- to take any other action that is deemed necessary by the BRSA.

In the event the BRSA determines that: (a) the aforementioned actions are not (in whole or in part) taken by the Issuer within a period of time set forth by the BRSA or in any case within twelve months, (b) the financial structure of the Issuer cannot be strengthened despite it having taken such actions or the financial structure of the Issuer has become so weak that it could not be strengthened even if the

actions were taken, (c) the continuation of the activities of the Issuer would jeopardise the rights of the depositors and the participation fund owners and the security and stability of the financial system, (d) the Issuer cannot fulfil its obligations as they become due, (e) the total amount of the liabilities of the Issuer exceeds the total amount of its assets or (f) the controlling shareholders or managers of the Issuer are found to have made use of the Issuer's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardised the secure functioning of the Issuer or caused the Issuer 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: (i) may revoke the license of the Issuer to engage in banking operations and/or to accept deposits or (ii) transfer the management, supervision and control of the rights of the shareholders (excluding dividends) of such bank to the SDIF with the condition that the losses of the shareholders are reduced from the capital.

In the event that the license of the Issuer to engage in banking operations and/or to accept deposits is revoked, then the Issuer's management and audit will be taken over by the SDIF. Any and all execution and bankruptcy proceedings (including a preliminary injunction) against the Issuer would be discontinued as from the date on which the BRSA's decision to revoke the Issuer's license is published in the Official Gazette. From the date of revocation of the Issuer's license, the creditors of the Issuer may not assign their rights or take any action that could lead to an assignment of their rights. The SDIF must take measures for the protection of the rights of depositors and other creditors of the Issuer. The SDIF is required to pay the insured deposits of the Issuer either by itself or through another bank it may designate. In practice, the SDIF may designate another bank that is under its control. The SDIF is required to institute bankruptcy proceedings in the name of depositors against a bank whose activity license is revoked.

(ii) ***Management and Liquidation by the SDIF***

***Transfer of Bank's Management, Supervision and Control to the SDIF***

In case the Issuer's management, supervision and control of the privileges of shareholders (excluding dividends) is transferred to the SDIF as per Article 71 of the Banking Law, the SDIF will manage the Issuer in accordance with Article 107 of the Banking Law. Accordingly, the SDIF will exercise its rights in line with the principles ensuring cost efficiency and maintaining the security and stability of the financial system. The SDIF is authorised to suspend the activities of any bank whose partnership rights, excluding dividends, as well as management and control have been transferred thereto pursuant to the provisions of Article 71, for a period to be determined by the SDIF. Taking as a basis the balance sheet to be prepared as of the transfer date, the SDIF is also authorised to:

(a) request the BRSA to transfer the assets, organisation, personnel (unless they otherwise request) as well as the savings deposit and contribution funds subject to insurance together with the interest accrued, *provided that* such interest does not exceed the average of interest rates applied by five deposit banks with the highest total deposits as of the transfer date for savings deposits and the average of return rates applied by three participation banks with the highest total participation funds for contribution funds, and the corresponding provision items on the liabilities side, to a bank to be newly established or any of the existing banks, and/or to terminate the operating permission of the bank, whose assets and liabilities have been transferred partially or completely,

(b) provide financial support and take over the losses corresponding to the capital representing the shares transferred thereto, *provided that* it owns the shares and that the amount of deposits and contribution funds covered by insurance is not exceeded,

(c) in case of failure to take ownership of all shares upon assuming the losses, take over the shares in return for the payment of share values to be calculated on the basis of the capital to be calculated upon subtracting the loss from the paid-in capital, to the Issuer shareholders within the period to be set by the SDIF,

(d) request the BRSA to cancel the Issuer's activity license.

The shares referred to in paragraphs (b) and (c) above shall be transferred to the SDIF free from any right and restriction.

If the Issuer's shares have been transferred to the SDIF in accordance with this provision, the SDIF is authorised to:

(a) partially or completely transfer the assets and liabilities of the Issuer, whose majority or all shares have been transferred thereto, to a bank that is newly established or to interested banks, by providing financial and technical assistance where necessary, or to merge the Issuer with any other interested bank,

(b) in order to strengthen and restructure the financial system, as limited to cases where deemed necessary by the SDIF:

  (i) to increase the Issuer's capital,

  (ii) removing default interests arising from statutory provisions and general liquidity requirements,

  (iii) to purchase affiliates, immovable and other assets, or to take them as guarantee and give advances in return,

  (iv) deposits funds to meet liquidity requirements,

  (v) take over receivables or losses,

  (vi) carry out any transaction pertaining to its assets and liabilities and convert them into cash,

(c) sell the assets of the Issuer to third parties offering discounts or other methods and to take any other measure it may deem necessary,

(d) transfer the shares of the Issuer to third parties, with the permission of the BRSA within the framework of the principles and procedures to be set by the SDIF.

The consent of creditors and debtors shall not be sought in transfer transactions to be performed under the provisions of this Article 107.

The process of restructuring, strengthening, transferring, merging or selling the Issuer whose partnership rights, excluding dividends, as well as management and supervision have been transferred to the SDIF pursuant to Article 71 the Banking Law, has to be completed within maximum nine months following the transfer date. This period may be extended for a period of up to three months subject to the SDIF's decision. If the transfer, merger or sale cannot be completed within such period of time, the BRSA shall revoke the operating permission of the Issuer upon the request of the SDIF.

**Liquidation by the SDIF Following Cancellation of Activity License**

Once the BRSA decides that the Issuer should no longer continue its banking activity and cancels the activity license of the Issuer, the SDIF will take over the management of the Issuer. Pursuant to Article 106 of the Banking Law, following cancellation of the Issuer's banking license, and takeover of the Issuer by the SDIF, the SDIF will apply to the court for bankruptcy of the Issuer. The bankruptcy court is required to rule on the bankruptcy of the Issuer within 6 months of the application and appoint the SDIF as the bankruptcy administrator.

In the event that a bankruptcy judgment is issued, the SDIF will participate in the bankruptcy estate as a privileged creditor, having priority over all privileged creditors specified in Article 206 of the Execution and Bankruptcy Law No. 2004, after deduction of the receivables of the State and social security organisations set forth in the Law 6183 on the Collection Procedures of Public Receivables.

In case the bankruptcy court does not render a bankruptcy decision, then the voluntary liquidation of the Issuer shall commence, and such process shall be conducted by the SDIF through the appointment of liquidation board members by the SDIF, without requiring the resolution of the general assembly of the Issuer and without being subject to the provisions of the Turkish Commercial Code regarding the dissolution and liquidation of joint stock-companies.

## OVERVIEW OF THE TURKISH RESIDENTIAL MORTGAGE LOAN MARKET

*The following is a general overview of the Turkish residential mortgage loan market. The summary does not purport to be, and is not, a complete description of the Turkish residential mortgage loan market or any aspect thereof.*

### Turkish Residential Mortgage Loan Market

The Turkish residential mortgage loan market has been growing at a significant pace, having experienced a compound aggregate growth rate of 21.3% from 31 December 2007 to 31 December 2014. This growth is particularly notable as it occurred during the recent global financial crisis and related economic volatility within Turkey, with the declining interest rate environment resulting from these macro-economic conditions both encouraging borrowers to seek mortgage loans and encouraging lenders to increase their business in these higher-yielding retail products.

The following table provides the residential mortgage loans-to-GDP ratio and the outstanding principal amount of residential mortgage loans as of 31 December of each of the indicated years:

| | As of 31 December | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| | (*TL millions, except percentages*) | | | | | | | | | | |
| Residential Mortgage Loans-to-GDP ratio | 0.5% | 2.0% | 3.1% | 3.8% | 4.1% | 4.7% | 5.2% | 5.8% | 6.2% | 7.0% | 7.2% |
| Residential Mortgage Loans | 2,632 | 13,037 | 23,378 | 32,460 | 38,895 | 44,873 | 60,794 | 74,588 | 86,042 | 110,286 | 125,750 |

Source: TurkStat

The main drivers of this growth have been: (a) the historically very low use of residential mortgage loans, reflecting the traditional approach in Turkey of paying cash for a home (occasionally with funds borrowed from family members or other non-bank sources), (b) declining interest rates in Turkey, (c) favourable demographics as a result of Turkey's significant and growing population of people in their 20s and 30s, including many young families, (d) the significant (though volatile) growth in GDP, (e) revisions to Turkish law that have made mortgage lending more attractive to Turkish banks and (f) increasing stability in the value of the Turkish Lira, thereby encouraging Turkish lenders to make longer-term loans denominated in Turkish Lira.

As noted above, the Turkish residential mortgage market was historically very small, being almost non-existent until 2004 as a result of persistently high budget deficits, inflation and interest rates. Following the economic crisis in 2001, Turkey has experienced a more stable political and economic environment and has implemented more prudent economic policies, which have reduced significantly the level of inflation and the volatility of the value of the Turkish Lira. In line with these improvements, Turkish interest rates have declined significantly and made mortgage borrowing more affordable for Turkish borrowers.

The following table sets out the average CPI inflation levels and average residential mortgage interest rates in Turkey for each of the indicated years:

| | As of (or for the year ended) 31 December | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| CPI | 8.60% | 8.18% | 9.60% | 8.76% | 10.44% | 6.25% | 8.57% | 6.47% | 8.89% | 7.49% | 8.85% |
| Mortgage interest rates | 27.83% | 17.65% | 17.92% | 18.30% | 18.63% | 15.60% | 10.84% | 11.59% | 12.84% | 9.69% | 11.86% |

Source: Turkstat, Central Bank

Mortgage interest rates and the growth in mortgage loans are intercorrelated, with a declining interest rate environment resulting in greater demand from borrowers. A declining interest rate environment also encourages lenders to offer greater amounts of mortgage loans due to their relatively higher net interest margin as compared to traditional corporate loans. Consistent with this correlation, the highest expansion in the outstanding principal amount of residential mortgage loans was experienced in 2010 and 2013, which also had the lowest average mortgage interest rates (10.84% and 9.69%, respectively) on record.The following table sets forth the growth in the principal amount of

outstanding residential mortgages and the average residential mortgage interest rates for each of the indicated years:

| | As of (or for the year ended) 31 December | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| | (*TL millions, except percentages*) | | | | | | | | | |
| Growth in Outstanding Principal | 10,405 | 10,341 | 9,082 | 6,435 | 5,978 | 15,921 | 13,794 | 11,454 | 24,244 | 15,464 |
| Mortgage Interest Rates | 17.65% | 17.92% | 18.30% | 18.63% | 15.60% | 10.84% | 11.59% | 12.84% | 9.96% | 11.86% |

Source: Banking Regulation and Supervision Agency, Central Bank

*Loan Provisions*

In Turkey, banks announce mortgage rates on a monthly basis instead of a yearly basis (*e.g.*, 1% monthly instead of 12% yearly). Almost all Turkish mortgage loans are fixed rate loans and, as a result of a change of law in 2009 requiring loans to Turkish citizens to be denominated in Turkish Lira, all are denominated in Turkish Lira other than a very small number of mortgage loans made to foreign citizens with residences in Turkey. Payments on mortgages are almost always monthly and generally are effected by having the lending bank withdraw funds from a bank account held by the borrower with the lending bank.

The maximum maturity for residential mortgage loans in Turkey is typically 240 months (with only one institution providing loans up to 360 months, while some major banks have a maximum maturity of 120 months). As of 31 December 2014, more than 80% of the residential mortgage loans in Turkey had a remaining maturity shorter than 120 months according to the Central Bank.

**Turkish Demographics and Housing Market**

Several developments in Turkey, including urbanisation and a young population, provide the potential for further demand in housing, and thus further growth in residential mortgage lending; *provided* that the economic fundamentals remain favourable, particularly low inflation and interest rates. In 2014, the Turkish population grew by approximately 1.34% to 77.7 million, an increase of more than one million people (source: TurkStat). More than 90% of the population in Turkey live in urban cities as of 31 December 2014 (source: TurkStat). In Turkey, the median age was 30.7 as of 31 December 2014 and, continuing a decreasing trend since the 1990s, the average household size was 3.8 people as of 31 December 2011 (source: TurkStat). The Bank's management expects that, as a result of these generally favourable demographic trends, the Turkish mortgage market will continue to grow in order to finance the annual increase in housing demand of approximately 700,000 units (according to the Bank's internal estimations based upon its own analysis and third party studies).

The Central Bank's house price index for a residence in Turkey increased by 16.14% in 2014. More than 47% of the outstanding residential mortgage loans as of 31 December 2014 were for properties located in İstanbul and Ankara (source: Central Bank), where property prices are generally higher than the rest of the country. The Bank's management expects that these two cities will continue to be the predominant mortgage markets in Turkey.

**Interest Rates and Refinancing Risk**

As noted above, almost every mortgage loan has a fixed interest rate for the entire term of the loan. Although the Consumer Protection Law No. 6502 published in the Official Gazette dated 28 November 2013 and numbered 28835 (the "**Consumer Protection Law**"), allows the disbursement of residential mortgage loans with variable interest rates, the Central Bank determined that any such variable interest rates are required to be based upon the Consumer Price Index determined by TurkStat. As such variable rates are unattractive to Turkish banks due to the lack of funding alternatives indexed to CPI, almost all Turkish banks prefer to offer fixed rates, which are also attractive to Turkish borrowers due to the certainty that a fixed rate provides.

As a result of the predominance of fixed rate loans and the recent declines in interest rates, refinancing of mortgage loans has become more common. For example, during the declining interest rate environments in the second half of 2009 and the first half of 2011, the Bank's management estimates that Turkish banks refinanced or re-priced almost half of their existing residential mortgage loan portfolio. In general, Turkish mortgage loan agreements include a prepayment charge of up to 2% of the outstanding principal amount of the loan for loans with the remaining maturity of more than 36 months, and up to 1% otherwise; *however*, such charge does not create a significant deterrent for borrowers if the difference between the interest rate on their existing mortgage loan and the interest rate on a refinanced loan is greater than 1% *per annum*.

The Bank's management expects that refinancing of residential mortgage loans will continue as consumers become more educated on the benefits of refinancing during periods of declining interest rates. Refinancing presents challenges for Turkish lenders due to the increased difficulty of matching funding with their loan portfolio and, by definition, the high probability of being unable to re-lend prepaid funds at the same or a higher interest rate than the rate applicable to the prepaid loan.

This funding risk is a particularly important challenge for banks active in the Turkish residential mortgage market as the growth in residential mortgage lending has been exceeding the growth in customer deposits. While the share of residential mortgages in the balance sheets of Turkish banks is still relatively small, corresponding to approximately 10% of their total loans as of 31 December 2014 according to the BRSA, annual growth in residential mortgage loans (such as the 14.0% growth during 2014) has exceeded the annual growth in deposits (such as the 11.3% growth during 2014) according to the Central Bank. As the Turkish banking sector's loans-to-deposit ratio generally exceeds 100%, a greater increase in loans than in deposits requires the banks to seek alternative sources of funding, such as the issuance of unsecured or covered bonds, "future flow" transactions or loans. As the Turkish market does not offer a significant pool of long-term Turkish Lira-denominated funding, these additional funds generally have come (and likely will continue to come) from international fund-raising denominated in U.S. Dollars and euro, thereby increasing the banks' exposure to foreign exchange and other related risks.

## SUMMARY OF THE TURKISH COVERED BONDS LEGISLATION

*The following is a summary of the provisions of the Turkish Covered Bonds Legislation relevant to the transactions described in this Base Prospectus and of which Covered Bondholders should be aware. The summary does not purport to be, and is not, a complete description of all aspects of the Turkish legislative and regulatory framework pertaining to Covered Bonds and prospective Covered Bondholders should also read the detailed information set out elsewhere in this Base Prospectus.*

### Introduction

The primary legislation with respect to the transaction and the structure described herein is the Capital Markets Law and the secondary legislation is the Covered Bonds Communiqué which was published by the CMB in the Official Gazette numbered 28889 and dated 21 January 2014 (as amended from time to time). The Covered Bonds Communiqué regulates the mortgage covered bonds as well as other asset-backed covered bonds; *however,* as the transaction herein is in relation to the issuance of mortgage covered bonds, this summary focuses on the mortgage covered bonds provisions of the Covered Bonds Communiqué.

### *Cover Pool – composition of assets*

An issuer of covered bonds is required by the Turkish Covered Bonds Legislation to maintain a cover pool for the benefit of such covered bonds. This cover pool must be maintained in a way so that it satisfies and complies with the terms and conditions and legal requirements applicable to such covered bonds. In particular, this cover pool must be in compliance with, *inter alia*, quantitative statutory tests and the eligibility criteria required or implied by the Turkish Covered Bonds Legislation and the CMB. In addition, a cover register for such cover pool must be established and maintained in accordance with the Turkish Covered Bonds Legislation.

Pursuant to the Covered Bonds Communiqué, a cover pool may be created with the following assets:

- receivables of banks and finance companies, resulting from house financing as defined in Article 57 of the Capital Markets Law, which have been secured by establishing a mortgage at the relevant registry or, if approved by the CMB, otherwise,
- receivables arising from financial lease agreements executed within the framework of Law numbered 6361, provided that they arise out of house financing as defined in Article 57 of the Capital Markets Law,
- commercial loans and receivables of the banks and financial leasing companies and finance companies, which have been secured by establishing mortgage at the relevant registry,
- in relation to the issuances to be made by mortgage finance institutions only, contractual receivables arising from instalment sales of houses by the Housing Development Administration of Turkey,
- other assets whose characteristics may be determined by the CMB,
- substitute assets, which include cash (including cash generated from cover assets), certificates of liquidity issued by the Central Bank, government bonds issued for domestic and foreign investors, securities issued or secured by the central government or the central banks of OECD member states, sukuks issued by asset leasing companies established by the Undersecretariat of Treasury and securities guaranteed by the Turkish Treasury under the applicable laws thereof, and
- derivative instruments fulfilling the conditions of the Covered Bonds Communiqué.

The Covered Bonds Communiqué provides that neither the ratio of the net present value of commercial loans and receivables that are included in the cover assets (other than those related with

sea and air vehicles that have been secured by establishing a mortgage at the relevant registry) nor the net present value of the substitute assets (as described above) shall exceed 15% of the total net present value of the cover assets.

With respect to LTV ratio requirements, the portions of: (a) the loans and receivables resulting from housing finance and (b) commercial loans and receivables that have been secured by establishing a mortgage at the relevant registry exceeding, respectively, 75% and 50% of the value of the security provided in respect of them shall not be taken into consideration in the calculation of the Cover Matching Principles described below.

Pursuant to Section IV, Articles 15 through 21 of the Covered Bonds Communiqué, the assets in the cover pool are subject to certain cover matching principles (the "**Cover Matching Principles**") which comprise the following:

(a) *Nominal Value Test.* The nominal value of the cover pool assets may not be less than the nominal value of the covered bonds. The outstanding principal amount of mortgage loans, the issuance price of discounted debt instruments and the nominal value of premium-debt instruments in the cover pool shall be taken into account while calculating the nominal value of the cover pool assets in the cover pool and the contractual amount of derivative instruments shall not be taken into consideration while calculating the nominal value of the cover pool assets,

(b) *Cash Flow Matching Test.* The total amount of the interest, yield and similar income that is expected to be generated from the cover pool assets (including the income derived from derivative instruments included in the cover register, if any), in each case within one year from the relevant calculation date, shall not be less than the similar payment obligations that are expected to arise from the aggregate liabilities resulting from the covered bonds (including the expenses derived from derivative instruments included in the cover register, if any) within such period,

(c) *Net Present Value Test.* The net present value of the cover pool assets in the cover register is required to be more than the net present value of the total liabilities from the covered bonds and derivative instruments at a ratio to be determined by the issuer, which ratio is not to be less than 2%, and

(d) *Stress Test*. The responsiveness of the net present value, matching the possible changes in the interest rates and currency exchange rates, shall be measured by conducting a stress test (not being less than 2%).

The Cover Matching Principles above may vary if the Covered Bonds Communiqué is amended.

***Cover Monitor***

Pursuant to the Turkish Covered Bonds Legislation, an issuer is required to appoint a cover monitor who will be responsible for monitoring the cover pool and will report to the CMB and the issuer with regard to the cover pool.

Pursuant to the Turkish Covered Bonds Legislation, an issuer is required to keep a cover register for the assets in the cover pool, which register the cover monitor will review. The cover monitor is to procure that the cover register is kept and maintained accurately and in accordance with the provisions of the Turkish Covered Bonds Legislation. The cover monitor is also required to perform an audit and to provide a report to the issuer at least: (a) every three months for public offerings made in Turkey and (b) every six months for non-public offerings or issuances made abroad.

The Turkish Covered Bonds Legislation specifies that the company that conducts the independent audit on the financial statements of an issuer may not be designated as a cover monitor. The cover monitor is to be appointed through a cover monitor agreement, a copy of which is to be sent to the CMB within three business days of its execution. The cover monitor can only be removed from its

duties by the issuer based upon just grounds to be submitted to the CMB in writing and by obtaining the consent of the CMB. The CMB is authorised to remove the cover monitor or replace the cover monitor with a new cover monitor if it determines that the cover monitor no longer meets the requirements to qualify as a cover monitor or is negligent or at fault while conducting its duties. Based upon the general authority of the CMB under the Capital Markets Law, the CMB is entitled to take necessary steps in case the issuer or the cover monitor do not fulfil their respective obligations relating to the covered bonds. The CMB is also entitled to impose an administrative fine in case of non-compliance with the Turkish capital markets legislation.

***Non-compliance with the Cover Matching Principles***

In the event that an issuer detects any non-compliance with the Cover Matching Principles, it is to notify the cover monitor of such non-compliance and the cover monitor shall then verify whether such non-compliance is remedied by the issuer through a restructuring of the cover assets, redemption of the covered bonds or taking any similar precautionary measures within one month as of the detection of the non-compliance.

In such case, the issuer must take all necessary actions, including directing the collections made from the cover pool assets to a special segregated account, until the non-compliance is remedied. During such term, the amounts directed to this special segregated account may only be used for the payment of the total liabilities arising from the cover pool that have become due and payable during the period of non-compliance (which the cover monitor is to verify).

After such verification, if: (a) it is established by the cover monitor that the Cover Matching Principles are complied with, then the collection amounts accumulated in the special segregated account will be transferred to the issuer's accounts and may be used by the issuer, or (b) the Cover Matching Principles are still not complied with, the collections from the cover pool are not accumulated in a special segregated account or such collections have not been used for the payment of the total liabilities arising from the cover pool that have become due and payable during the non-compliance period, then the cover monitor shall notify such situation to the issuer.

***Non-compliance by the Issuer with the payment liability under the Covered Bonds***

Pursuant to the Covered Bonds Communiqué, if an issuer does not completely or partially perform its total liabilities arising from the cover pool, then the issuer must so notify the cover monitor.

If an issuer has failed to completely or partially perform its total liabilities arising from the cover pool, then the collections to be made from the cover pool are to be accumulated in a segregated account from the date of non-payment and such collected amounts are to be used solely for the payment of the total liabilities arising from the cover pool that have become due and payable.

The cover monitor must determine within one month as of the date of complete or partial non-performance of the payment obligations of an issuer under the covered bonds or related derivative instruments whether: (a) the collections made from the cover pool have been accumulated in a special segregated account, (b) such collected amounts have been used solely for the payment of the total liabilities arising from the cover pool that have become due and payable and (c) the cover pool is sufficient to meet the total liabilities arising from the cover pool. The cover monitor is to notify the issuer of the results of such determination.

Pursuant to the Covered Bonds Communiqué, the covered bondholders and hedging counterparties do not need to wait until the completion of the liquidation of the assets in the cover pool for recourse to the other assets of the issuer. Such right of recourse to the other assets of the issuer can be initiated in accordance with the Covered Bonds Communiqué.

***Third party service providers***

An issuer may, provided that the liabilities of such issuer within the scope of the Covered Bonds Communiqué continue, utilise the services of expert third party service providers (as deemed

appropriate by the CMB) to perform some of the duties of such issuer in respect of the management of the cover pool. If such third party service providers are to be appointed, then the issuer is required to notify the CMB of such fact before the sale of the covered bonds and disclose such fact in the prospectus or the issuance certificate for the covered bonds.

In connection therewith, and as permitted in the CMB Approval, the Bank utilises the services of its affiliate Garanti Mortgage to provide services such as establishing the Cover Pool, maintaining the Cover Register and checking compliance with Statutory Tests.

***Administrator***

In the event that: (a) the management and supervision of an issuer is transferred to public institutions, (b) the operating license of an issuer is cancelled or (c) an issuer is bankrupt, the CMB may appoint another bank or a mortgage finance institution, satisfying the requirements for issuers of covered bonds, the cover monitor, another independent audit company or an expert third party institution approved by the CMB to act as an administrator. This administrator would not be assuming the liabilities arising from the cover pool but would manage the cover pool and seek to fulfil the liabilities arising from the cover pool from the income generated from the cover pool.

The administrator may actively manage the cover pool to seek to ensure that the payments under the covered bonds and derivative instruments arising from the cover pool are made in a timely manner, and if necessary may sell assets, purchase new assets, utilise loans or conduct repo transactions. The administrator also may (after obtaining the approval of the CMB) transfer the cover pool and the liabilities arising from the cover pool partially or fully to another bank or to a mortgage finance institution satisfying the qualifications required for issuers. The administrator is not to be held liable for any payments under the liabilities arising from the cover pool, including if the cover pool and the liabilities arising from the cover pool cannot be transferred or the revenue generated from the cover pool is not sufficient.

***Derivative Instruments***

Article 11 of the Covered Bonds Communiqué sets out the specific requirements that derivative instruments need to satisfy in order for such derivative instruments to be recognised as part of the cover pool and for the claim of the relevant derivative counterparty to be regarded as a part of the Total Liabilities. In general:

• the derivative instrument must be traded on exchanges or the derivative counterparty needs to be a bank or financial institution (multi-lateral development agencies also qualify);

• the derivative counterparty needs to have an investment grade long-term international rating (which is tested at the time of entry into of the derivative instrument);

• the derivative instrument cannot be unilaterally terminated by the derivative counterparty even in the event of the bankruptcy of the Issuer; and

• the derivative instrument must contain fair price terms and reliable and verifiable valuation methods.

## TURKISH BANKING SYSTEM

*The following information relating to the Turkish banking sector has been provided for background purposes only. The information has been extracted from third-party sources that the Bank's management believes to be reliable but the Bank has not independently verified such information.*

### Structural Changes in the Turkish Banking Sector

The Turkish financial sector has gone through major structural changes as a result of the financial liberalisation programme that started in the early 1980s. The abolition of directed credit policies, liberalisation of deposit and credit interest rates and liberal exchange rate policies as well as the adoption of international best standard banking regulations have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced a significant expansion and development in the number of banks, employment in the sector, diversification of services and technological infrastructure. The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several institutions. The banking sector also experienced a sharp reduction in shareholders' equity in 2001, with the capital for 22 private sector banks declining to US$4,916 million at the end of 2001 from US$8,056 million for 28 banks at the end of 2000, according to the Banks Association of Turkey.

The Turkish money markets and foreign exchange markets have stabilised since 2001, in large part due to regulatory reform and other governmental actions (including a three-part audit undertaken in 2001 and 2002, after which all private commercial banks were either found to be in compliance with the 8% minimum capital requirement, transferred to the SDIF or asked to increase their capital level). The transparency of the system has improved along with the establishment of an independent supervisory and regulatory framework and new disclosure requirements. Structural changes undertaken have strengthened the banking sector and resulted in a more level playing field among banks. Certain advantages for state banks were diminished while the efficiency of the system increased in general as a result of consolidation. According to the SDIF's official data, since 1994, a total of 25 private banks have been transferred to the SDIF due to, among other things, weakened financial stability and liquidity, and efforts are continuing on the resolution of the SDIF banks while restructuring and privatisation of the state banks is progressing.

In August 2004, in an attempt to reduce the regulatory costs inherent in the Turkish banking sector, the government reduced the rate of the Resource Utilisation Support Fund ("**RUSF**") applicable on short-term foreign currency commercial loans lent by banks domiciled in Turkey to zero; *however*, the 3% RUSF charge for some types of loans provided by banks outside of Turkey with an average repayment term of less than one year remains valid. In addition, effective from 2 January 2013, RUSF rates for cross-border foreign exchange borrowings extended by financial institutions outside of Turkey with an average maturity of between one to two years increased from 0% to 1% and those with an average maturity of between two to three years increased from 0% to 0.5%, while those with an average maturity of three years or more remained at 0%. The government also increased the RUSF charged on interest of foreign currency-denominated retail loans from 10% to 15% in order to curb domestic demand fuelled by credit, which was in turn perceived to be adversely affecting Turkey's current account balance. The Council of Ministers set the RUSF charged on consumer credits to be utilised by real persons (for non-commercial utilisation) to 15% with its decision numbered 2010/974, which was published in the Official Gazette dated 28 October 2010 and numbered 27743.

### The Turkish Banking Sector

The Turkish banking industry has undergone significant consolidation over the past decade with the total number of banks (including deposit-taking banks, investment banks and development banks) declining from 81 in 1999 to 45 on 31 December 2008, which stayed at that level until February 2011 when Fortis Bank A.Ş. merged with Türk Ekonomi Bankası A.Ş. In October 2012, Odea Bank A.Ş commenced operations and Standard Chartered Bank purchased Credit Agricole Yatırım Bankası

Türk Anonim Şirketi. In December 2012, the Burgan Bank Group became Eurobank Tekfen Bank's majority shareholder with its acquisition of a 99.26% stake as a result of its purchase of shares previously belonging to Eurobank and Tekfen Holding. In January 2013, Eurobank Tekfen Bank began doing business under its new name, Burgan Bank A.Ş., following completion of formalities pertaining to the change of the bank's legal name. In addition, on 20 December 2012, the BRSA resolved to permit the establishment of a new deposit bank to be controlled by Bank of Tokyo-Mitsubishi UFJ Ltd, the operating license for which was given by the Banking Regulation and Supervision Board decision in September 2013. Portigon AG ceased its operations in Turkey in August 2013 and the BRSA cancelled the approval of establishment of Portigon AG's İstanbul central branch (which was in a liquidation process) through its decision dated 17 July 2014. The BRSA announced its approval of the establishment of Intesa Sanpaolo S.p.A.'s İstanbul central branch dated 9 May 2013 and its approval of the related operating license (which approval is dated 29 May 2014). In addition, Rabobank A.Ş. received the BRSA's approval of establishment on 1 August 2013 and the related operating license on 4 September 2014. A number of banks were transferred to the SDIF and eventually removed from the banking system through mergers or liquidations. The table below shows the evolution of the number of banks in the Turkish banking sector as of the end of each indicated year.

| | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|---|---|---|---|---|
| Number of banks ..... | 47 | 46 | 46 | 45 | 45 | 45 | 44 | 45 | 45 | 47 |

Source: Banks Association of Turkey (www.tbb.org.tr)
Note: Total number of banks includes deposit-taking banks, investment banks and development banks, but excludes participation banks (Islamic banks).

As of 31 December 2014, 47 banks (including domestic and foreign banks but excluding the Central Bank and participation banks) were operating in Turkey. Thirty four of these were deposit-taking banks (including the Bank) and the remaining banks were development and investment banks (four participation banks, which conduct their business under different legislation in accordance with Islamic banking principles, are not included in this analysis). Among the deposit-taking banks, three banks were state-controlled banks, 11 were private domestic banks, 19 were private foreign banks and one was under the administration of the SDIF. On 3 February 2015, the SDIF took over management of Asya Katılım Bankası A.Ş. ("**Bank Asya**"), a private participation bank. The BRSA announced that this action was taken due to Bank Asya's violation of a provision of the Banking Law that requires banks to have a transparent and open shareholding and organizational structure that does not obstruct the efficient auditing of the bank by the BRSA.

The Banking Law permits deposit-taking banks to engage in all fields of financial activities, including deposit collection, corporate and consumer lending, foreign exchange transactions, capital market activities and securities trading. Typically, major commercial banks have nationwide branch networks and provide a full range of banking services, while smaller commercial banks focus on wholesale banking. The main objectives of development and investment banks are to provide medium-and long-term funding for investment in different sectors.

Deposit-taking Turkish banks' total balance sheets have grown at a compound average growth rate ("**CAGR**") of 18.3% from 31 December 2006 to 31 December 2014, driven by loan book expansion and customer deposits growth, which increased by a CAGR of 23.8% and 16.2%, respectively, between 31 December 2006 and 31 December 2014, in each case according to the BRSA. Despite strong growth of net loans and customer deposits since 2006, the Turkish banking sector remains significantly under-penetrated compared with banking penetration in the eurozone. Loans/GDP and deposits/GDP ratios of the Turkish banking sector were 63.9% and 56.4%, respectively, as of 31 December 2014 according to BRSA data, whereas the eurozone's banking sector had loan and deposit penetration ratios of 105.5% and 111.1%, respectively, as of the same date based upon the European Central Bank's data.

The following table shows key indicators for deposit-taking banks in Turkey as of (or for the period ended on) the indicated dates.

| | As of (or for the year ended) 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** | **2014** |
| | (*TL millions, except percentages*) | | | | |
| **Balance sheet** | | | | | |
| Loans | 479,018 | 621,379 | 716,307 | 939,772 | 1,118,887 |
| Total assets | 932,371 | 1,119,911 | 1,247,653 | 1,566,196 | 1,805,426 |
| Customer deposits | 583,947 | 656,276 | 724,296 | 884,457 | 987,463 |
| Shareholders' equity | 114,979 | 123,007 | 157,553 | 165,954 | 201,204 |
| **Income statement** | | | | | |
| Net interest income | 35,895 | 36,056 | 47,837 | 52,353 | 59,705 |
| Net fees and commission income | 11,459 | 13,345 | 14,704 | 17,444 | 19,355 |
| Total income | 56,370 | 57,735 | 70,986 | 80,396 | 86,500 |
| Net Profit | 20,518 | 18,177 | 21,539 | 22,521 | 23,023 |
| **Key ratios** | | | | | |
| Loans/deposits | 82.0% | 94.7% | 98.9% | 106.3% | 113.3% |
| Net interest margin | 4.6% | 4.0% | 4.7% | 4.4% | 4.2% |
| Return on average equity | 19.8% | 15.4% | 15.5% | 14.0% | 12.6% |
| Capital adequacy ratio | 17.7% | 15.5% | 17.3% | 14.6% | 15.7% |

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

## Competition

The Turkish banking industry is highly competitive and relatively concentrated with the top 10 deposit-taking banks accounting for 89.3% of total assets of deposit-taking banks as of 31 December 2014 according to the BRSA. Among the top 10 Turkish banks, there are three state-controlled banks - Ziraat Bank, Vakıfbank and HalkBank, which were ranked first, sixth and seventh, respectively, in terms of total assets as of 31 December 2014 according to the bank-only financials published in the Public Disclosure Platform (www.kap.gov.tr). These three state-controlled banks accounted for 30.9% of deposit-taking Turkish banks' performing loans and 32.5% of customer deposits as of 31 December 2014. The top four privately-owned domestic banks are Türkiye İş Bankası A.Ş., the Bank, Akbank T.A.Ş. and Yapı ve Kredi Bankası A.Ş., which in total accounted for 47.8% of deposit-taking Turkish banks' performing loans and 45.1% of customer deposits as of 31 December 2014 according to the BRSA. The remaining banks in the top 10 deposit-taking banks in Turkey include three mid-sized banks, namely Finansbank A.Ş., Türk Ekonomi Bankası and Denizbank A.Ş., which were controlled by National Bank of Greece, TEB Holding and Sberbank, respectively, as of 31 December 2014.

## TURKISH REGULATORY ENVIRONMENT

### Regulatory Institutions

Turkish banks and branches of foreign banks in Turkey are primarily governed by two regulatory authorities in Turkey, the BRSA and the Central Bank.

#### *The Role of the BRSA*

In June 1999, the Banks Act No. 4389 (which has been replaced by the Banking Law) established the BRSA. The BRSA supervises the application of banking legislation, monitors the banking system and is responsible for ensuring that banks observe banking legislation.

Articles 82 and 93 of the Banking Law state that the BRSA, having the status of a public legal entity with administrative and financial autonomy, is established in order to ensure application of the Banking Law and other relevant acts, to ensure that savings are protected and to carry out other activities as necessary by issuing regulations within the limits of the authority granted to it by the Banking Law. The BRSA is obliged and authorised to take and implement any decisions and measures in order to prevent any transaction or action that could jeopardise the rights of depositors and the regular and secure operation of banks and/or could lead to substantial damages to the national economy, as well as to ensure efficient functioning of the credit system.

The BRSA has responsibility for all banks operating in Turkey, including foreign banks and participation banks. The BRSA sets various mandatory ratios such as reserve levels, capital adequacy and liquidity ratios. In addition, all banks must provide the BRSA, on a regular and timely basis, information adequate to permit off-site analysis by the BRSA of such bank's financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis, depending upon the nature of the information to be reported.

The BRSA conducts both on-site and off-site audits and supervises implementation of the provisions of the Banking Law and other legislation, examination of all banking operations and analysis of the relationship and balance between assets, receivables, equity capital, liabilities, profit and loss accounts and all other factors affecting a bank's financial structure.

Pursuant to the Regulation on the Internal Systems and Internal Capital Adequacy Assessment Process of Banks, as issued by the BRSA and published in the Official Gazette dated 11 July 2014 and numbered 29057, banks are obligated to establish, manage and develop (for themselves and all affiliates they consolidate) internal audit, internal control and risk management systems commensurate with the scope and structure of their activities, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal control personnel cannot also be appointed to work in a role conflicting with their internal control duties.

#### *The Role of the Central Bank*

The Central Bank was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, implementation of the government's fiscal and monetary policies, maintenance of price stability and continuity, regulation of the money supply, management of official gold and foreign exchange reserves, monitoring of the financial system and advising the government on financial matters. The Central Bank exercises its powers independently of the government. The Central Bank is empowered to determine the inflation target together with the government, and to adopt a monetary policy in compliance with such target. The Central Bank is the only authorised and responsible institution for the implementation of such monetary policy.

The Central Bank has responsibility for all banks operating in Turkey, including foreign banks. The Central Bank sets mandatory reserve levels. In addition, each bank must provide the Central Bank, on a current basis, information adequate to permit off-site evaluation of its financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis depending upon the nature of the information to be reported.

*Banks Association of Turkey*

The Banks Association of Turkey is an organisation that provides limited supervision of and coordination among banks (excluding the participation banks) operating in Turkey. All banks (excluding the participation banks) in Turkey are obligated to become members of this association. As the representative body of the banking sector, the association aims to examine, protect and promote its members' professional interests; however, despite its supervisory and disciplinary functions, it does not possess any powers to regulate banking.

**Shareholdings**

The direct or indirect acquisition by a person of shares that represent 10% or more of the share capital of any bank or the direct or indirect acquisition or disposition of such shares by a person if the total number of shares held by such person increases above or falls below 10%, 20%, 33% or 50% of the share capital of a bank, requires the permission of the BRSA in order to preserve full voting and other shareholders' rights associated with such shares. In addition, irrespective of the thresholds above, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee (or the issuance of new shares with such privileges) is also subject to the authorisation of the BRSA. In the absence of such authorisation, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders' rights with respect to the shares but not of the right to collect dividends declared on such shares. Additionally, the acquisition or transfer of any shares of a legal entity owning 10% or more of a bank is also subject to BRSA approval if such transfer results in the total number of such legal entity's shares directly or indirectly held by a shareholder increasing above or falling below 10%, 20%, 33% or 50% of the share capital of such legal entity. The BRSA's permission might be given on the condition that the person who acquires the shares possesses the qualifications required for a founder of a bank. In a case in which such shares of a bank are transferred without the permission of the BRSA, the voting and other shareholder rights of the legal person stemming from these shares, other than the right to receive dividends, shall be exercised by the SDIF.

The board of directors of a bank is responsible for taking necessary measures to ascertain that shareholders attending a general assembly have obtained the applicable authorisations from the BRSA. If the BRSA determines that a shareholder has exercised voting or other shareholders' rights (other than the right to collect dividends) without due authorisation as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to start the procedure to cancel such applicable general assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the Banking Law if such procedure has not been started yet). If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without authorisation by the BRSA. In the case that the procedure to cancel such general assembly resolutions is not yet started, or such transfer of shares is not deemed appropriate by the BRSA even though the procedure to cancel such general assembly resolutions is started, then, upon the notification of the BRSA, the SDIF has the authority to exercise such voting and other shareholders' rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

**Lending Limits**

The Banking Law sets out certain lending limits for banks and other financial institutions designed to protect those institutions from excessive exposure to any one counterparty (or group of related counterparties). In particular:

- Credits extended to a natural person, a legal entity or a risk group (as defined under Article 49 of the Banking Law) in the amounts of 10% or more of a bank's shareholders' equity are classified as large credits and the total of such credits cannot be more than eight times the bank's shareholders' equity. In this context, "credits" include cash credits and non-cash credits such as letters of guarantee, counter-guarantees, sureties, avals, endorsements and acceptances extended by a bank, bonds and similar capital market instruments purchased by it, loans (whether deposits or other), receivables arising from the future sales of assets, overdue cash credits, accrued but not collected interest, amounts of non-cash credits converted into cash and futures and options and other similar contracts, partnership interests, shareholding interests and transactions recognised as loans by the BRSA. Avals, guarantees and sureties accepted from, a real person or legal entity in a risk group for the guarantee of loans extended to that risk group are not taken into account in calculating loan limits.

- The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or a risk group directly or indirectly to 25% of its equity capital. In calculating such limit, a credit extended to a partnership is deemed to be extended to the partners in proportion to their liabilities. A risk group is defined as an individual, his or her spouse and children and partnerships in which any one of such persons is a member of a board of directors or general manager, as well as partnerships that are directly or indirectly controlled by any one of such persons, either individually or jointly with third parties, or in which any one of such persons participate with unlimited liability. Furthermore, a bank, its shareholders holding 10% or more of the bank's voting rights or the right to nominate board members, its board members, its general manager and partnerships directly or indirectly, individually or jointly, controlled by any of these persons or a partnership in which these persons participate with unlimited liability or in which these persons act as a member of the board of directors or general managers constitute a risk group, for which the lending limits are reduced to 20% of a bank's equity capital, subject to the BRSA's discretion to increase such lending limits up to 25% or to lower it to the legal limit. Real and legal persons having surety, guarantee or similar relationships where the insolvency of one is likely to lead to the insolvency of the other are included in the applicable risk groups.

- Loans extended to a bank's shareholders (irrespective of whether they are controlling shareholders or they own qualified shares) registered with the share ledger of the bank holding more than 1% of the share capital of the bank and their risk groups may not exceed 50% of the bank's capital equity.

Non-cash loans, futures and option contracts and other similar contracts, avals, guarantees and suretyships, transactions carried out with credit institutions and other financial institutions, transactions carried out with the central governments, central banks and banks of the countries accredited with the BRSA, as well as bills, bonds and similar capital market instruments issued or guaranteed to be paid by them, and transactions carried out pursuant to such guarantees are taken into account for the purpose of calculation of loan limits within the framework of principles and ratios set by the BRSA.

Pursuant to Article 55 of the Banking Law, the following transactions are exempt from the above-mentioned lending limits:

(a) transactions backed by cash, cash-like instruments and accounts and precious metals,

(b) transactions carried out with the Undersecretariat of Treasury, the Central Bank, the Privatisation Administration and the Housing Development Administration of Turkey, as well as transactions carried out against bills, bonds and similar securities issued or guaranteed by these institutions,

(c) transactions carried out in the Central Bank markets or other legally-organised money markets,

(d) in the event a new loan is extended to the same person or to the same risk group (but excluding checks and credit cards), any increase due to the volatility of exchange rates, taking into consideration the current exchange rate of the loans made available earlier in foreign currency (or exchange rate), at the date when the new loan was extended; as well as interest accrued on overdue loans, dividends and other elements,

(e) equity participations acquired due to any capital increases at no cost and any increase in the value of equity participations not requiring any fund outflow,

(f) transactions carried out among banks on the basis set out by the BRSA,

(g) equity participations acquired through underwriting commitments in public offerings; provided that such participations are disposed of in a manner and at a time determined by the BRSA,

(h) transactions that are taken into account as deductibles in calculation of own funds, and

(i) other transactions to be determined by the BRSA.

**Loan Loss Reserves**

Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables and to reserve an adequate level of provisions against impairment in the value of other assets, for qualification and classification of assets, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring loans, follow-up procedures and the repayment of overdue loans. Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans and other receivables in accordance with this article are considered as expenditures deductible from the corporate tax base in the year they are set aside.

Procedures relating to loan loss reserves for non-performing loans are set out in Article 53 of the Banking Law and in regulations issued by the BRSA. Pursuant to the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside published in the Official Gazette No. 26333 on 1 November 2006 and amended from time to time thereafter (the "**Regulation on Provisions**" and "**Classification of Loans**" and "**Receivables**)", banks are required to classify their loans and receivables into one of the following groups:

(a) *Group I: Loans of a Standard Nature and Other Receivables:* This group involves loans and other receivables:

  (i) that have been disbursed to financially creditworthy natural persons and legal entities,

  (ii) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor,

  (iii) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and that can be fully collected, and

(iv) for which no weakening of the creditworthiness of the applicable debtor has been found.

The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *however*, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, a general loan provision of not less than five times the sum of 1% of the total cash loan portfolio and 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) cash and non-cash loans provided to finance: (i) transit trade, (ii) sales and deliveries that are deemed to be exports and (iii) services and activities in exchange for foreign currency denominated-consideration, for which the general loan loss reserve is calculated at five times 0%, and (b) cash and non-cash SME loans, for which the general loan loss reserve is calculated at five times 0.5% and 0.1%, respectively) is required to be set aside, and such modifications are required to be disclosed in the financial reports (which are also made publicly available). This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below) for amended consumer loan agreements (other than housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short-term loan and the interest payments thereof are made in a timely manner; *provided* that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

(b) *Group II: Loans and Other Receivables Under Close Monitoring*: This group involves loans and other receivables:

(i) that have been disbursed to financially creditworthy natural persons and legal entities and where the principal and interest payments of which there is no problem at present, but that need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable materialisation of the latter or significant financial risk carried by the person utilising the loan,

(ii) whose principal and interest payments according to the conditions of the loan agreement are not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might result in partial or full non-reimbursement risk,

(iii) that are very likely to be repaid but collection of principal and interest payments have been delayed for more than 30 days from their due dates for justifiable reasons but not falling within the scope of "*Loans and other Receivables with Limited Recovery*" set forth under Group III below, or

(iv) although the credit standing of the debtor has not weakened, there is a high likelihood of weakening due to the debtor's irregular and unmanageable cash flow.

If a loan customer has multiple loans and any of these loans is classified in Group II and others are classified in Group I, then all of such customer's loans are required to be classified in Group II. The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *however*, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, a general loan provision of not less than 2.5 times the sum of 2% of the total cash loan portfolio and 0.4% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) is required to be set aside and such modifications are required to be disclosed in the financial reports (which are also made publicly available). This ratio is required to be at least 1.25 times the Consumer Loans Provisions for amended consumer loan agreements (other than housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof

are made in a timely manner; provided that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

(c) *Group III: Loans and Other Receivables with Limited Recovery*: This group involves loans and other receivables:

(i) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and in case the problems observed are not eliminated, they are likely to cause loss,

(ii) the credit standing of whose debtor has weakened and where the loan is deemed to have weakened,

(iii) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date, or

(iv) in connection with which the bank is of the opinion that collection by the bank of the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.

(d) *Group IV: Loans and Other Receivables with Improbable Recovery:* This group involves loans and other receivables:

(i) that seem unlikely to be repaid or liquidated under existing conditions,

(ii) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement,

(iii) whose debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss due to such factors as a merger, the possibility of finding new financing or a capital increase, or

(iv) there is a delay of more than 180 days but not more than one year from the due date in the collection of the principal or interest or both.

(e) *Group V: Loans and Other Receivables Considered as Losses*: This group involves loans and other receivables:

(i) that are deemed to be uncollectible,

(ii) collection of whose principal or interest or both has been delayed by one year or more from the due date, or

(iii) for which, although sharing the characteristics stated in Groups III and IV, the bank is of the opinion that they have become weakened and that the debtor has lost creditworthiness due to the strong possibility that it will not be possible to fully collect the amounts that have become due and payable within a period of over one year.

Pursuant to Article 53 of the Banking Law, banks must calculate the losses that have arisen, or are likely to arise, in connection with loans and other receivables. Such calculations must be regularly reviewed. Banks must also reserve adequate provisions against depreciation or impairment of other assets, qualify and classify assets, receive guarantees and security and measure the reliability and the value of such guarantees and security. In addition, banks must monitor loans under review and monitor the repayment of overdue loans and establish and operate systems to perform these functions. All

provisions set aside for loans and other receivables in accordance with this article are considered expenditures deductible from the corporate tax base in the year they are set aside.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks are required to reserve adequate provisions for loans and other receivables until the end of the month in which the payment of such loans and receivables has been delayed. This regulation also requires Turkish banks to provide a general reserve calculated at 1%, of the total cash loan portfolio *plus* 0.2% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) (except for cash and non-cash loans relating to transit trade, export sales and deliveries and services and activities resulting in gains of foreign currency, for which the general loan loss reserve is calculated at 0%, and (b) cash and non-cash SME loans, for which the general loan loss reserve is calculated at 0.5% and 0.1%, respectively) for standard loans defined in Group I above; and a general reserve calculated at 2% of the total cash loan portfolio *plus* 0.4 % of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) for closely-monitored loans defined in Group II above.

In addition, 25% of such rates will be applied for each check slip that was delivered by the Bank at least five years previously. Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, at least 40% of the general reserve amount calculated according to the above mentioned ratios had to be reserved by 31 December 2012, at least 60% had to be reserved by 31 December 2013, at least 80% had to be reserved by 31 December 2014 and 100% shall be reserved by 31 December 2015.

Banks with consumer loan ratios greater than 25% of their total loans and banks with non-performing consumer loan (classified as frozen receivables (excluding housing loans)) ratios greater than 8% of their total consumer loans (excluding housing loans) (pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) are required to set aside a 4% general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group I, and an 8% general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group II (the "**Consumer Loans Provisions**").

If the sum of the letters of guarantee, acceptance credits, letters of credit undertakings, endorsements, purchase guarantees in security issuances, factoring guarantees or other guarantees and sureties and pre-financing loans without letters of guarantee of a bank is higher than ten times its equity calculated pursuant to banking regulations, a 0.3% general provision ratio is required to be applied by such bank for all of its standard non-cash loans. Notwithstanding the above ratio and by taking into consideration the standard capital adequacy ratio, the BRSA may apply the same ratio or a higher ratio as the general reserve requirement ratio.

Turkish banks are also required to set aside general provisions for the amounts monitored under the accounts of "Receivables from Derivative Financial Instruments" on the basis of the sums to be computed by multiplying them by the rates of conversion into credit indicated in Article 12 of the "Regulation on Loan Transactions of Banks" (published in the Official Gazette No. 26333 on 1 November 2006) by applying the general provision rate applicable for cash loans. In addition to the general provisions, specific provisions must be set aside for the loans and receivables in Groups III, IV and V at least in the amounts of 20%, 50% and 100%, respectively. An amount equal to 25% of the specific provisions set forth in the preceding sentence is required to be set aside for each check slip of customers who have loans under Groups III, IV and V, which checks were delivered by the Bank at least five years previously; *however*, if a bank sets aside specific provisions at a rate of 100% for non-performing loans, then it does not need to set aside specific provisions for check slips that were delivered by such bank at least two years previously; *provided* that a registered letter has been sent to the relevant customer requiring it to return the check slips to the bank in no later than 15 days.

Pursuant to these regulations, all loans and receivables in Groups III, IV and V above, irrespective of whether any interest or other similar obligations of the debtor are applicable on the principal or whether the loans or receivables have been refinanced, are defined as "frozen receivables". If several

loans have been extended to a loan customer by the same bank and if any of these loans is considered as a frozen receivable, then all outstanding risks of such loan customer are classified in the same group as the frozen receivable even if such loans would not otherwise fall under the same group as such frozen receivable. If a frozen receivable is repaid in full, then the other loans of the loan customer may be re-classified into the applicable group as if there were no related frozen receivable.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, the BRSA is entitled to increase these provision rates taking into account the sector and country risk status of the borrower.

Banks must also monitor the following types of security based upon their classification:

*Category I Collateral:* (a) cash, deposits, profit sharing funds and gold deposit accounts that are secured by pledge or assignment agreements, promissory notes, debenture bonds and similar securities issued directly or guaranteed by the Central Bank, the Treasury, the Housing Development Administration of Turkey or the Privatisation Administration and funds gained from repo transactions over similar securities and B type investment profit sharing funds, member firm receivables arising out of credit cards and gold reserved within the applicable bank, (b) transactions executed with the Treasury, the Central Bank, the Housing Development Administration of Turkey or the Privatisation Administration and transactions made against promissory notes, debenture bonds, lease certificates and similar securities issued directly or guaranteed by such institutions, (c) securities issued directly or guaranteed by the central governments or central banks of countries that are members of the Organisation for Economic Co-operation and Development (the "**OECD**"), (d) guarantees and sureties given by banks operating in OECD member states, (e) securities issued directly or guaranteed by the European Central Bank, (f) sureties, letters of guarantee, avals and acceptance and endorsement of non-cash loans issued by banks operating in Turkey in compliance with their maximum lending limits and (g) bonds, debentures and covered bonds issued, or lease certificates the underlying assets of which are originated, by banks operating in Turkey.

*Category II Collateral:* (a) precious metals other than gold, (b) shares quoted on a stock exchange and A-type investment profit sharing funds, (c) asset-backed securities and private sector bonds except ones issued by the borrower, (d) credit derivatives providing protection against credit risk, (e) the assignment or pledge of accrued entitlements of real and legal persons from public agencies, (f) liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at market value, (g) mortgages on real property registered with the land registry and mortgages on real property built on allocated real estate; provided that their appraised value is sufficient, (h) export documents based upon marine bill of lading or transport bills, or insured within the scope of an exportation loan insurance policy, (i) bills of exchange stemming from actual trading relations, which are received from natural persons and legal entities, (j) insurance policies for trade receivables and (k) Credit Guarantee Fund (*Kredi Garanti Fonu*) guarantees not benefitting from Treasury support.

*Category III Collateral:* (a) commercial enterprise pledges, (b) other export documents, (c) auto pledges, (d) mortgages on aircraft or ships, (e) sureties from real or legal persons whose creditworthiness is higher than the debtor itself and (f) promissory notes of real and legal persons.

*Category IV Collateral:* any other security not otherwise included in Category I, II or III.

Assets owned by banks and leased to third parties under financial lease agreements must also be classified in accordance with the above-mentioned categories.

When calculating the special reserve requirements for frozen receivables, the value of collateral received from an applicable borrower is deducted from such borrower's loans and receivables in Groups III, IV and V above in the following proportions in order to determine the amount of the required reserves:

| **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 exceeds the amount of the NPL, the above-mentioned rates of consideration are applied only to the portion of the collateral that is equal to the amount of the NPL.

According to Article 11 of the Regulation on Provisions and Classification of Loans and Receivables, in the event of a borrower's failure to repay loans or any other receivables due to a temporary lack of liquidity that the borrower is facing, a bank is allowed to refinance the borrower with additional funding in order to strengthen the borrower's liquidity position or to structure a new repayment plan. Despite such refinancing or new repayment plan, such loans and other receivables are required to be monitored in their current loan groups (whether Group III, IV or V) for at least the next six-month period and, within such period, provisions continue to be set aside at the special provision rates applicable to the group in which they are included. After the lapse of such six-month period, if total collections reach at least 15% of the total receivables for restructured loans, then the remaining receivables are reclassified to the "Renewed/Restructured Loans Account". The bank may refinance the borrower for a second time if the borrower fails to repay the refinanced loan; *provided that* at least 20% of the principal and other receivables are collected on a yearly basis.

In addition to the general provisioning rules, the BRSA has from time to time enacted provisional rules relating to exposures to debtors in certain industries or countries.

**Capital Adequacy**

Article 45 of the Banking Law defines "Capital Adequacy" as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, maintain and report their capital adequacy ratio, which, within the framework of the BRSA's regulations, cannot be less than 8%.

The BRSA is authorised to increase the minimum capital adequacy ratio and the minimum consolidated capital adequacy ratio, to set different ratios for each bank and to revise the calculation and notification periods, but must consider each bank's internal systems as well as its asset and financial structures. Both the minimum total capital adequacy ratio and the minimum consolidated capital adequacy ratio for the Group as required by the BRSA is currently 8%. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio of 8%.

In order to implement the rules of the report entitled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee on Banking Supervision (the "**Basel Committee**") in December 2010 and revised in June 2011 (*i.e.*, Basel III) into Turkish law, the 2013 Equity Regulation, and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks were published in the Official Gazette dated 5 September 2013 and numbered 28756 and entered into force on 1 January 2014. The 2013 Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e.*, Tier I capital), which is composed of core capital and additional principal capital (*i.e.*, additional Tier I capital) and (b) supplementary capital (*i.e.*, Tier II capital) *minus* capital deductions. Pursuant to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (as so amended): (i) both the minimum core capital adequacy ratio and the minimum consolidated core capital adequacy ratio are

4.5% and (ii) both the minimum Tier I capital adequacy ratio and the minimum consolidated Tier I capital ratio are 6.0%.

In addition, the Regulation on the Capital Maintenance and Cyclical Capital Buffer and the Regulation on the Measurement and Evaluation of Leverage Levels of Banks were published in the Official Gazette dated 5 November 2013 and numbered 28812, which regulations entered into force on 1 January 2014 (with the exception of certain provisions of the latter regulation that entered into effect on 1 January 2015). The Regulation on the Capital Maintenance and Cyclical Capital Buffer provides additional core capital requirements both on a consolidated and bank-only basis. Pursuant to this regulation, the additional core capital requirements are to be calculated by the multiplication of the amount of risk-weighted assets by the sum of a capital maintenance buffer ratio and bank-specific countercyclical buffer ratio. The Regulation on the Measurement and Evaluation of the Leverage Level of Banks seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and bank-only basis against leverage risks. Lastly, the Regulation on Liquidity Coverage Ratios, published in the Official Gazette dated 21 March 2014 and numbered 28948, seeks to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. The Regulation on Liquidity Coverage Ratios provides that the ratio of the high quality asset stock to the net cash outflows, both of which are calculated in line with the regulation, cannot be lower than 100% in respect of total consolidated and non-consolidated liquidity and 80% in respect of total consolidated and non-consolidated foreign exchange liquidity; *however*, pursuant to the BRSA Decision on Liquidity Ratios, for a period starting from 5 January 2015 and ending on 31 December 2015, such ratios shall be applied as 60% and 40%, respectively. Furthermore, pursuant to the BRSA Decision on Liquidity Ratios, such ratios shall be applied in increments of ten percentage points for each year from 1 January 2016 until 1 January 2019. Unconsolidated total and foreign currency liquidity coverage ratios cannot be non-compliant more than six times within a calendar year. This includes non-compliances that have already been remedied. With respect to consolidated total and foreign currency liquidity coverage, these cannot be noncompliant consecutively within a calendar year and such ratios cannot be non-compliant for more than two times within a calendar year, including the non-compliances that have already been remedied. The Regulation on Liquidity Coverage Ratios entered into effect immediately with the provisions thereof becoming applicable as of 1 January 2014 (with the exception of certain provisions relating to minimum coverage ratio levels and the consequences of failing to maintain compliance, which entered into effect on 5 January 2015 pursuant to the BRSA Decision on Liquidity Ratios)).

Under the 2013 Equity Regulation, debt instruments and their issuance premia can be included either in additional Tier I capital or in Tier II capital subject to certain conditions; *however*, such amount is required to be reduced by the amount of any cash credit extended to creditors holding 10% or more of such debt instruments of a bank (or to any person within such creditors' risk group).

In accordance with Basel III rules, each bank is required to prepare an internal capital adequacy assessment process report ("*ICAAP Report*") representing its own assessment of its capital requirements. The first ICAAP Report covering the activities of the Bank in 2013 was submitted to the BRSA in October 2014. Subsequent filings of the ICAAP Report are required to be made at the end of March in each year.

See also a discussion of the implementation of Basel III in "*Basel Committee - Basel III*" below.

*Tier II Rules under Turkish Law*

*Previous Tier II Rules*. Secondary subordinated debts were, through 31 December 2013, regulated under the the Regulation on Equities of Banks published in the Official Gazette dated 1 November 2006 and numbered 26333 (the "**2006 Equity Regulation**"). The following describes the rules previously applicable to the Bank's secondary subordinated debts that were issued before 1 January 2014, which rules continue to apply to such subordinated debts notwithstanding the 2013 Equity Regulation.

According to the 2006 Equity Regulation, the net worth of a bank (*i.e.*, the bank's own funds) consists of main capital and supplementary capital *minus* capital deductions. In the relevant definition, "secondary subordinated loans" (which as defined can also include bonds) are listed as one of the items that constitute a bank's supplementary capital (*i.e.*, "Tier II" capital); *however*, loans provided to the banks by their affiliates or debt instruments issued to their affiliates do not fall within the scope of such "secondary subordinated loans". Unless temporarily permitted by the BRSA in exceptional cases, the portion of primary subordinated debts that is not included in the calculation of "Tier I" capital *plus* the total secondary subordinated debts that, in aggregate, exceeds 50% of "Tier I" capital is not taken into consideration in the calculation of "Tier II" capital. During the final five years of a secondary subordinated debt, the amount thereof to be taken into account in the calculation of the "Tier II" capital would be reduced by 20% per year. In addition, any secondary subordinated debt with a remaining maturity of less than one year is not included in the calculation of "Tier II" capital. Any cash credits extended by the bank to the provider(s) of the "secondary subordinated loans" (if debt instruments, to the investor(s) holding 10% or more thereof) and any debt instruments issued by such provider(s) (or investor(s)) and purchased by the bank are also deducted from the amount to be used in the calculation of the Tier II capital. A secondary subordinated debt is taken into account in the calculation of "Tier II" capital on the date of the accounting of such secondary subordinated debt on the books of the relevant bank.

The only subordinated debt subject to the 2006 Equity Regulation is a 2009 loan from PROPARCO for €50,000,000 as of 31 December 2014, which loan matures in 2021 and has a prepayment option for the Bank in 2016.

*New Tier II Rules*. According to the 2013 Equity Regulation, which came into force on 1 January 2014, Tier II capital shall be calculated by subtracting capital deductions from general provisions that are set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts for receivables (as the case may be, depending upon the method used by the bank to calculate the credit risk amounts of the applicable receivables) and the debt instruments that have been approved by the BRSA upon the application of the board of directors of the applicable bank along with a written statement confirming compliance of the debt instruments with the conditions set forth below and their issuance premia (the "**New Tier II 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 I capital and shall be subordinated with respect to rights of deposit holders and all other creditors,

(c) the debt instrument shall not be related to any derivative operation or contract violating the condition stated in clause (b) nor shall it be tied to any guarantee or security, in one way or another, directly or indirectly,

(d) the debt instrument must have an initial maturity of at least five years and shall not include any provision that may incentivise prepayment, such as dividends and increase of interest rate,

(e) if the debt instrument includes a prepayment option, such option shall be exercisable no earlier than five years after issuance and only with the approval of the BRSA; approval of the BRSA is subject to the following conditions:

    (i) the bank should not create any market expectation that the option will be exercised by the bank,

    (ii) the debt instrument shall be replaced by another debt instrument either of the same quality or higher quality, and such replacement shall not have a restrictive effect on the bank's ability to sustain its operations, or

(iii) following the exercise of the option, the equity of the bank shall exceed the higher of: (A) the capital adequacy requirement that is to be calculated pursuant to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks along with the procedures and principles on capital buffers that are to be set by the BRSA, (B) the capital requirement derived as a result of an internal capital adequacy evaluation process of the bank and (C) the higher capital requirement set by the BRSA (if any);

*however*, if tax legislation or other regulations are materially amended, a prepayment option may be exercised; *provided* that the above conditions in this clause (e) are met and the BRSA approves,

(f) the debt instrument shall not provide investors with the right to demand early amortisation except for during a bankruptcy or dissolution process relating to the issuer,

(g) the debt instrument's dividend or interest payments shall not be linked to the creditworthiness of the issuer,

(h) the debt instrument shall not be: (i) purchased by the issuer or by corporations controlled by the issuer or significantly under the influence of the issuer or (ii) assigned to such entities, and its purchase shall not be directly or indirectly financed by the issuer itself,

(i) if there is a possibility that the bank's operating license would be cancelled or the probability of transfer of management of the bank to the SDIF arises pursuant to Article 71 of the Banking Law, removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates would be possible if the BRSA so decides, and

(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.

Loans (as opposed to securities) that have been approved by the BRSA upon the application of the board of directors of the applicable bank accompanied by a written statement confirming that all of the New Tier II Conditions (except the issuance and approval by the CMB) are met also can be included in Tier II capital calculations.

In addition to the conditions that need to be met before including debt instruments and loans in the calculation of Tier II capital, the 2013 Equity Regulation also provides a limit for inclusion of general provisions to be set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts of receivables (as the case may be, depending upon the method used by the bank to calculate the credit risk amount of such receivables) in Tier II capital such that: (a) the portion of general provisions that exceeds 1.25% of the risk-weighted sum of the receivables and/or (b) the portion of the surplus of provisions and capital deductions that exceeds 6 parts per 1,000 of the receivables to which they relate is not taken into consideration in calculating the Tier II capital.

Furthermore, in addition to the New Tier II Conditions stated above, the BRSA may require new conditions for each debt instrument and the procedure and principles regarding the removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates are determined by the BRSA. Applications to include debt instruments or loans into Tier II capital are required to be accompanied with the original copy or a notarised copy of the applicable agreement(s) or, if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original or a notarised copy to the BRSA within five business days of the signing of such agreement). If the interest rate is not explicitly indicated in the loan agreement or the prospectus of the debt instrument (*borçlanma aracı izahnamesi*), or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorise the inclusion of the loan or debt instrument in the calculation of Tier II capital.

Debt instruments and loans that are approved by the BRSA are included in accounts of Tier II capital as of the date of transfer to the relevant accounts in the applicable bank's records. Loan agreements and debt instruments that have been included in Tier II capital calculations, and that have less than five years to maturity, shall be included in Tier II capital calculations after being reduced by 20% 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 currently results in a 50% risk weighting for Turkey; *however*, the Turkish rules implementing the Basel principles in Turkey (*i.e.*, the "**Turkish National Discretion**") revises this general rule by providing that all Turkish Lira-denominated claims on sovereign entities in Turkey and all foreign currency-denominated claims on the Central Bank will have a 0% risk weight. As a result of these implementation rules, the impact of the new regulations has been fairly limited when compared to the previous regime. The BRSA announced that the migration from the previous regime to Basel II regulations had an effect of an approximately 0.20% decline in the capital adequacy levels of the Turkish banking system as of 31 July 2012. This figure is consistent with the Bank's own experience (with its capital adequacy actually increasing slightly due to its diversified portfolio of retail loans, which benefit from certain preferential capital treatments) and thus no additional capital needs are projected for the Bank in the short term due to this change in the regulatory capital adequacy framework.

*Basel III*. Turkish banks' capital adequacy requirements have been and might continue to be further affected by Basel III, as implemented by the 2013 Equity Regulation, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are expected to be implemented in phases until 2019. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the 2013 Equity Regulation and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, both of which entered into effect on 1 January 2014. The 2013 Equity Regulation introduced core Tier I capital and additional Tier I capital as components of Tier I capital, whereas the amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks: (a) introduced a minimum core capital adequacy standard ratio (4.5%) and a minimum Tier I capital adequacy standard ratio (6.0%) to be calculated on a consolidated and non-consolidated basis (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 2013 Equity Regulation also introduced new Tier II rules and determined new criteria for debt instruments to be included in the Tier II capital.

In addition to these implementations: (a) the Regulation on the Capital Conservation and Cyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, and (b) the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which regulation the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), were published in the Official Gazette dated 5 November 2013 and numbered 28812 and entered into effect on 1 January 2014 with the exception of certain provisions of the Regulation on the Measurement and Evaluation of Leverage Levels of Banks that entered into effect on 1 January 2015. Lastly, 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, both on a consolidated and unconsolidated basis, the Regulation on the Calculation of Banks' Liquidity Coverage Ratios was published in the Official Gazette dated 21 March 2014 and numbered 28948 and entered into effect immediately with the provisions thereof becoming applicable as of 1 January 2014 (with the exception of certain provisions relating to minimum coverage ratio levels and the consequences of failing to maintain compliance, which entered into effect on 5 January 2015 pursuant to the BRSA Decision on Liquidity Ratios) with additional revisions decreed under the BRSA Decision on Liquidity Ratios. If the Bank and/or the Group is unable to maintain its capital adequacy or leverage ratios above the minimum levels required by the BRSA or other regulators (whether due to the inability to obtain additional capital on acceptable economic terms, if at all, sell assets (including subsidiaries) at commercially reasonable prices, or at all, or for any other reason), then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

**Liquidity and Reserve Requirements**

Article 46 of the Banking Law requires banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures set out by the BRSA. Within this framework, a comprehensive liquidity arrangement has been put into force by the BRSA, following the consent of the Central Bank.

As of the date of this Base Prospectus, the reserve requirements regarding foreign currency liabilities vary by category, as set forth below:

| Category of Foreign Currency Liabilities | Required Reserve Ratio |
|---|---|
| Demand deposits, notice deposits, private current accounts, deposit/participation accounts up to 1-month, 3-month, 6-month and 1-year maturities | 13% |
| Deposit/participation accounts with maturities of 1-year and longer | 9% |
| Other liabilities up to 1-year maturity (including 1-year) | 20% |
| Other liabilities up to 2-year maturity (including 2-year) | 14% |
| Other liabilities up to 3-year maturity (including 3-year) | 8% |
| Other liabilities up to 5-year maturity (including 5-year) | 7% |
| Other liabilities longer than 5-year maturity | 6% |

As of the date of this Base Prospectus, the reserve requirements regarding Turkish Lira liabilities vary by category, as set forth below:

| Category of Turkish Lira Liabilities | Required Reserve Ratio |
|---|---|
| Demand deposits, notice deposits and private current accounts | 11.5% |
| Deposits/participation accounts up to 1 month maturity (including 1-month) | 11.5% |
| Deposits/participation accounts up to 3 month maturity (including 3-month) | 11.5% |
| Deposits/participation accounts up to 6 month maturity (including 6-month) | 8.5% |
| Deposits/participation accounts up to 1 year maturity | 6.5% |
| Deposits/participation accounts with maturities of 1-year and longer | 5% |
| Other liabilities up to 1-year maturity (including 1-year) | 11.5% |
| Other liabilities up to 3-years maturity (including 3-years) | 8% |
| Other liabilities longer than 3-year maturity | 5% |

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 entered into force on 17 January 2014, a bank must establish additional mandatory reserves if its financial leverage ratio falls within certain intervals. The financial leverage ratio is calculated according to the division of a bank's capital into the sum of the following items:

(a) its total liabilities,

(b) its total non-cash loans and obligations,

(c) its revocable commitments *multiplied* by 0.1,

(d) the total sum of each of its derivatives commitments multiplied by its respective loan conversion rate, and

(e) its irrevocable commitments.

This additional mandatory reserve amount is calculated quarterly according to the arithmetic mean of the monthly leverage ratio.

A bank also must maintain mandatory reserves for six mandatory reserve periods beginning with the fourth calendar month following an accounting period and additional mandatory reserves for liabilities in Turkish Lira and foreign currency, as set forth below:

| Calculation Period for the Leverage Ratio | Leverage Ratio | Additional Reserve Requirement |
|---|---|---|
| From the 4th quarter of 2013 through the 3rd quarter of 2014 | Below 3.0% | 2.0% |
| | From 3.0% (inclusive) to 3.25% | 1.5% |
| | From 3.25% (inclusive) to 3.5% | 1.0% |
| From the 4th quarter of 2014 through the 3rd quarter of 2015 | Below 3.0% | 2.0% |
| | From 3.0% (inclusive) to 3.50% | 1.5% |
| | From 3.50% (inclusive) to 4.0% | 1.0% |
| Following the 4th quarter of 2015 (inclusive) | Below 3.0% | 2.0% |
| | From 3.0% (inclusive) to 4.0% | 1.5% |
| | From 4.0% (inclusive) to 5.0% | 1.0% |

Reserve accounts kept in Turkish Lira may be interest-bearing pursuant to guidelines adopted by the Central Bank from time to time according to the reserve requirement manual issued by the Central Bank on 11 April 2014.

**Additional Reserve Calculation Period for Leverage Ratio Requirement**

According to the Regulation on the Measurement and Evaluation of the Liquidity Adequacy of Banks issued by the BRSA and announced in the Official Gazette dated 1 November 2006 and numbered 26333, the liquidity adequacy ratio of a bank is the ratio of liquid reserves to liabilities of the bank. Pursuant to such regulation, on a weekly basis, a bank must maintain: (a) a 100% liquidity adequacy ratio for the first maturity period (assets and liabilities maturing within seven days are taken into account in calculations on a weekly average as defined by the regulation) and the second maturity period (assets and liabilities maturing within 31 days of the last working day are taken into account) on an aggregate basis and (b) a 80% liquidity adequacy ratio on a foreign currency-only basis; *however*, pursuant to the BRSA Decision on Liquidity Ratios, such ratios shall be applied as 0% to deposit banks.

**Foreign Exchange Requirements**

According to the Regulation on Foreign Exchange Net Position/Capital Base issued by the BRSA and published in the Official Gazette dated 1 November 2006 and numbered 26333, for both the bank-only and consolidated financial statements, the ratio of a bank's foreign exchange net position to its capital base should not exceed (+/-) 20%, which calculation is required to be made on a weekly basis.

The net foreign exchange position is the difference between the Turkish Lira equivalent of a bank's foreign exchange assets and its foreign exchange liabilities. For the purpose of computing the net foreign exchange position, foreign exchange assets include all active foreign exchange accounts held by a bank (including its foreign branches), its foreign exchange-indexed assets and its subscribed forward foreign exchange purchases; for purposes of computing the net foreign exchange position, foreign exchange liabilities include all passive foreign exchange accounts held by a bank (including its foreign branches), its subscribed foreign exchange-indexed liabilities and its subscribed forward foreign exchange sales. If the ratio of a bank's net foreign exchange position to its capital base exceeds (+/-) 20%, then the bank is required to take steps to move back into compliance within two weeks following the bank's calculation period. Banks are permitted to exceed the legal net foreign exchange position to capital base ratio up to six times per calendar year.

**Audit of Banks**

According to Article 24 of the Banking Law, a bank's boards of directors is required to establish audit committees for the execution of the audit and monitoring functions of the board of directors. Audit committees shall consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include the supervision of the efficiency and adequacy of the bank's internal control, risk management and internal audit systems, functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation, and integrity of the information produced; conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors; regularly monitoring the activities of independent audit firms selected by the board of directors; and, in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the Regulation on Independent Audit of Banks, published in the Official Gazette dated 2 April 2015 and numbered 29314. Independent auditors are held liable for damages and losses to third parties and are subject to stricter reporting obligations. Professional liability insurance is required for: (a) independent auditors and (b) evaluators, rating agencies and certain other support services (if requested by the service-acquiring bank or required by the BRSA). Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms. With the Regulation regarding the Internal Systems and Internal Capital Adequacy Assessment Process of Banks, issued by the BRSA and published in the Official Gazette dated 11 July 2014 and numbered 29057, standards as to principles of internal audit and risk management systems were established in order to bring such regulations into compliance with Basel II requirements.

All banks (public and private) also undergo annual audits and interim audits by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities and foreign exchange transactions. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The Central Bank has the right to monitor compliance by banks with the Central Bank's regulations through on-site and off-site examinations.

**The 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 held with banks are insured by the SDIF. The scope and amount of savings deposits subject to the insurance are determined by the SDIF upon the approval of the Central Bank, the BRSA and the Treasury. The tariff of the insurance premium, the time and method of collection of this premium, and other relevant matters are determined by the SDIF upon the approval of the BRSA.

(b) *Borrowings of the SDIF*

The SDIF: (i) may incur indebtedness with authorisation from the Undersecretariat of the Treasury or (ii) the Undersecretariat of the Treasury may issue government securities with the proceeds to be provided to the SDIF as a loan, as necessary. Principles and procedures regarding the borrowing of government debt securities, including their interest rates and terms and conditions of repayment to the Treasury, are to be determined together by the Treasury and the SDIF.

(c) *Power to require Advances from Banks*

Provided that BRSA consent is received, the banks may be required by the SDIF to make advances of up to the total insurance premiums paid by them in the previous year to be set-off against their future premium obligations. The decision regarding such advances shall also indicate the interest rate applicable thereto.

(d) *Contribution of the Central Bank*

If the SDIF's resources prove insufficient due to extraordinary circumstances, then the Central Bank will, on request, provide the SDIF with an advance. The terms, amounts, repayment conditions, interest rates and other conditions of the advance will be determined by the Central Bank upon consultation with the SDIF.

(e) *Savings Deposits that are not subject to Insurance*

Deposits, participation accounts and other accounts held in a bank by controlling shareholders, the chairman and members of the board of directors or board of managers, general manager and assistant general managers and by the parents, spouses and children under custody of the above, and deposits, participation accounts and other accounts within the scope of criminally-related assets generated through the offenses set forth in Article 282 of the Turkish Criminal Code and other deposits, participation accounts and accounts as determined by the board of the BRSA are not covered by the SDIF's insurance.

(f) *Premiums as an Expense Item*

Premiums paid by a bank into the SDIF are to be treated as an expense in the calculation of that bank's corporate tax.

(g) *Liquidation*

In the event of the bankruptcy of a bank, the SDIF is a privileged creditor and may liquidate the bank under the provisions of the Execution and Bankruptcy Law No. 2004, exercising the duties and powers of the bankruptcy office and creditors' meeting and the bankruptcy administration.

(h) *Claims*

In the event of the bankruptcy of a bank, holders of savings deposits will have a privileged claim in respect of the part of their deposit that is not covered by the SDIF's insurance.

Since 15 February 2013, up to TL 100,000 of the amounts of a depositor's deposit accounts benefit from the SDIF insurance guarantee.

The main powers and duties of the SDIF pursuant to the SDIF regulation published in the Official Gazette dated 25 March 2006 and numbered 26119, and as amended from time to time, are as follows:

(i) ensuring the enforcement of the SDIF board's decisions,

(ii) establishing the human resources policies of the SDIF,

(iii) becoming members of international financial, economic and professional organisations in which domestic and foreign equivalent agencies participate, and signing memoranda of understanding with the authorised bodies of foreign countries regarding the matters that fall within the SDIF's span of duty,

(iv) insuring the savings deposits and participation accounts in the credit institutions,

(v) determining the scope and amount of the savings deposits and participation accounts that are subject to insurance with the opinion of the Central Bank, the BRSA and Treasury Undersecretaries, and the risk-based insurance premia timetable, collection time and form and other related issues in cooperation with the BRSA,

(vi) paying (directly or through another bank) the insured deposits and participation accounts from its sources in the credit institutions whose operating permission has been revoked by the BRSA,

(vii) fulfilling the necessary operations regarding the transfer, sale and merger of the banks whose shareholder rights (except dividends) and management and supervision have been transferred to the SDIF by the BRSA, with the condition that the losses of the shareholders are reduced from the capital,

(viii) taking management and control of the banks whose operating permission has been revoked by the BRSA and fulfilling the necessary operations regarding the bankruptcy and liquidation of such banks,

(ix) requesting from public institutions and agencies, real persons and legal entities all information, documents and records in a regular and timely fashion in the framework of Article 123 of the Banking Law,

(x) issuing regulations and communiqués for the enforcement of the Banking Law with the SDIF's board's decision, and

(xi) fulfilling the other duties that the Banking Law and other related legislation assign to it.

**Cancellation of Banking License**

If the results of an audit show that a bank's financial structure has seriously weakened, then the BRSA may require the bank's board of directors to take measures to strengthen its financial position. Pursuant to the Banking Law, in the event that the BRSA in its sole discretion determines that:

(a) the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due,

(b) the bank is not complying with liquidity requirements,

(c) the bank's profitability is not sufficient to conduct its business in a secure manner due to disturbances in the relation and balance between expenses and profit,

(d) the regulatory equity capital of such bank is not sufficient or is likely to become insufficient,

(e) the quality of the assets of such bank have been impaired in a manner potentially weakening its financial structure,

(f) the decisions, transactions or applications of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA,

(g) such bank fails to establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the audit of such systems, or

(h) imprudent acts of such bank's management materially increase the risks stipulated under the Banking Law and relevant legislation or potentially weaken the bank's financial structure,

then the BRSA may require the board of directors of such bank:

(a) to increase its equity capital,

(b) not to distribute dividends for a temporary period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund,

(c) to increase its loan provisions,

(d) to stop extension of loans to its shareholders,

(e) to dispose of its assets in order to strengthen its liquidity,

(f) to limit or stop its new investments,

(g) to limit its salary and other payments,

(h) to cease its long-term investments,

(i) to comply with the relevant banking legislation,

(j) to cease its risky transactions by re-evaluating its credit policy,

(k) 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

(l) to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, its financial structure cannot be strengthened despite the fact that such actions have been taken or the BRSA determines that taking such actions will not lead to a favorable result, then the BRSA may require such bank to:

(a) strengthen its financial structure, increase its liquidity and/or increase its capital adequacy,

(c) dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSA,

(d) decrease its operational and management costs,

(e) postpone its payments under any name whatsoever, excluding the regular payments to be made to its employees,

(f) limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors,

(g) 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,

(h) 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

(i) 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 favorable 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 department and branch managers and obtain approval from the BRSA as to the persons to be appointed to replace them,

(d) make available long-term loans; *provided* that these will not exceed the amount of deposit or participation accounts subject to insurance, and be secured by the shares or other assets of the controlling shareholders,

(e) limit or cease its non-performing operations and to dispose of its non-performing assets,

(f) merge with one or several banks,

(g) provide new shareholders in order to increase its equity capital,

(h) deduct any resulting losses from its own funds, and/or

(i) take any other action that the BRSA may deem necessary.

In the event that: (a) the aforementioned actions are not (in whole or in part) taken by the applicable bank within a period of time set forth by the 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 license of such bank to engage in banking operations and/or to accept deposits and transfer the management, supervision and control of the shareholding rights (excluding dividends) of such bank to the SDIF for the purpose of whole or partial transfer or sale of such bank to third persons or the merger thereof; *provided* that any loss is deducted from the share capital of current shareholders.

In the event that the license of a bank to engage in banking operations and/or to accept deposits is revoked, then that bank's management and audit will be taken over by the SDIF. Any and all execution and bankruptcy proceedings (including preliminary injunction) against such bank would be discontinued as from the date on which the BRSA's decision to revoke such bank's license is published in the Official Gazette. From the date of revocation of such bank's license, the creditors of such bank may not assign their rights or take any action that could lead to assignment of their rights. The SDIF must take measures for the protection of the rights of depositors and other creditors of such bank. The SDIF is required to pay the insured deposits of such bank either by itself or through another bank it may designate. The SDIF is required to institute bankruptcy proceedings in the name of depositors against a bank whose banking license is revoked.

**Annual Reporting**

Pursuant to the Banking Law, Turkish banks are required to follow the BRSA's principles and procedures (which are established in consultation with the Turkish Accounting Standards Board and international standards) when preparing their annual reports. In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation.

Furthermore, Turkish companies (including banks) are required to comply with the Regulation regarding Determination of the Minimum Content of the Companies' Annual Reports published by the Ministry of Customs and Trade, as well as the Corporate Governance Communiqué, when preparing their annual reports. Turkish listed companies must also comply with the Communiqué on Principles of Financial Reporting in Capital Markets issued by the CMB. These reports are required to include the following information: management and organisation structures, human resources, activities, financial situation, assessment of management and expectations and a summary of the directors' report and independent auditor's report.

A bank cannot settle its balance sheets without ensuring reconciliation with the legal and auxiliary books and records of its branches and domestic and foreign correspondents.

The BRSA is authorised to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

Pursuant to the Regulation on the Principles and Procedures Concerning the Preparation of Annual Reports by Banks published in the Official Gazette dated 1 November 2006 and numbered 26333, the chairman of the board, audit committee, general manager, deputy general manager responsible for

financial reporting and the relevant unit manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records.

Independent auditors must approve the annual reports prepared by the banks.

Banks are required to submit their financial reports to related authorities and publish them in accordance with the BRSA's principles and procedures.

According to BRSA regulations, the annual report is subject to the approval of the board of directors and must be submitted to shareholders at least 15 days before the annual general assembly of the bank. Banks also must submit an electronic copy of their annual reports to the BRSA within seven days following the publication of the reports. Banks must also keep a copy of such reports in their headquarters and an electronic copy of the annual report should be available at a bank's branches in order to be printed and submitted to the shareholders upon request. In addition they must publish them on their websites by the end of May following the end of the relevant fiscal year.

**Disclosure of Financial Statements**

With the Communiqué on Financial Statements to be Disclosed to the Public published in the Official Gazette dated 28 June 2012 and numbered 28337, new principles of disclosure of annotated financial statements of banks were promulgated. The amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios are reflected in the requirements relating to information to be disclosed to the public and new standards of disclosure of operational, market, currency and credit risk were determined. In addition, new principles were determined with respect to the disclosure of position risks relating from (*inter alia*) securitisation transactions and investments in quoted stocks.

**Financial Services Fee**

Pursuant to Heading XI of Tariff No. 8 attached to the Law on Fees (Law No. 492) amended by the Law No. 5951, banks are required to pay to the relevant tax office to which their head office reports an annual financial services fee for each of their branches. The amount of the fee is determined in accordance with the population of the district in which the relevant branch is located.

**Corporate Governance Principles**

On 3 January 2014, the CMB issued the Corporate Governance Communiqué No. II-17.1 replacing the Communiqué on the Determination and Implementation of Corporate Governance Principles Series IV, No. 56 dated 30 December 2011. The Corporate Governance Communiqué provides certain mandatory and non-mandatory corporate governance principles as well as rules regarding related-party transactions and a company's investor relations department. Some provisions of the Corporate Governance Communiqué are applicable to all companies incorporated in Turkey and listed on the Borsa İstanbul, whereas some others are applicable solely to companies whose shares are traded in certain markets of the Borsa İstanbul. The Corporate Governance Communiqué provides specific exemptions and/or rules applicable to banks that are traded on the Borsa İstanbul.

The Bank is 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) board of directors. A number of principles are compulsory, while the remaining principles apply on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to

their market capitalisation and the market value of their free-float shares, subject to recalculation on an annual basis.

The mandatory principles under the Corporate Governance Communiqué include provisions relating to: (a) the composition of the board of directors, (b) appointment of independent board members, (c) board committees, (d) specific corporate approval requirements for related party transactions, transactions that may result in a conflict of interest and certain other transactions deemed material by the Corporate Governance Communiqué and (e) information rights in connection with general assembly meetings.

Listed companies are required to have independent board members, who should meet the mandatory qualifications required for independent board members as set out in the Corporate Governance Communiqué. Independent board members should constitute one-third of the board of directors and should not be fewer than two; *however*, publicly traded banks are required to appoint at least three independent board members to their board of directors. The members of a bank's audit committee are qualified as independent board members, in which case the above-mentioned qualifications for independent members are not applicable; *provided* that when all independent board members are selected from the audit committee, at least one member should meet the mandatory qualification required for independent board members as set out in the Corporate Governance Communiqué. The Corporate Governance Communiqué further initiated a pre-assessment system to determine the "independency" of individuals nominated as independent board members in "1st Group and 2nd Group" companies (for banks, to the extent such independent board members are not members of that bank's audit committee). Those nominated for such positions must be evaluated by the "Corporate Governance Committee" or the "Nomination Committee," if any, of the board of directors for fulfilling the applicable criteria stated in the Corporate Governance Communiqué. The Bank is classified as a "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 ensure compliance with the new principles, which include requesting injunctions from the court or filing lawsuits to determine or to revoke any unlawful transactions or actions that contradict with these principles.

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 and regulations to combat money laundering, terrorist financing and other financial crimes. In Turkey, all banks and their employees are obligated to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money laundering set forth in Law No. 5549 on Prevention of Laundering Proceeds of Crime.

Minimum standards and duties under such law and related legislation include customer identification, record keeping, suspicious transaction reporting, employee training, monitoring activities and the

designation of a compliance officer. Suspicious transactions must be reported to the Financial Crimes Investigation Board.

**New Consumer Loan, Provisioning and Credit Card Regulations**

On 8 October 2013, the BRSA introduced new regulations that aim to limit the expansion of individual loans (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, (d) increase the risk weight for instalment payments of credit cards with a term: (i) between one and six months from 75% to 100%, (ii) between six and twelve months from 150% to 200% and (iii) greater than 12 months from 200% to 250% and (e) increase the minimum monthly payment required to be made by cardholders. Before increasing the limit of a credit card, a bank is required to monitor the income level of the consumer and it should not increase the credit card limit if the customer's aggregate credit card limit exceeds four times his or her monthly income. In addition, minimum payment ratios for credit cards may not be lower than 30%, 35% and 40% for credit cards with limits lower than TL 15,000, from TL 15,000 to but excluding TL 20,000 and from TL 20,000, respectively, or 40% for newly-issued credit cards for one year from the date of first use. These new regulations might result in slowing the growth and/or reducing the profitability of the Bank's credit card business.

In addition, amendments to the Regulation on Bank Cards and Credit Cards introduced some changes on the credit limits for credit cards and income verification so that: (a) the total credit card limit of a cardholder from all banks will not exceed four times his/her monthly income in the second and the following years (two times for the first year) and (b) banks will have to verify the monthly income of the cardholders in the limit increase procedures and will not be able to increase the limit if the total credit card limit of the cardholder from all banks exceeds four times his/her monthly income. The following additional changes regarding minimum payment amounts and credit card usage were included in the amended regulation: (i) minimum payment amounts differentiated: (A) among existing cardholders (based upon their credit card limits) and (B) between existing cardholders and new cardholders, (ii) if the cardholder does not pay at least three times the minimum payment amount on his/her credit card statement in a year, then his/her credit card cannot be used for cash advance and also will not allow limit upgrade until the total statement amount is paid, and (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 purchase of goods and services, and such card will not be available for a limit upgrade, until the total amount in the statements is paid.

The BRSA, by amending the Regulation on Bank Cards and Credit Cards, has adopted limitations on instalments of credit cards. Pursuant to such limitations, the instalments for the purchase of goods and services and cash withdrawals are not permitted to exceed nine months (four months for jewellery expenditures). In addition, credit card instalment payments are not allowed for telecommunication and related expenses and purchases of nutriment, fuels, gift cards, gift checks and other similar intangible goods.

Furthermore, the Consumer Protection Law 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).

Amendments to the Regulation on Provisions and Classification of Loans and Receivables, which was published in the Official Gazette dated 8 October 2013 and numbered 28789, reduced the general reserve requirements for cash and non-cash loans relating to transit trade, export sales and deliveries, and services and activities resulting in gains of foreign currency and altered the requirements for calculating consumer loan provisions by: (a) increasing the ratio of consumer loans to total loans

beyond which additional consumer loan provisions are required from 20% to 25% and (b) requiring the inclusion of auto loans and credit cards in the calculation of the ratio of non-performing consumer loans to total consumer loans ratio (if such ratio is beyond 8%, which ratio was not altered by these amendments, then additional consumer loans provisions are required). Credit cards are included in the definition of consumer loans by this regulation and the consumer loan provision rate for credit cards in Groups I and II increased from 1% and 2% to 4% and 8%, respectively. Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, at least 50% of the additional general reserve amount for Group I and II consumer loans (excluding housing loans), which additional amount is a consequence of amendments to the Regulation on Provisions and Classification of Loans and Receivables, were required to be reserved by 31 December 2014 and 100% of such general reserve amount is required to be reserved by 31 December 2015.

On 31 December 2013, the BRSA adopted new rules on loan to value and instalments of certain types of loans. Pursuant to these rules, the minimum loan-to-value requirement for housing loans extended to consumers, for loans (except auto loans) secured by houses and for financial lease transactions is 75%. In addition, for auto loans extended to consumers, for loans secured by autos and for financial lease transactions, the loan-to-value requirement is set at 70%; *provided* that in each case the sale price of the respective auto is not higher than TL 50,000. On the other hand, if the sale price of the respective auto is above this TL 50,000 threshold, then the minimum loan-to-value ratio for the portion of the loan below the threshold amount is 70% and the remainder is set at 50%. As for limitations regarding instalments, the maturity of consumer loans (other than loans extended for housing finance and other real estate finance loans) are not permitted to exceed 36 months, while auto loans and loans secured by autos may not have a maturity longer than 48 months. Provisions regarding the minimum loan-to-value requirement for auto loans entered into force on 1 February 2014 and the other provisions of this amendment entered into force on 31 December 2013.

On 3 October 2014, the BRSA published its Regulation on the Procedures and Principles Regarding Fees to be Collected from Financial Institutions' Consumers, which enumerates the fees and commissions that banks may charge customers and limits their levels. 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.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg* (*together, the* "**Clearing Systems**") *currently in effect. 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 Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

*Further to the Covered Bonds Communiqué (by reference to the Communiqué on Debt Instruments), the Covered Bonds are required under Turkish law to be issued in an electronically registered form in the Central Registry Agency and the interests therein recorded in the Central Registry Agency; however, upon the Issuer's request, the CMB may resolve to exempt the Covered Bonds from this requirement if the Covered Bonds are to be issued outside Turkey. Further to the Issuer's request, such exemption was granted by the CMB in the CMB Approval. As a result, this requirement will not be applicable to the Covered Bonds issued pursuant to the CMB Approval. Notwithstanding such exemption, the Issuer is required to notify the Central Registry Agency within three Turkish business days from Issue Date of any Covered Bonds of the amount, Issue Date, ISIN code, term commencement date, maturity date, interest rate, name of the custodian and currency of the Covered Bonds 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 organisation" 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 Registered Covered Bonds among Direct Participants on whose behalf it acts with respect to Covered Bonds accepted into DTC's book-entry settlement system ("**DTC Covered Bonds**") as described below and receives and transmits distributions of principal and interest on DTC Covered Bonds. The DTC Rules are on file with the SEC. Participants with which beneficial owners of DTC Covered Bonds ("**Beneficial Owners**") have accounts with respect to the DTC Covered Bonds similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Beneficial Owners. Accordingly, although Beneficial Owners who hold interests in DTC Covered Bonds through Participants will not possess Registered Covered Bonds, 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 Covered Bonds.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the relevant Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of each transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner holds its interest in the DTC Covered Bonds. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Covered Bonds 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 Covered Bonds. 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 Covered Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the DTC Covered Bonds will be made to DTC or its nominee. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC or its nominee is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Participants.

Under certain circumstances, including if there is an Event of Default under the Covered Bonds, DTC will exchange the DTC Covered Bonds for definitive Registered Covered Bonds, which it will distribute to its Direct Participants in accordance with their requests and proportionate entitlements and that will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be

required to effect such pledge through DTC and its Participants or if not possible to so effect it, to withdraw its Registered Covered Bonds from DTC as described below.

The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds 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 Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a direct or indirect participant in the DTC system.

***Clearstream, Luxembourg***

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depositary. 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 an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.

The ability of an owner of a beneficial interest in a Covered Bond held through Clearstream, Luxembourg to pledge such interest to persons or entities that do not participate in the Clearstream, Luxembourg system, or otherwise take action in respect of such interest, may be limited by the lack of a definitive Covered Bond for such interest because Clearstream, Luxembourg can act only on behalf of Clearstream, Luxembourg's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Covered Bonds to such persons may be limited. In addition, beneficial owners of Covered Bonds held through the Clearstream, Luxembourg system will receive payments of principal, interest and any other amounts in respect of the Covered Bonds only through Clearstream, Luxembourg accountholders.

***Euroclear***

Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between its accountholders. Euroclear provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear also deals with domestic securities markets

in several countries through established depository and custodial relationships. Euroclear customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear is available to other institutions that clear through or maintain a custodial relationship with direct participants in Euroclear.

The ability of an owner of a beneficial interest in a Covered Bond held through Euroclear to pledge such interest to persons or entities that do not participate in the Euroclear system, or otherwise take action in respect of such interest, may be limited by the lack of a definitive Covered Bond for such interest because Euroclear can act only on behalf of Euroclear's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Covered Bonds to such persons may be limited. In addition, beneficial owners of Covered Bonds held through the Euroclear system will receive payments of principal, interest and any other amounts in respect of the Covered Bonds only through Euroclear participants.

**Book-entry Ownership of and Payments in respect of Global Covered Bonds**

The Issuer has applied to each of Euroclear and Clearstream, Luxembourg to have Global Covered Bond(s) accepted in its book-entry settlement system. Upon the issue of any such Global Covered Bond, 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 Covered Bond 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. Interests in such a Global Covered Bond through Euroclear and/or Clearstream, Luxembourg, as applicable, will be limited to accountholders of Euroclear and/or Clearstream, Luxembourg, as applicable. Interests in such a Global Covered Bond will be shown on, and the transfer of such interests will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg or its nominee (with respect to the interests of Euroclear and/or Clearstream, Luxembourg accountholders).

Payments with respect to interests in the Covered Bonds held through Euroclear and Clearstream, Luxembourg will be credited to cash accounts of Euroclear and Clearstream, Luxembourg accountholders in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg, respectively, to the extent received by each of them.

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, 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 Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Registered Global Covered Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. Dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than U.S. Dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. Dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Fiscal Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

**Transfers of Covered Bonds Represented by Registered Global Covered Bonds**

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear account holders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between account holders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between account holders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg account holders and DTC participants cannot be made on a delivery-versus-payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and account holders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

# TAXATION

## General

This is a general summary of certain Turkish and other tax considerations in connection with an investment in the Covered Bonds. This summary does not address all aspects of such laws, or the laws of other jurisdictions (such as United Kingdom or U.S. tax law). While this summary is considered to be a correct interpretation of existing laws in force on the date of this Base Prospectus, there can be no assurance that those laws or the interpretation of those laws will not change. This summary does not discuss all of the tax consequences that might be relevant to an investor in light of such investor's particular circumstances or to investors subject to special rules, such as regulated investment companies, certain financial institutions or insurance companies.

Prospective purchasers of Covered Bonds are advised to consult their tax advisers as to the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile, of a purchase of Covered Bonds, including, but not limited to, the consequences of receipt of payments under the Covered Bonds and their disposal or redemption.

## Certain Turkish Tax Considerations

The following discussion is a summary of certain Turkish tax considerations relating to an investment by a person who is a non-resident of Turkey in Covered Bonds of a Turkish company issued abroad. References to "resident" in this section refer to tax residents of Turkey and references to "non-resident" in this section refer to persons who are not tax resident in Turkey. The discussion is based upon current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of the Covered Bonds that may be relevant to a decision to make an investment in the Covered Bonds. Furthermore, the discussion only relates to the beneficial interest of a person in the Covered Bonds where the Covered Bonds will not be held in connection with the conduct of a trade or business through a permanent establishment in Turkey. Each investor should consult its own tax advisers concerning the tax considerations applicable to its particular situation. This discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Base Prospectus, all of which are subject to change, possibly with a retroactive effect. In addition, it does not describe any tax consequences: (a) arising under the laws of any taxing jurisdiction other than Turkey or (b) applicable to a resident of Turkey or a permanent establishment in Turkey resulting either from the existence of a fixed place of business or appointment of a permanent representative.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its worldwide income, whereas a non-resident legal entity is only liable for Turkish taxes on its trading income made through a permanent establishment or on income otherwise sourced in Turkey.

An individual is a resident of Turkey if such individual has established domicile in Turkey or stays in Turkey more than six months in a calendar year. On the other hand, foreign individuals who stay in Turkey for six months or more for a specific job or business or particular purposes that are specified in the Turkish Income Tax Law might not be treated as a resident of Turkey, depending upon the characteristics of their stay. A resident individual is liable for Turkish taxes on his or her worldwide income, whereas a non-resident individual is only liable for Turkish taxes on income sourced in Turkey.

Income from capital investment is sourced in Turkey when the principal is invested in Turkey. Capital gain is considered sourced in Turkey when the activity or transaction generating such income is performed or accounted for in Turkey. The term "accounted for" means that a payment is made in Turkey, or if the payment is made abroad, it is recorded in the books in Turkey or apportioned from the profits of the payer or the person on whose behalf the payment is made in Turkey.

Any withholding tax levied on income derived by a non-resident person is the final tax for the non-resident person and no further declaration is required. Any other income of a non-resident person sourced in Turkey that has not been subject to withholding tax will be subject to taxation through declaration where exemptions are reserved.

Interest paid on covered bonds (such as the Covered Bonds) issued abroad by Turkish corporation is subject to withholding tax. Through the Tax Decrees, the withholding tax rates are set according to the original maturity of covered bonds issued abroad as follows:

- 10% withholding tax for covered bonds with an original maturity of less than one year,
- 7% withholding tax for covered bonds with an original maturity of at least one year and less than three years,
- 3% withholding tax for covered bonds with an original maturity of at least three years and less than five years, and
- 0% withholding tax for covered bonds with an original maturity of five years and more.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Covered Bonds 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 covered bonds of a Turkish corporation issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on non-resident persons in respect of capital gains from the Covered Bonds 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 Covered Bonds, nor will it be liable for any Turkish stamp issue, registration or similar tax or duty relating thereto.

*Reduced Withholding Tax Rates*

Under current Turkish laws and regulations, interest payments on covered bonds issued abroad by a Turkish corporate to a non-resident holder will be subject to a withholding tax at a rate between 10% and 0% in Turkey, as detailed above.

If a double taxation treaty is in effect between Turkey and the country of which the holder of the covered bonds is an income tax resident (in some cases, for example, pursuant to the treaties with the United Kingdom and the United States, the term "beneficial owner" is used) that provides for the application of a lower withholding tax rate than the local rate to be applied by the corporation, then the lower rate may be applicable. For the application of withholding at a reduced rate that benefits from the provisions of a double tax treaty concluded between Turkey and the country in which the investor is an income tax resident, an original copy of the certificate of residence signed by the competent authority referred to in Article 3 of the Treaty is required, together with a translated copy translated by a translation office, to verify that the investor is subject to taxation over its worldwide gains in the relevant country on the basis of resident taxpayer status, as a resident of such country to the related tax office directly or through the banks and intermediary institutions prior to the application of withholding. In the event the certificate of residence is not delivered prior to the application of withholding tax, then upon the subsequent delivery of the certificate of residence, a refund of the excess tax shall be granted pursuant to the provisions of the relevant double taxation treaty and the Turkish tax legislation.

*Value Added Tax*

The Turkish tax authority (the "**Revenue Administration**") has issued a tax ruling (the "**VAT Ruling**") dated 10 February 2015 stating that interest/coupon payments to a non-resident investor in

eurobonds issued by a Turkish issuer are subject to value added tax ("**VAT**") unless such investor qualifies as a bank or insurance company in its home jurisdiction (the "**Foreign FI Exemption**"). On 11 March 2015, the Turkish Banks Association contacted the Revenue Administration with respect to the VAT Ruling and requested that the VAT Ruling be revised on the basis that the VAT Ruling is not compatible with existing Turkish VAT laws and international capital market norms. In its response to the Turkish Banks Association dated 18 March 2015, the Revenue Administration agreed to stay the VAT Ruling while it reassesses its analysis (with the effect that no VAT should be imposed pursuant to the VAT Ruling until further notice by the Revenue Administration).

While the Revenue Administration has not announced a final decision with respect to the VAT Ruling as of the date of this Base Prospectus, if the Revenue Administration decides to allow the VAT Ruling to stand in its current form, with respect to a holder of Covered Bonds that is non-resident in Turkey but for which the Foreign FI Exemption does not apply, such holder would not be liable to pay tax in Turkey for VAT purposes but rather it is the Issuer that is liable to make such VAT payments. There would be no withholding or other deduction for or on account of any such VAT payments by the Issuer in respect of any payments on the Covered Bonds, and thus there would be no additional payments made by the Issuer pursuant to Condition 7.1 (*Payment without Withholding*) with respect to any such VAT payments. Should such VAT apply to any payment, the rate of VAT as of the date of this Base Prospectus is 18%.

In practice, for interest/coupon payments on securities such as the Notes that are held in global form through clearing systems, it would not be possible for the Issuer to identify the tax residency of Covered Bondholders other than the registered holder of the Covered Bonds. It is, therefore, unclear as a practical matter the extent to which: (a) the Foreign FI Exemption would apply for Global Covered Bonds, or whether all such VAT payments might be required to be made by the Issuer.

**U.S. Foreign Account Tax Compliance Act**

FATCA generally imposes a withholding tax of 30% on certain payments to and from certain non-U.S. financial institutions (including entities such as the Bank). Among other requirements, a "foreign financial institution" as defined under the Code (an "**FFI**"), such as the Bank, that opts in to comply with FATCA will be required to enter into an agreement (an "**FFI Agreement**") with the IRS. Such an agreement will require the provision of certain information regarding the FFI's "U.S. account holders" (which could include holders of the Covered Bonds) to the IRS. The Bank may opt into the FATCA information reporting regime, and it may be required to collect information regarding the identities of holders of its Covered Bonds and deliver such information to the IRS.

In such case, holders of the Covered Bonds may be required to provide the Bank with certain information, including, but not limited to: (a) information for the Bank to determine whether the beneficial owner of a Covered Bond is a United States person as defined in Section 7701(a)(30) of the Code or a United States owned foreign entity as described in Section 1471(d)(3) of the Code and any additional information that the Bank or its agent requests in connection with FATCA and (b)(i) if the beneficial owner of a Covered Bond is a United States person, such United States person's name, address and U.S. taxpayer identification number, or (ii) if the beneficial owner of the Covered Bond is a United States owned foreign entity, the name, address and taxpayer identification number of each of its substantial United States owners as defined in Section 1473(2) of the Code and any other information requested by the Bank or its agent upon request, and (c) updated information promptly upon learning that any such information previously provided is obsolete or incorrect.

The Bank (or any of the Paying Agents or Clearing Systems) may be required to withhold up to 30% of amounts payable with respect to Covered Bonds issued under the Programme to holders of such Covered Bonds that do not provide the payors with information required to comply with FATCA ("**Recalcitrant Holders**") or to FFIs that do not enter into an FFI Agreement with the U.S. Internal Revenue Service ("**IRS**") under FATCA and are not otherwise exempt from or in deemed compliance with FATCA, if such amounts constitute foreign passthru payments ("**Foreign Passthru Payments**")

under FATCA, which term is not defined as of the date of this Base Prospectus. Such withholding is generally not required on payments made before the later of 1 January 2017 or the date of publication of final regulations defining Foreign Passthru Payments. Additionally, FATCA withholding on Foreign Passthru Payments will only apply to Covered Bonds that are: (a) issued after the "grandfathering date" (*i.e.*, 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) or (b) significantly modified after the Grandfathering Date such that they are deemed to be reissued.

The United States and a number of other jurisdictions have entered into or announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership" or "withholding foreign trust" regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a participating foreign financial institution on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. On 3 June 2014, the United States and Turkey agreed in substance to enter into an IGA (" **U.S. Turkey IGA**") based largely upon the Model 1 IGA. As such, under current guidance, Turkey is treated as if it has a Model 1 IGA in effect and is among the countries treated as such on the U.S. Treasury's website. The Bank registered with the IRS on 3 June 2014 with the status "Registered Deemed Compliant F1" (which includes a Reporting F1 under a Model 1 IGA).

If FATCA were to require that an amount in respect of U.S. withholding tax were to be deducted or withheld from any payment on or with respect to any Covered Bonds, then neither the Bank nor any paying agent or other person would, pursuant to the conditions of such Covered Bonds, be required to pay additional amounts as a result of the deduction or withholding of such tax. Holders of Covered Bonds should consult their tax advisers regarding the effect, if any, of FATCA on their investment in such Covered Bonds.

**EU Savings Directive**

Under the EU Savings Directive, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State; *however*, for a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have adopted similar measures (for example, a withholding system in the case of Switzerland).

On 24 March 2014, the European Council adopted the Amending Directive that amends and broadens the scope of the requirements described above. The Amending Directive requires Member States to apply these new requirements from 1 January 2017, and if they were to take effect, the changes would expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. The Amending Directive would also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, any may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU; *however*, on 18 March 2015, the European Commission proposed the repeal of the EU Savings Directive from 1 January 2017 in case of Austria and from 1 January 2016 in case of all

other Member States (subject to on-going requirements to fulfil administrative obligations, such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates and to certain other transitional provisions in case of Austria). This is to prevent overlap between the EU Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

**The Proposed Financial Transactions Tax**

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

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution and at least one party is established in a Participating Member State. A financial institution might be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including: (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument that is subject to the dealings is issued in a Participating Member State.

Joint statements issued by Participating Member States indicate an intention to implement the FTT by 1 January 2016; *however,* the FTT proposal remains subject to negotiation among the Participating Member States and thus the scope of any such tax is uncertain. Additional EU member states might decide to participate. Prospective investors in Covered Bonds are advised to seek their own professional advice in relation to the FTT and its potential impact on the Covered Bonds.

## CERTAIN CONSIDERATIONS FOR ERISA AND OTHER U.S. EMPLOYEE BENEFIT PLANS

Subject to the following discussion, the Covered Bonds may be acquired with assets of pension, profit-sharing or other employee benefit plans, as well as individual retirement accounts, Keogh plans and other plans and retirement arrangements, and any entity deemed to hold "plan assets" of the foregoing (each, a "**Plan**"). Section 406 of ERISA and Section 4975 of the Code prohibit a Plan subject to those provisions (each, a "**Benefit Plan Investor**") from engaging in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to such Benefit Plan Investor. A violation of these "prohibited transaction" rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of such Benefit Plan Investor. In addition, Title I of ERISA requires fiduciaries of a Benefit Plan Investor subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents. Employee benefit plans that are U.S. governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) are not subject to the fiduciary and prohibited transaction provisions of ERISA or Section 4975 of the Code; however, such plans may be subject to similar restrictions under applicable state, local, other federal or non-U.S. law ("**Similar Law**").

An investment in the Covered Bonds by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if the Bank is a party in interest or a disqualified person with respect to such Benefit Plan Investor. Certain exemptions from the prohibited transaction rules could be applicable to an investment in the Covered Bonds by a Benefit Plan Investor depending upon the type and circumstances of the plan fiduciary making the decision to acquire such investment and the relationship of the party in interest to the Benefit Plan Investor. Included among these exemptions are: Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain transactions between a Benefit Plan Investor and non-fiduciary service providers to the Benefit Plan Investor; Prohibited Transaction Class Exemption ("**PTCE**") 96-23, regarding transactions effected by "in-house asset managers;" PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions effected by "qualified professional asset managers". Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts that might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the Covered Bonds, and prospective investors that are Benefit Plan Investors and other Plans should consult with their legal advisors regarding the applicability of any such exemption and other applicable legal requirements.

By acquiring a Covered Bond (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 Covered Bond (or a beneficial interest therein) will not be, acquiring or holding a Covered Bond (or a beneficial interest therein) with the assets of a Benefit Plan Investor, a U.S. governmental plan, church plan or non-U.S. plan that is subject to Similar Law, or (b) the acquisition, holding and disposition of the Covered Bond (or a beneficial interest therein) will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Law.

Prospective investors are advised to consult their advisers with respect to the consequences under ERISA, Section 4975 of the Code and Similar Laws of the acquisition, ownership or disposition of the Covered Bonds (or a beneficial interest therein).

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement (the "**Programme Agreement**") dated 15 May 2015, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under "*Form of the Covered Bonds*" and "*Terms and Conditions of the Covered Bonds*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds 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.

Any offers and sales of the Covered Bonds in the United States will 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 Covered Bonds issued under the Programme may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Covered Bonds during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Covered Bonds for their own account by selling more Covered Bonds than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Covered Bonds in the open market. In addition, such persons may stabilise or maintain the price of the Covered Bonds by bidding for or purchasing Covered Bonds 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 Covered Bonds are reclaimed if Covered Bonds previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Covered Bonds at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Covered Bonds 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 U.K. laws and regulations stabilising activities may only be carried on by the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Covered Bonds.

The Issuer expects that delivery of interests in Covered Bonds will be made on the issue date for such Covered Bonds, as such date will be communicated in connection with the offer and sale of such Covered Bonds. Potential investors that are U.S. persons should note that the issue date may be more than three business days (this settlement cycle being referred to as "T+3") following the trade date of such Covered Bonds. Under Rule 15c6-l of the Exchange Act, trades in the secondary market generally are required to settle in three New York business days, unless the parties to any such trade expressly agree otherwise. Accordingly, investors who wish to trade interests in Covered Bonds issued under the Programme on the trade date relating to such Covered Bonds or the next New York business days will be required, by virtue of the fact that the Covered Bonds initially will likely settle on a settlement cycle longer than T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Investors in the Covered Bonds who wish to trade interests in Covered Bonds issued under the Programme on their trade date or the next New York business days should consult their own adviser.

The Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Dealers or their respective affiliates may have performed investment banking and advisory services for the Issuer and its affiliates from time to time for which they may have received fees, expenses, reimbursements and/or other compensation. The Dealers or their respective affiliates may, from time to time, engage in transactions with and perform advisory and other services for the Issuer and its affiliates in the ordinary course of their business. Certain of the Dealers and/or their respective

affiliates have acted and expect in the future to act as a lender to the Issuer and/or other members of the Group and/or otherwise participate in transactions with the Group.

In the ordinary course of their various business activities, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. In addition, certain of the Dealers and/or their respective affiliates hedge their credit exposure to the Issuer pursuant to their customary risk management policies. These hedging activities could have an adverse effect on the future trading prices of the Covered Bonds offered hereby from time to time.

The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

**Transfer Restrictions**

***As a result of the following restrictions, purchasers of Covered Bonds are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds***.

Each purchaser and transferee (and if the purchaser or transferee is a Plan, then its fiduciary) of Registered Covered Bonds will be required or deemed by the Issuer to acknowledge, represent, warrant and agree 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 Covered Bonds for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A, (ii) it is an Institutional Accredited Investor that has delivered a duly executed investment letter substantially in the form set out in the Agency Agreement (an "**IAI Investment Letter**") or (iii) it is not a U.S. person and is purchasing or acquiring the Covered Bonds in a transaction pursuant to an exemption from registration under the Securities Act,

(b) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds 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 Covered Bond and is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date that is one year after the later of the last Issue Date for such Covered Bonds and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, 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 Covered Bonds from it of the resale restrictions, if then applicable,

(e) that Covered Bonds initially offered to QIBs pursuant to Rule 144A will be represented by one or more Rule 144A Global Covered Bonds, that Covered Bonds offered to Institutional Accredited Investors pursuant to Section 4(a)(2) under the Securities Act will be in the form of Definitive IAI Registered Covered Bonds or one or more IAI Global Covered Bonds and that Covered Bonds offered in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by one or more Regulation S Registered Global Covered Bonds, Definitive Regulation S Registered Covered Bonds or Bearer Covered Bonds,

(f) that the Rule 144A Global Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. FEDERAL OR STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD PLEDGED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF (OR OF A BENEFICIAL INTEREST HEREIN), THE HOLDER: (a) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYER(S), (b) AGREES THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE THAT IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN: (i) TO THE ISSUER OR ANY AFFILIATE THEREOF, (ii) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (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) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM ANY INTEREST IN THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION IS MADE BY TE ISSUER AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE SECURITY.

EACH PURCHASER AND TRANSFEREE (AND IF THE PURCHASER OR TRANSFEREE IS A PLAN, THEN ITS FIDUCIARY) OF THIS COVERED BOND (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 COVERED BOND (OR A BENEFICIAL INTEREST HEREIN) WILL NOT BE, ACQUIRING OR HOLDING ITS INVESTMENT 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 U.S. GOVERNMENTAL PLAN, CHURCH PLAN OR NON-U.S. PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS COVERED BOND (OR A BENEFICIAL INTEREST HEREIN) WILL NOT GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY (OR OF A BENEFICIAL INTEREST HEREIN) SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF (AND OF BENEFICIAL INTERESTS HEREIN) AND ALL FUTURE HOLDERS OF THIS SECURITY (OR OF A BENEFICIAL INTEREST HEREIN) AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION HEREFORE, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON)."

The IAI Global Covered Bonds and the Definitive IAI Registered Covered Bonds (with appropriate revisions) will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. FEDERAL OR STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF (OR OF A BENEFICIAL INTEREST HEREIN), THE HOLDER: (a) REPRESENTS THAT IT IS AN "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3), OR (7) UNDER THE SECURITIES ACT) THAT IS AN INSTITUTION (AN "**INSTITUTIONAL ACCREDITED INVESTOR**"), (b) AGREES THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT, THE TERMS OF THE IAI INVESTMENT LETTER IT EXECUTED IN CONNECTION WITH ITS PURCHASE OF THE SECURITIES AND, PRIOR TO THE DATE THAT IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES OF WHICH THIS COVERED BOND FORMS PART AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE 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 COVERED BOND 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) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION IS MADE BY THE ISSUER AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THIS SECURITY.

EACH PURCHASER AND TRANSFEREE (AND IF THE PURCHASER OR TRANSFEREE IS A PLAN, THEN ITS FIDUCIARY) OF THIS COVERED BOND (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 COVERED BOND (OR A BENEFICIAL INTEREST HEREIN) WILL NOT BE, ACQUIRING OR HOLDING ITS INVESTMENT 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 U.S. GOVERNMENTAL PLAN, CHURCH PLAN OR NON-U.S. PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS COVERED BOND (OR A BENEFICIAL INTEREST HEREIN) WILL NOT GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY (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 ON THE HOLDER HEREOF (AND OF BENEFICIAL INTERESTS HEREIN) AND ALL FUTURE HOLDERS OF THIS SECURITY (OR OF A BENEFICIAL INTEREST HEREIN) AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION HEREFORE, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON)."

(g) if it holds an interest in a Regulation S Registered Global Covered Bond or a Bearer Global Covered Bond, that if it should resell or otherwise transfer such interest in the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Covered Bonds), 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 the Regulation S Registered Global Covered Bonds or Bearer Global Covered Bond will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. FEDERAL OR STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND FORMS PART.

EACH PURCHASER AND TRANSFEREE (AND IF THE PURCHASER OR TRANSFEREE IS A PLAN, THEN ITS FIDUCIARY) OF THIS COVERED BOND (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS COVERED BOND (OR A BENEFICIAL INTEREST HEREIN) WILL NOT BE, ACQUIRING OR HOLDING ITS INVESTMENT 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 U.S. GOVERNMENTAL PLAN, CHURCH PLAN OR NON-U.S. PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS COVERED BOND (OR A BENEFICIAL INTEREST HEREIN) WILL NOT GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW"; and

(h) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds 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 Covered Bond (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 Covered Bond (or a beneficial interest therein) will not be, acquiring or holding this Covered Bond (or a beneficial interest herein) with the assets of: (i) an "employee benefit plan" as defined in Section 3(3) of 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 Code, (iii) any entity whose underlying assets include "plan assets" of any of the foregoing or (iv) a U.S. governmental plan, church plan or non-U.S. plan that is subject to any Similar Law, or (b) the acquisition, holding and

disposition of such Covered Bond (or a beneficial interest therein) will not give rise to a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of Similar Law.

Institutional Accredited Investors who purchase Registered Covered Bonds offered and sold in the United States as part of their original issuance in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter.

The IAI Investment Letter will state, among other things, the following:

(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 Covered Bonds 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 Covered Bonds 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 Covered Bonds is subject to certain restrictions and conditions set forth in this Base Prospectus and such Covered Bonds (including those set out above) and that it agrees to be bound by, and not to offer, sell, pledge or otherwise transfer the Covered Bonds 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 Covered Bonds,

(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 Covered Bonds, 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 Covered Bonds for an indefinite period of time,

(e) that such Institutional Accredited Investor is acquiring such Covered Bonds 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 Covered Bonds, 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 Covered Bonds, it will acquire Covered Bonds 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).

Unless set forth in the applicable Final Terms otherwise, no sale of Legended Covered Bonds 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, US$500,000 (or its foreign currency equivalent) principal amount and no Legended Covered Bond 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, 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, US$500,000 (or its foreign currency equivalent) principal amount of Registered Covered Bonds (in each case, or such other amount as may be set forth in the applicable Final Terms).

**Selling Restrictions**

***Turkey***

The Issuer has obtained the CMB Approval required for the issuance of Covered Bonds under the Programme. Pursuant to the CMB Approval, the offer, sale and issue of Covered Bonds under the Programme has been authorised and approved in accordance with Decree 32, the Capital Markets Law, the Communiqué on Debt Instruments and the Covered Bonds Communiqué or their respective related legislation. In addition, Covered Bonds (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the CMB Approval. Under the CMB Approval, the CMB has authorised the offering, sale and issue of Covered Bonds outside of Turkey. Notwithstanding the foregoing, pursuant to the BRSA decision dated 6 May 2010 No. 3665, the BRSA decision dated 30 September 2010 No. 3875 and in accordance with Decree 32, residents of Turkey: (a) may purchase or sell Covered Bonds (or beneficial interests therein) denominated in a currency other than Turkish Lira offshore on an unsolicited (reverse inquiry) basis in the secondary markets only; and (b) may purchase or sell Covered Bonds (or beneficial interests therein) denominated in Turkish Lira offshore on an unsolicited (reverse inquiry) basis in both the primary and secondary markets; *provided* that such purchase or sale is made through licensed banks or licensed brokerage institutions authorised pursuant to BRSA and/or CMB regulations and the purchase price is transferred through licensed banks authorised under BRSA regulations. As such, Turkish residents should use such licensed banks or licensed brokerage institutions while purchasing Covered Bonds (or beneficial interests therein) and transfer the purchase price through licensed banks authorised under BRSA regulations.

A tranche issuance certificate (*tertip ihraç belgesi*) approved by the CMB in respect of each Tranche of Covered Bonds is required to be obtained by the Issuer prior to the issue date of each such Tranche. The Issuer shall maintain all authorisations and approvals of the CMB as necessary for the offer, sale and issue of Covered Bonds under the Programme.

Monies paid for purchases of Covered Bonds are not protected by the insurance coverage provided by the SDIF.

***United States***

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

In connection with any Regulation S Covered Bonds 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 Covered Bonds: (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer(s) or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager, of all Covered Bonds of the Tranche of which such Regulation S Covered Bonds are a part, within the United States or to, or for the account or benefit of, 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 dealer to which it sells any Regulation S Covered Bonds during the applicable distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Covered Bonds within the United States or to, or for the

account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in the Deed Poll to furnish, upon the request of a holder of such Covered Bonds 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 Covered Bonds remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

***Public Offer Selling Restriction under the Prospectus Directive***

In relation to each Relevant Member State, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Covered Bonds that are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

(a) at any time to any legal entity that is a qualified investor as defined in the Prospectus Directive,

(b) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer, or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive;

*provided* that no such offer of Covered Bonds referred to in clauses (a) to (c) shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "**an offer of Covered Bonds to the public**" in relation to any Covered Bonds 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 Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and any relevant implementing measure in the 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 Covered Bonds that 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 Covered Bonds 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 Covered Bonds would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000, as amended ("**FSMA**") by the Issuer,

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds 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 Covered Bonds in, from or otherwise involving the United Kingdom.

***Japan***

The Covered Bonds 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 Covered Bonds, 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***

In Switzerland, this Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in Covered Bonds described herein. The Covered Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Covered Bonds 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 Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Base Prospectus nor any other offering or marketing material relating to the offering of the Covered Bonds has been or will be filed with or approved by any Swiss regulatory authority. The Covered Bonds 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 Covered Bonds will not benefit from protection or supervision by any Swiss regulatory authority.

***General***

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds 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 Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Covered Bonds (subject to the limit provided under the CMB Approval) have been duly authorised by the resolutions of the Board of Directors of the Issuer dated 4 July 2013, 2 October 2014 and 12 February 2015.

### Listing of Covered Bonds

This Base Prospectus has been approved by the Central Bank of Ireland as a base prospectus. Application has also been made to the Irish Stock Exchange for Covered Bonds issued under the Programme to be admitted to the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID. If a Series of Covered Bonds is to be listed on the Irish Stock Exchange or any other stock exchange, the appropriate information will be specified in the applicable Final Terms.

### Listing Agent

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

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will be available in physical form for inspection from the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being in London:

(a) the articles of association (with a certified English translation thereof) of the Issuer,

(b) the independent auditors' audit reports and audited consolidated IFRS Financial Statements of the Group for the years ended 31 December 2012, 2013 and 2014,

(c) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Bank for the years ended 31 December 2012, 2013 and 2014,

(d) the independent auditors' review report and unaudited interim consolidated IFRS Financial Statements of the Group for the three month periods ended 31 March 2014 and 2015,

(e) the independent auditors' review report and unaudited interim unconsolidated BRSA Financial Statements of the Bank for the three month periods ended 31 March 2014 and 2015,

(f) 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 prepares unaudited consolidated and non-consolidated interim accounts in accordance with IFRS and Turkish GAAP on a quarterly basis,

(g) the Agency Agreement, the Deed of Covenant, the Deed Poll, the Cover Monitor Agreement, the Security Assignment, the Security Agency Agreement, the Offshore Bank Account Agreement, the Calculation Agency Agreement, the Hedging Agreements and the forms of the Global Covered Bonds, the Covered Bonds in definitive form, the Coupons and the Talons,

(h) a copy of this Base Prospectus, and

(i) any future base prospectuses, prospectuses, information memoranda, supplements and Final Terms (save that a Final Terms relating to a Covered Bond that is neither admitted to trading

on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Covered Bond and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Covered Bonds and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

In addition, copies of this Base Prospectus, each document incorporated by reference herein and the financial statements listed above will be available on the Issuer's website at https://www.garantiinvestorrelations.com/en/investor-information/list/Investor-Information/259/0/0 (such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Base Prospectus). Each Final Terms relating to Covered Bonds that are admitted to trading on the Irish Stock Exchange's regulated market will also be available on the Issuer's website. Such website is not, and should not be deemed to be constitute, a part of (or be incorporated into) this Base Prospectus.

**Clearing Systems**

The Covered Bonds 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 Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, for any Series of Registered Covered Bonds to be settled on DTC, the Issuer may make an application for such Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Covered Bonds, together with the relevant ISIN and (if applicable) Common Code, will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system, then the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Turkish Dematerialised Covered Bonds registered with the Central Registry System and will be wholly and exclusively deposited with authorised intermediary institutions or banks having accounts and entitled to hold accounts on behalf of its customers with the Central Registry Agency.

**Conditions for Determining Price**

For Covered Bonds to be issued to one or more Dealer(s), the price and amount of Covered Bonds to be issued in a Tranche will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions. For Covered Bonds to be issued to one or more investor(s) purchasing Covered Bonds directly from the Issuer, the price and amount of the relevant Covered Bonds will be determined by the Issuer and such investor(s).

**Significant or Material Change**

There has been: (a) no significant change in the financial or trading position of either the Bank or the Group since 31 March 2015 and (b) no material adverse change in the financial position or prospects of either the Bank or the Group since 31 December 2014.

**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 Issuer is aware) in the 12 months preceding the date of this Base Prospectus that might have

or in such period had a significant effect on the financial position or profitability of the Bank or the Group.

**Auditors**

The IFRS Annual Financial Statements incorporated by reference herein have been audited by Deloitte in accordance with BRSA regulations and the International Standards on Auditing and the IFRS Interim Financial Statements incorporated by reference herein have been reviewed by Deloitte in accordance with the Regulation on Authorisation and Activities of Institutions to Perform External Audit in Banks and the International Standards on Auditing. With respect to the unaudited IFRS Interim Financial Statements as of and for the three month period ended 31 March 2015, Deloitte has reported that it applied limited procedures in accordance with professional standards for a review of such information; *however*, its report states that it did not audit and does not express an opinion on such interim financial information. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte is located at Maslak No. 1 Plaza, Eski Büyükdere Caddesi, Maslak Mahallesi No:1, Maslak, Sarıyer 34398, İstanbul. Deloitte, independent certified public accountants in Turkey, is an audit firm authorised by the BRSA to conduct independent audits of banks in Turkey. See "*Risk Factors - Risks relating to the Group's Business -Audit Qualification*".

**Dealers and Arrangers transacting with the Issuer**

Certain of the Arrangers, the Dealers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and/or its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Arrangers, the Dealers and their respective affiliates might make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities might involve securities and/or instruments of the Issuer or its affiliates. The Arrangers, the Dealers and their respective affiliates that have a credit relationship with the Issuer might hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Arrangers, the Dealers and their respective affiliates would hedge such exposure by entering into transactions that consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Arrangers, the Dealers and their respective affiliates might also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and might hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## GLOSSARY OF DEFINED TERMS

**ISSUER**

**Türkiye Garanti Bankası A.Ş.**
Levent Nispetiye Mahallesi
Aytar Caddesi No: 2
Beşiktaş 34340
İstanbul, Turkey

**ARRANGERS AND DEALERS**

**Barclays Bank PLC**
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

**Natixis**
47, quai d'Austerlitz
75013 Paris
France

**DEALER**

**BNP Paribas, London Branch**
10 Harewood Avenue
London NW1 6AA
United Kingdom

**FISCAL AGENT, EXCHANGE AGENT, PAYING AGENT AND SECURITY AGENT**

**The Bank of New York Mellon, London branch**
One Canada Square
London E14 5AL
United Kingdom

**REGISTRAR AND TRANSFER AGENT**

**The Bank of New York Mellon (Luxembourg) S.A.**
Vertigo Building – Polaris
2-4 rue Eugene Ruppert
2453 Luxembourg

**LEGAL ADVISERS**

***To the Issuer as to English and United States law***

**Mayer Brown International LLP**
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London EC2M 3AF
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**Mayer Brown LLP**
71 South Wacker Drive
Chicago, Illinois 60606
USA

***To the Issuer as to Turkish law***

**YazıcıLegal**
Levent Mah. Yasemin Sok. No.13
1. Levent Beşiktaş, 34340
İstanbul, Turkey

***To the Dealers as to English and United States law***

**White & Case LLP**
5 Old Broad Street
London EC2N 1DW
United Kingdom

***To the Dealers as to Turkish law***

**Akol Avukatlık Bürosu**
Büyükdere Cad. No: 100/29
34394 Esentepe
İstanbul, Turkey

**LISTING AGENT**

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

**AUDITORS TO THE BANK**

**DRT Bağimsiz Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ**
Maslak No. 1 Plaza
Eski Büyükdere Caddesi
Maslak Mahallesi No:1
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