TÜRKİYE GARANTİ BANKASI A.Ş.
Issue of US$750,000,000 Fixed Rate Resettable Tier 2 Notes due 2027
under its US$6,000,000,000 Global Medium Term Note Programme
Issue price: 100.00%

The US$750,000,000 Fixed Rate Resettable Tier 2 Notes due 2027 (the "**Notes**") are being issued by Türkiye Garanti Bankası A.Ş., a banking institution organised as a public joint stock company under the laws of the Republic of Turkey ("**Turkey**") and registered with the İstanbul Trade Registry under number 159422 (the "**Bank**" or the "**Issuer**") under its US$6,000,000,000 Global Medium Term Note Programme (the "**Programme**").

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any State or other jurisdiction of the United States and are being offered: (a) for sale to "qualified institutional buyers" (each a "**QIB**") as defined in, and in reliance upon, Rule 144A under the Securities Act ("**Rule 144A**") and (b) for sale in offshore transactions to persons who are not "U.S. persons" ("**U.S. persons**") as defined in, and in reliance upon, Regulation S under the Securities Act ("**Regulation S**"). For a description of certain restrictions on sale and transfer of investments in the Notes, see "*Plan of Distribution*" herein and "*Subscription and Sale and Transfer and Selling Restrictions*" in the Base Prospectus (as defined under "Documents Incorporated by Reference" below).

AN INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS. SEE "*RISK FACTORS*" HEREIN.

The Notes will bear interest from (and including) 23 May 2017 (the "**Issue Date**") to (but excluding) 24 May 2022 (the "**Issuer Call Date**") at a fixed rate of 6.125% *per annum*. From (and including) the Issuer Call Date to (but excluding) 24 May 2027 (the "**Maturity Date**"), the Notes will bear interest at a fixed rate *per annum* equal to the Reset Interest Rate (as defined herein). Interest will be payable semi-annually in arrear on the 24th day of each May and November (each an "**Interest Payment Date**") up to (and including) the Maturity Date; *provided* that if any such date is not a Payment Business Day (as defined in Condition 7.4), then the Noteholders will not be entitled to payment until the next Payment Business Day and, in any such case, will not be entitled to further interest or other payment in respect of such delay. Subject to having obtained the prior approval of the Banking Regulation and Supervision Agency (the "**BRSA**") and as further provided in Condition 8, the Issuer may redeem all, but not some only, of the Notes outstanding: (a) on the Issuer Call Date, (b) at any time for certain tax reasons or (c) upon the occurrence of a Capital Disqualification Event (as defined in Condition 8.4), in each case at their respective then Prevailing Principal Amount (as defined in Condition 5.5) together with interest accrued and unpaid to (but excluding) the date of redemption. The Notes are otherwise scheduled to be redeemed by the Issuer at their respective then Prevailing Principal Amount on the Maturity Date. For a more detailed description of the Notes, see "*Terms and Conditions of the Notes*" herein. Reference to a "Condition" herein is to the corresponding clause of such "Terms and Conditions of the Notes."

The Notes are subject to loss absorption upon the occurrence of a Non-Viability Event (as defined in Condition 6.2), in which case an investor in the Notes might lose some or all of its investment in the Notes. See Condition 6.

This prospectus (this "**Prospectus**") has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC as amended (including the amendments made by Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Such approval relates only to Notes that are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC ("**MiFID I**") and/or that are to be offered to the public in any member state of the European Economic Area (the "**EEA**"). Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Notes to be admitted to its official list (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"); *however*, no assurance can be given that such application will be accepted. References in this Prospectus to the Notes being "**listed**" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID I.

Application has been made to the Capital Markets Board (the "**CMB**") of Turkey, in its capacity as competent authority under Law No. 6362 (the "**Capital Markets Law**") of Turkey relating to capital markets, for the issuance and sale of the Notes by the Bank outside of Turkey. The Notes cannot be sold before the approved issuance certificate (*ihraç belgesi*) has been obtained from the CMB. The CMB issuance certificate relating to the issuance of notes under the Programme based upon which the offering of the Notes is conducted was obtained on 7 February 2017 and (to the extent (and in the form) required by applicable law) an approval of the CMB relating to the Notes will also be obtained from the CMB on or before the Issue Date.

The Notes are expected to be rated at issuance "BB+" by Fitch Ratings Ltd. ("**Fitch**") and "Ba3" by Moody's Investors Service Limited ("**Moody's**" and, together with Fitch and Standard & Poor's Credit Market Services Europe Limited, the "**Rating Agencies**"). The Bank has also been rated by the Rating Agencies, as set out on pages 128 and 129 of the Base Prospectus. Each of the Rating Agencies is established in the EU and is registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). As such, each of the Rating Agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. 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.

The Notes are being offered in reliance upon Rule 144A and Regulation S by each of BBVA Securities Inc., BNP Paribas, Commerzbank Aktiengesellschaft, HSBC Bank plc, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Standard Chartered Bank (each an "**Initial Purchaser**" and, collectively, the "**Initial Purchasers**"), subject to their acceptance and right to reject orders in whole or in part. It is expected that: (a) delivery of the Rule 144A Notes will be made in book-entry form only through the facilities of The Depository Trust Company ("**DTC**"), against payment therefor in immediately available funds on the Issue Date (*i.e.*, the fifth Business Day following the date of pricing of the Notes; such settlement cycle being referred to herein as "**T+5**")), and (b) delivery of the Regulation S Notes will be made in book-entry form only through the facilities of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), against payment therefor in immediately available funds on the Issue Date.

Initial Purchasers

BBVA	**BNP PARIBAS**	**BofA Merrill Lynch**
Commerzbank	**HSBC**	**Standard Chartered Bank**

The date of this Prospectus is 19 May 2017.

This Prospectus constitutes a 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.

This Prospectus is to be read in conjunction with all documents (or parts thereof) that are incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Prospectus shall be read and construed on the basis that such documents (or, as applicable, the indicated parts thereof) are incorporated into, and form part of, this Prospectus.

The Issuer confirms that: (a) this Prospectus (including the information incorporated herein by reference) contains all information that in its view is material in the context of the issuance and offering of the Notes (or beneficial interests therein), (b) the information contained in, or incorporated by reference into, this Prospectus is true and accurate in all material respects and is not misleading, (c) any opinions, predictions or intentions expressed in this Prospectus (including in any of the documents (or portions thereof) incorporated herein by reference) on the part of the Issuer are honestly held or made by the Issuer and are not misleading in any material respects, and there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions, predictions or intentions misleading in any material respect, and (d) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

The Issuer accepts responsibility for the information contained in (including incorporated by reference into) this Prospectus. 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 (including incorporated by reference into) this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the fullest extent permitted by law, none of the Initial Purchasers accepts any responsibility for the information contained in (or incorporated by reference into) this Prospectus or any other information provided by the Issuer in connection with the Notes or for any statement consistent with this Prospectus made, or purported to be made, by an Initial Purchaser or on its behalf in connection with the Issuer or the issue and offering of the Notes (or beneficial interests therein). Each Initial Purchaser accordingly disclaims all and any liability that it might otherwise have (whether in tort, contract or otherwise) in respect of the accuracy or completeness of any such information or statements. The Initial Purchasers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor or potential investor in the Notes of any information coming to their attention.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied by (or with the consent of) the Issuer in connection with the Notes 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 Initial Purchasers.

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

Neither this Prospectus nor, except to the extent explicitly stated therein, any other information supplied in connection with the Notes or the issue of the Notes constitutes an offer of, or an invitation by or on behalf of the Issuer or any of the Initial Purchasers or their respective affiliates to any person to subscribe for or purchase, any Notes (or beneficial interests therein). This Prospectus is intended only to provide information to assist potential investors in deciding whether or not to subscribe for or purchase Notes (or beneficial interests therein) in accordance with the terms and conditions specified by the Initial Purchasers.

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

The distribution of this Prospectus and/or the offer or sale of Notes (or beneficial interests therein) might be restricted by law in certain jurisdictions. The Issuer and the Initial Purchasers do not represent that this Prospectus may be lawfully distributed, or that the Notes (or beneficial interests therein) may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer that is intended to permit a public offering of the Notes (or beneficial interests therein) or distribution of this Prospectus in any jurisdiction in which action for that purpose is required. Accordingly: (a) no Notes (or beneficial interests therein) may be offered or sold, directly or indirectly, and (b) neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except (in each case) under circumstances that will result in compliance with all applicable laws. Persons into whose possession this Prospectus or any Notes (or beneficial interests therein) come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus, any advertisement or other offering material and the offering and sale of Notes (or beneficial interests therein). In particular, there are restrictions on the distribution of this Prospectus and the offer and/or sale of Notes (or beneficial interests therein) in (*inter alia*) Turkey, the United States, the EEA (including the United Kingdom), Japan, Switzerland, the People's Republic of China (the "**PRC**") and the Hong Kong Special Administrative Region of the PRC. See "*Plan of Distribution*" herein and "*Subscription and Sale and Transfer and Selling Restrictions*" in the Base Prospectus.

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

None of the Initial Purchasers or the Issuer or any of their respective counsel or other representatives makes any representation to any actual or potential investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should ensure that it is able to bear the economic risk of an investment in the Notes for an indefinite period of time.

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

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

(b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact its investment in the Notes will have on its overall investment portfolio,

(c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal and interest payments is different from the potential investor's currency,

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

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

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

GENERAL INFORMATION

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

The Issuer has obtained the approved issuance certificate (*ihraç belgesi*) from the CMB (dated 7 February 2017 and attached to the letter from the CMB dated the same date and numbered 29833736-105.03.01-E.1603) (the "**CMB Approval**") and the BRSA approval (dated 17 January 2017 and numbered 20008792-101.02.01[42]-E.941) (the "**BRSA Approval**" and, together with the CMB Approval, the "**Approvals**") required for the issuance of the Notes. In addition to the Approvals, pursuant to Communiqué VII-128.8 on Debt Instruments of the CMB (the "**Debt Instruments Communiqué**"), the Issuer is required to apply to the CMB for approval via electronic signature on or before the Issue Date in order to proceed with the sale and issuance of the Notes; *however*, as of the date of this Prospectus, the CMB's system allowing such application has not become operational yet. Therefore, unless such system becomes operational before the Issue Date, the written approval of the CMB (which might be in the form of a tranche issuance certificate (*tertip ihraç belgesi*)) in respect of the Notes must be obtained by the Issuer from the CMB on or before the Issue Date in order to proceed with the sale and issuance of the Notes. As the Issuer is required to maintain all authorisations and approvals of the CMB necessary for the offer, sale and issue of notes under the Programme, the scope of the Approvals might be amended and/or new approvals from the CMB and/or the BRSA might be obtained from time to time. Pursuant to the Approvals, the offer, sale and issue of the Notes have 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 Banking Law No. 5411 of 2005 (as amended from time to time, the "**Banking Law**") and related law, the Capital Markets Law No. 6362 and the Debt Instruments Communiqué and related law.

The Issuer has obtained a letter dated 11 February 2016 and numbered 20008792-101.01[42]-E.2036 from the BRSA (the "**BRSA Tier 2 Approval**") approving the treatment of the Notes as Tier 2 capital of the Bank for so long as the Notes comply with the requirements of the Regulation on the Equities of Banks as published in the Official Gazette dated September 5, 2013 and numbered 28756 (as amended from time to time) (the "**Equity Regulation**"). The BRSA Tier 2 Approval is conditional upon the compliance of the Notes with the requirements of the Equity Regulation. For a description of other regulatory requirements in relation to Tier 2 capital requirements, see "*Turkish Regulatory Environment – Capital Adequacy*" in the Base Prospectus.

In addition, the Notes (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the Approvals. Under the CMB Approval, the CMB has authorized the offering, sale and issue of the Notes on the condition that no transaction that qualifies as a sale or offering of Notes (or beneficial interests therein) in Turkey may be engaged in. Notwithstanding the foregoing, pursuant to the BRSA decision No. 3665 dated May 6, 2010 and in accordance with Decree 32, residents of Turkey may purchase or sell Notes (as they are denominated in a currency other than Turkish Lira) (or beneficial interests therein) in offshore transactions on an unsolicited (reverse inquiry) basis in the secondary markets only. Further, pursuant to Article 15(d)(ii) of Decree 32, Turkish residents may purchase or sell Notes (or beneficial interests therein) offshore on an unsolicited (reverse inquiry) basis; *provided* that such purchase or sale is made through licensed banks authorized by the BRSA or licensed brokerage institutions authorized pursuant to CMB regulations and the purchase price is transferred through such licensed banks. As such, Turkish residents should use such licensed banks or such licensed brokerage institutions while purchasing the Notes (or beneficial interests therein) and should transfer the purchase price through such licensed banks.

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

Pursuant to the Debt Instruments Communiqué, the Issuer is required to notify the Central Registry Agency (*Merkezi Kayıt İstanbul*) (trade name: Central Registry İstanbul (*Merkezi Kayıt İstanbul*)) ("**Central Registry İstanbul**") within three İstanbul business days from the Issue Date of the amount, Issue Date, ISIN (if any), interest commencement date, maturity date, interest rate, name of the custodian and currency of the Notes and the country of issuance.

Other than the Approvals, the BRSA Tier 2 Approval and the Central Bank of Ireland's approval of this Prospectus under the Prospectus Directive, the Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "**SEC**"), any State securities commission or any other United States, Turkish, Irish or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary might be unlawful.

Notes offered and sold to QIBs in reliance upon Rule 144A (the "**Rule 144A Notes**") will be represented by beneficial interests in one or more Rule 144A Global Note(s) (as defined in the Base Prospectus). Notes offered and sold pursuant to Regulation S in offshore transactions to persons who are not U.S. persons (the "**Regulation S Notes**") will be represented by beneficial interests in a global note in registered form (the "**Regulation S Global Note**" and, together with the Rule 144A Global Note(s) for the Rule 144A Notes, the "**Global Notes**").

The Rule 144A Global Note(s) will be deposited on or about the Issue Date with The Bank of New York Mellon, New York Branch, in its capacity as custodian (the "**Custodian**") for, and will be registered in the name of Cede & Co. as nominee of, DTC. Except as described in this Prospectus, beneficial interests in the Rule 144A Global Note(s) will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. The Regulation S Global Note will be deposited on or about the Issue Date with a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee of the Common Depositary. Except as described in this Prospectus, beneficial interests in the Regulation S Global Note will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

In this 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, its consolidated entities).

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

In this Prospectus, all references to "**Turkish Lira**" and "**TL**" refer to the lawful currency for the time being of Turkey, "**euro**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, and "**U.S. dollars**", "**US$**" and "**$**" refer to United States dollars.

The language of this Prospectus is English. Certain legal references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable laws. In particular, but without limitation, the titles of Turkish legislation and regulations and the names of Turkish institutions referenced herein (and in the documents incorporated herein by reference) have been translated from Turkish into English. The translations of these titles and names are direct and accurate.

Where third-party information has been used in this Prospectus, the source of such information has been identified. The Bank confirms that all such information has been accurately reproduced and, so far as it is aware and is able to ascertain from the published information by that third party, 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 Prospectus, while believed to be reliable, has not been independently verified by the Bank or any other party.

IMPORTANT - EEA RETAIL INVESTORS

The Notes (and beneficial interests therein) are not intended, from 1 January 2018, to be offered, sold or otherwise made available to (and, with effect from such date, should not be offered, sold or otherwise made available to) any retail investor in the EEA (each, an "**EEA Retail Investor**"). For these purposes, a retail investor means a person who is one (or more) of: (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"), (b) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, or (c) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes (or beneficial interests therein) or otherwise making them available to EEA Retail Investors has been prepared and, therefore, offering or selling the Notes (or beneficial interests therein) or otherwise making them available to any EEA Retail Investors might be unlawful under the PRIIPs Regulation.

IMPORTANT – CANADIAN INVESTORS

In Canada, the Notes (or beneficial interests therein) may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes (or beneficial interests therein) in Canada must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws in Canada.

Securities legislation in certain provinces or territories of Canada may provide a purchaser in such province or territory with remedies for rescission or damages if this Prospectus (including any amendment hereto) contains a misrepresentation; *provided* that the remedies for rescission or damages are exercised by such purchaser within the time limit prescribed by the securities legislation of such purchaser's province or territory. Any such purchaser should refer to any applicable provisions of the securities legislation of such purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("**NI 33-105**"), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

STABILISATION

In connection with the issue of the Notes, Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "**Stabilisation Manager**") (or persons acting on behalf of the Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail; *however*, stabilisation might not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws.

Notwithstanding anything herein to the contrary, the Bank may not (whether through over-allotment or otherwise) issue more Notes than have been authorised by the CMB.

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

adjusted cost-to-income ratio including impairment losses: For a particular period, this is: (a) costs for such period, which are calculated as the total operating expenses including impairment losses, net, excluding reserve for employee severance indemnities and foreign exchange and trading losses for such period, *divided by* (b) income for such period, which is calculated as the operating income for such period *minus* foreign exchange and trading losses for such period.

net income adjusted for exceptional items: For a particular period, this is: (a) reported net income for such period *minus* (b) sum of general provisions, the income/expense balances from the sale of non-performing loans ("**NPLs**") and penalties included within other operating expenses for such period. Reconciliations of this item to reported net income for the applicable period can be found on page 52 for the three month periods ended 31 March 2016 and 2017 and on page 61 for 2014, 2015 and 2016.

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

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

Please see "*Alternative Performance Measures*" in the Base Prospectus.

TABLE OF CONTENTS

RISK FACTORS

*Prospective investors in the Notes should consider carefully the information contained in this Prospectus and the documents (or parts thereof) that are incorporated herein by reference, and in particular should consider all the risks inherent in making such an investment, including the information under the heading "Risk Factors" on pages 13 to 43 (inclusive) of the Base Prospectus (the "**Programme Risk Factors**"), before making a decision to invest.*

In investing in the Notes, investors assume the risk that the Issuer might become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors that individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur as the Issuer might not be aware of all relevant factors and certain factors that it currently deems not to be material might become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in the Programme Risk Factors a number of factors that might materially adversely affect its business and ability to make payments due under the Notes. In addition, a number of factors that are material for the purpose of assessing the market risks associated with the Notes are also described in the Programme Risk Factors. Prospective investors should also read the detailed information set out elsewhere in (or incorporated by reference into) this Prospectus and reach their own views prior to making any investment decision; *however*, the Bank does not represent that the risks set out in the Programme Risk Factors or herein are exhaustive or that other risks might not arise in the future.

The Programme Risk Factors are (except to the extent noted otherwise herein) incorporated by reference into this Prospectus and, for these purposes, references in the Programme Risk Factors to "Notes" shall be construed as references to the Notes described in this Prospectus.

In addition, for the purpose of the Notes and this Prospectus only, the Programme Risk Factors shall be deemed to be revised as follows (with corresponding changes being deemed to be made elsewhere in the Base Prospectus):

(a) The section of the risk factor entitled "*Risk Factors – Risks Relating to the Structure of a Particular Issue of Notes*" in the Base Prospectus is hereby deemed to be deleted in its entirety and replaced with the following (with references to Conditions in the following being references to the Conditions of the Notes as set forth in "Terms and Conditions of the Notes" herein):

Risks Relating to the Structure of the Notes

Subordination – Claims of Noteholders under the Notes will be subordinated and unsecured

On any distribution of the assets of the Issuer on its dissolution, winding-up or liquidation (as further described in the definition of "Subordination Event" in Condition 3.4), and for so long as such Subordination Event continues, the Issuer's obligations under the Notes will rank subordinate in right of payment to the payment of all Senior Obligations and no amount will be paid under the Notes until all such Senior Obligations have been paid in full. Unless the Issuer has assets remaining after making all such payments, no payments will be made on the Notes. Consequently, although the Notes might pay a higher rate of interest than comparable notes that are not subordinated, there is a real risk that an investor in the Notes will lose all or some of its investment upon the occurrence of a Subordination Event.

Potential Permanent Write-Down – The Prevailing Principal Amount of the outstanding Notes might be permanently written-down by an amount determined by the BRSA upon the occurrence of a Non-Viability Event with respect to the Issuer

If a Non-Viability Event occurs at any time, then the Prevailing Principal Amount of each outstanding Note will be Written-Down by the relevant amount specified by the BRSA in the manner described in Condition 6.1. In conjunction with any determination of Non-Viability of the Issuer by the BRSA, the relevant losses of the Issuer may be absorbed by shareholders of the Issuer pursuant to Article 71 of the Banking Law upon: (a) the transfer of shareholders' rights (except to dividends) and the management and supervision of the Issuer to the SDIF, as it is a condition of any such transfer that losses are deducted from the capital of the existing shareholders, or (b) the revocation of the Issuer's operating licence and its liquidation; *however*, the Write-Down of the Notes may take place before any such transfer or liquidation.

Condition 6.1 provides, among other things, that a Write-Down of the Notes shall only take place in conjunction with any such transfer or liquidation, which is intended to ensure that while the Write-Down of the Notes may take place before such transfer or liquidation, the intended respective rankings of the Issuer's obligations (as described in Condition 3.1) are maintained and the relevant losses are absorbed by Junior Obligations (as defined in Condition 3.4) to the maximum extent possible or otherwise allowed by law. Where a Write-Down of the Notes does take place before any such liquidation of the Issuer, Noteholders would only be able to claim and prove in the liquidation of the Issuer in respect of the Prevailing Principal Amount of the Notes outstanding following such Write-Down.

Notwithstanding the above, should the BRSA determine that the Notes are to be Written-Down before the absorption of the relevant loss(es) by shareholders of the Issuer pursuant to Article 71 of the Banking Law or any other Statutory Loss Absorption Measure (as defined in Condition 6.2), there can be no assurance that such loss absorption will take place or that it will be taken into account by the BRSA in the determination of the relevant Write-Down Amount.

Should such loss absorption not take place or not be so taken into account by the BRSA, subject as described in "Limited Remedies" below, a Noteholder may institute proceedings against the Issuer to enforce the above provisions of the Notes; *however*, to the extent any judgment was obtained in the United Kingdom on the basis of English law as the governing law of the Notes (other than those provisions of the Conditions governed by Turkish law), there is uncertainty as to the enforceability of any such judgment by Turkish courts. In addition, there are certain circumstances in which the courts of Turkey might not enforce a judgment obtained in the courts of another country, which are more fully described under the section entitled "*Enforcement of Judgments and Service of Process*" in the Base Prospectus. Therefore there can be no assurance that a Noteholder would be able to enforce in Turkey any judgment obtained in the courts of another country in these circumstances.

Any Write-Down of the Notes would be permanent and Noteholders will have no further claim against the Issuer in respect of any amount of the Notes subject to any Write-Down. Consequently, there is a real risk that an investor in the Notes will lose all or some of its investment upon the occurrence of a Non-Viability Event. Therefore, the occurrence of any such event or any suggestion of such occurrence could materially adversely affect the rights of Noteholders, the market price of investments in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. See Condition 6 for further information on any such potential Write-Down of the Notes, including for the definitions of various terms used in this risk factor.

No Limits on Senior Obligations or Parity Obligations – There will be no limitation under the documents relating to the issuance of the Notes on the Issuer's incurrence of Senior Obligations or Parity Obligations

There will be no restriction in the documents relating to the issuance of the Notes on the amount of Senior Obligations or Parity Obligations that the Issuer may incur. The incurrence of any such obligations might reduce the amount recoverable by the Noteholders on any dissolution, winding up or liquidation of the Bank and might result in an investor in the Notes losing all or some of its investment.

Limited Remedies – Investors will have limited remedies under the Notes

A holder of a Note will only be able to accelerate payment of the Prevailing Principal Amount of that Note, together with interest accrued and unpaid to the date of repayment, on the occurrence of a Subordination Event or otherwise if any order is made by any competent court or the Government of Turkey, as the case may be, or resolution is passed for the winding up, dissolution or liquidation of the Bank as described in Condition 11 and then claim or prove in the winding-up, dissolution or liquidation. Noteholders also may institute proceedings against the Issuer as described in Condition 11 to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Notes (other than, without prejudice to the provisions above, any obligation for the payment of any principal or interest in respect of the Notes) but will not have any other right of acceleration under the Notes, whether in respect of any default in payment or otherwise, and the only remedy of a Noteholder on any default in a payment on the Notes will be to institute proceedings for the Issuer to be declared bankrupt or insolvent or for there otherwise to be a Subordination Event, or for the Issuer's winding-up, dissolution or liquidation as described in Condition 11 and to claim or prove in the winding-up, dissolution or liquidation.

No other remedy against the Issuer will be available to Noteholders, whether for the recovery of amounts owing in respect of the Notes or otherwise in respect of any Event of Default or in respect of any breach by the Issuer of any of its obligations, covenants or undertakings under the Notes, and Noteholders will not be able to take any further or other action to enforce, claim or prove for any payment by the Issuer in respect of the Notes.

Reset Interest Rate – The interest rate on the Notes will be reset on the Issuer Call Date, which could affect interest payments on an investment in the Notes and the market price of any such investment

The Notes will initially bear interest at the Initial Interest Rate until (but excluding) the Issuer Call Date, at which time the Rate of Interest will be reset to the Reset Interest Rate. The Reset Interest Rate could be less than the Initial Interest Rate and thus could negatively affect the market price of an investment in the Notes. See Condition 5 for further information of such resetting of the Rate of Interest, including for the definitions of various terms used in this paragraph.

Early Redemption – The Notes may be subject to early redemption at the option of the Issuer

The Issuer will have the right to redeem the Notes at their respective then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the Issuer Call Date, subject to having obtained the prior approval of the BRSA in accordance with Condition 8.3 of the Notes, with any such prior approval of the BRSA subject (under Article 8(2)(d) of the Equity Regulation) to the conditions that, among other things: (a) the Notes are replaced with an equivalent, or higher, quality of capital, and such replacement does not restrict the Issuer's ability to continue its operations and (b) the Issuer continues to satisfy its applicable capital requirements following the exercise of the redemption option (see "*Turkish Regulatory Environment – Capital Adequacy – Tier 2 Rules*" in the Base Prospectus). This optional redemption feature is likely to limit the market price of investments in the Notes because, in the period leading up to when the Bank may elect to so redeem the Notes, the market price of investments in the Notes generally will not rise substantially above the price at which they can be redeemed.

An investor might not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and might only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Redemption upon a Capital Disqualification Event - The Issuer will have the right to redeem the Notes upon the occurrence of a Capital Disqualification Event

If a Capital Disqualification Event (as defined in Condition 8.4) occurs at any time after the Issue Date, the Issuer will have the right to redeem the Notes at their respective then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the date of redemption. A Capital Disqualification Event includes any changes in applicable law or regulation (including the Equity Regulation), or the application or official interpretation thereof (which change in application or official interpretation is confirmed in writing by the BRSA), that results in all or any part of the aggregate Prevailing Principal Amount of the outstanding Notes not being eligible (or will result in it ceasing to be eligible) for inclusion as Tier 2 capital of the Issuer. Upon such a redemption, the investors in the Notes might not be able to reinvest the amounts received at a rate that will provide the same rate of return as their investment in the Notes. This redemption feature is also likely to limit the market price of investments in the Notes during any period in which the Issuer may elect to redeem them, as the market price during this period generally will not rise substantially above the price at which they can be redeemed. This might similarly be true prior to any redemption period.

(b) The risk factor entitled "*Risk Factors – Risks Relating to Notes generally – Effective Subordination*" in the Base Prospectus is hereby deemed to be deleted in its entirety.

(c) The risk factor entitled "*Risk Factors – Risks Relating to Notes generally – Redemption for Taxation Reasons*" in the Base Prospectus is hereby deemed to be deleted in its entirety and replaced with the following (with references to Conditions in the following being references to the Conditions of the Notes as set forth in "*Terms and Conditions of the Notes*" herein):

Redemption for Taxation Reasons – The Issuer will have the right to redeem the Notes upon the occurrence of certain changes in tax law, including a change requiring it to pay increased withholding taxes with respect to interest or other payments on the Notes or that result in it no longer being entitled to claim a deduction in calculating its tax liability in respect of the payment of interest or the value of such deduction being reduced

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 has been 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, with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0%. Accordingly, the initial withholding tax rate on interest on the Notes will be 0%; *however*, in case of early redemption, the redemption date might be considered to be the maturity date and higher withholding tax rates might apply accordingly. The Issuer is also entitled to claim a deduction in calculating its tax liability under Turkish tax law in respect of payments of interest on the Notes.

The Issuer will have the right to redeem all, but not some only, of the Notes, subject to having obtained the prior approval of the BRSA (see "- Early Redemption" above for a description of the conditions for any such approval of the BRSA), at any time at their respective then Prevailing Principal Amount together with interest accrued and unpaid to but excluding the date of redemption if, as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9.2), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 19 May 2017, on the next Interest Payment Date, the Issuer would: (a) be required to: (i) pay additional amounts as provided or referred to in Condition 9 (*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, where such requirement cannot be avoided by the Issuer taking reasonable measures available to it, or (b) no longer be entitled to claim a deduction in calculating its tax liability in a Relevant Jurisdiction in respect of the payment of interest to be made on such Interest Payment Date, or the value of such deduction to the Issuer, as compared to what it would have been on such date, is or would be reduced. Upon such a redemption, investors in the Notes might not be able to reinvest the amounts received at a rate that will provide an equivalent rate of return as their investment in the Notes.

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

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or the indicated parts thereof) that have previously been published or are published simultaneously with this Prospectus and have been filed with the Central Bank of Ireland shall be incorporated into, and form part of, this Prospectus:

(a) the sections of the Base Prospectus dated 25 April 2017 (the "**Original Base Prospectus**") as supplemented on 11 May 2017 (the "**Base Prospectus**") relating to the Programme titled as set out in the table below (*it being understood* that such supplement is also incorporated by reference herein and the sections of the Original Base Prospectus set out in the table below should be read in conjunction with such supplement):

(b) the independent auditors' audit reports and audited consolidated IFRS financial statements of the Group as of and for each of the years ended 31 December 2014, 2015 and 2016 (including any notes thereto and the independent auditors' report thereon, the "**IFRS Annual Financial Statements**");

(c) the independent auditors' review reports and unaudited consolidated IFRS financial statements of the Group as of and for each of the three month periods ended 31 March 2016 and 2017 (including any notes thereto and the independent auditors' report thereon, the "**IFRS Interim Financial Statements**" and, with the IFRS Annual Financial Statements, the "**IFRS Financial Statements**");

(d) the independent auditors' audit reports and audited consolidated and unconsolidated BRSA financial statements of the Bank as of and for each of the years ended 31 December 2014, 2015 and 2016 (including any notes thereto and the independent auditors' report thereon, the "**BRSA Annual Financial Statements**"); and

(e) the independent auditors' review reports and unaudited consolidated and unconsolidated BRSA financial statements of the Bank as of and for each of the three month periods ended 31 March 2016 and 2017 (including any notes thereto and the independent auditors' report thereon, the "**BRSA Interim Financial Statements**" and, with the BRSA Annual Financial Statements, the "**BRSA Financial Statements**").

The IFRS Annual Financial Statements include restatements as of and for the years ended 31 December 2014 and 2015. For more information, please see "*Presentation of Financial and Other Information - Restatements and Accounting Policy Changes in Prior Year Financials*" included in the Base Prospectus. Financial information as of and for the years ended 31 December 2014 and 2015 included in this Prospectus has been derived from the restated amounts as of and for the years ended 31 December 2014 and 2015 included in the comparative periods presented in the IFRS Annual Financial Statements as of and for the years ended 31 December 2015 and 2016.

The IFRS Interim Financial Statements include restatements as of and for the period ended 31 March 2016. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Analysis of Results of Operations for the Three Months Ended 31 March 2017 - Restatements*." Financial information as of and for the period ended 31 March 2016 included in this Prospectus has been derived from restated amounts as of and for the period ended 31 March 2016 included in the comparative periods presented in the IFRS Interim Financial Statements as of and for the period ended 31 March 2017.

Following the publication of this Prospectus, a supplement might be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with Article 16 of the Prospectus Directive in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus that is capable of affecting the assessment of the Notes.

Any statement contained in a document (or a portion thereof) that is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein or in any other document (or, as applicable, relevant portion thereof) incorporated by reference herein, or in any supplement hereto, modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

The BRSA Financial Statements incorporated by reference into this 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). The English language BRSA Financial Statements were not prepared for the purpose of their incorporation by reference herein.

Copies of documents (or parts thereof) incorporated by reference into this Prospectus are available on the Bank's website at:

(a) https://www.garantiinvestorrelations.com/en/debt-information/detay/2017BaseProspectus/48/473/0 (with respect to the Base Prospectus);

(b) https://www.garantiinvestorrelations.com/en/debt-information/GMTN/GMTN/48/2723/0 (with respect to the first supplement to the Base Prospectus);

(c) https://www.garantiinvestorrelations.com/en/financial-information/IFRS-Financial-Statements-full-report/IFRS-Financial-Reports/68/0/0 (with respect to the IFRS Financial Statements);

(d) https://www.garantiinvestorrelations.com/en/financial-information/Consolidated-Financial-Statements-full-report/BRSA-Consolidated-Financials/66/0/0 (with respect to the consolidated BRSA Financial Statements); and

(e) https://www.garantiinvestorrelations.com/en/financial-information/Bank-Only-Financial-Statements-full-report/BRSA-Unconsolidated-Financials/66/0/0 (with respect to the unconsolidated BRSA Financial Statements).

Where only parts of a document are being incorporated by reference, the non-incorporated parts of that document are either not material for an investor in the Notes or are covered elsewhere in this Prospectus. Any documents themselves incorporated (or parts of which are incorporated) by reference into the documents incorporated by reference into this Prospectus do not (and shall not be deemed to) form part of this Prospectus.

The contents of any website (except for the documents incorporated by reference into this Prospectus to the extent set out on any such website) referenced in this Prospectus do not (and shall not be deemed to) form part of (and are not incorporated into) this Prospectus.

With respect to the "*Management*" section of the Base Prospectus incorporated by reference herein: (a) all references to Board members Maria Isabel Goiri Lartitegui and Iñigo Echebarria Garate therein shall (for purposes of this Prospectus) be deemed to be deleted as such Board members have resigned effective 8 May 2017, and (b) such section shall (for purposes of this Prospectus) be deemed to include: (i) Rafael Salinas Martinez de Lecea and Ricardo Gomez Barredo, who (when officially sworn in) will replace such resigning Board members and serve the remainder of their terms, and (ii) upon such swearing in, the following descriptions of Mr. Salinas Martinez de Lecea and Mr. Gomez Barredo:

Rafael Salinas Martinez de Lecea

Mr. Salinas Martinez de Lecea graduated with a degree in economics and business management from Universidad de Alicante, later obtaining further studies at the Centro de Estudios Monetarios y Financieros del Banco de España (CEMFI), the London School of Ecnomics (a masters degree in econometrics and mathematical economics) and the University of Chicago (a master in business administration). After beginning his career, Mr. Salinas Martinez de Lecea joined the BBVA Group in 1991, becoming Director of Derivative Products at BBV interactivos, S.V.B. This role was followed by serving as the Head of Assets and Liabilities at BBVA from 1998 to 2000, the Head of Capital Base Management at BBVA from 2000 to 2003, the CFO at BBVA subsidiary Banco de Crédito Local de España from 2003 to 2005 and Head of Risk & Portfolio Management at BBVA from 2006 to 2015. In 2015, he was appointed to his current role as Global Head of Global Risk Management for BBVA. He joined the Bank's Board in 2017.

Ricardo Gomez Barredo

Mr. Gomez Barredo earned a degree in economics and business management from Universidad Autónoma de Madrid and undertook further studies at ICADE at Universidad Pontificia Comillas (a master in tax advice) and the IESE Business School. Mr. Gomez Barredo worked in the tax and legal department at PriceWaterhouse from 1988 to 2003 and as the Head of Tax Consultancy at Industria Española del Aluminio, S.A. from 1993 to 1994. In 1994, Mr. Gomez Barredo joined the BBVA Group, working in various tax roles before becoming a Deputy Director of Tax Consulting at BBVA in 2000. He was appointed as the Head of Financial Analysis and Planning at BBVA in 2003 and then became the Head of Financial Planning and Management Control at BBVA in 2007. In 2011, Mr. Gomez Barredo was appointed to his current position of Head of Global Accounting and Information Management at BBVA. He joined the Bank's Board in 2017.

OVERVIEW OF THE OFFERING

*The following overview (the "**Overview**") does not purport to be complete but sets out certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. The following is indicative only and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus (including in the Base Prospectus). See, in particular, "Terms and Conditions of the Notes" set out herein. Terms used in this Overview and not otherwise defined herein shall have the meanings given to them in the "Terms and Conditions of the Notes."*

Issue: US$750,000,000 Fixed Rate Resettable Tier 2 Notes due 2027, which are issued under the US$6,000,000,000 Global Medium Term Note Programme of the Bank in compliance with Article 8 of the Equity Regulation and the BRSA Tier 2 Approval and subject to the CMB's approval in accordance with the Debt Instruments Communiqué and Article 15(b) of Decree 32.

Interest and Interest Payment Dates: The Notes will bear interest from and including the Issue Date (*i.e.*, 23 May 2017) to (but excluding) the Issuer Call Date (*i.e.*, 24 May 2022) at a fixed rate of 6.125% *per annum*. From (and including) the Issuer Call Date to (but excluding) the Maturity Date (*i.e.*, 24 May 2027), the Notes will bear interest at a fixed rate *per annum* equal to the Reset Interest Rate. Interest will be payable semi-annually in arrear on each Interest Payment Date (*i.e.*, 24 May and 24 November in each year) up to (and including) the Maturity Date; *provided* that if any such date is not a Payment Business Day (as defined in Condition 7.4), then the Noteholders will not be entitled to payment until the next Payment Business Day and, in any such case, will not be entitled to further interest or other payment in respect of such delay.

"**Reset Interest Rate**" means the rate *per annum* equal to the aggregate of: (a) the Reset Margin (*i.e.*, 4.220% *per annum*) and (b) the 5 Year Mid-Swap Rate (as defined in Condition 5.5), as determined by the Fiscal Agent on the third Business Day immediately preceding the Issuer Call Date (*i.e.*, the Reset Determination Date).

Maturity Date: Unless previously redeemed or purchased and cancelled as provided in the Conditions, the Notes will be redeemed by the Bank at their respective then Prevailing Principal Amount on the Maturity Date (*i.e.*, 24 May 2027).

Use of Proceeds: The net proceeds of the offering of the Notes will be used by the Bank for general corporate purposes.

Regulatory Treatment: Application was made by the Bank to the BRSA for confirmation that the full principal amount of the Notes will qualify for initial treatment as "Tier 2" capital (as provided under Article 8 of the Equity Regulation), which approval (*i.e.*, the BRSA Tier 2 Approval) was received on 11 February 2016. See "*Turkish Regulatory Environment - Capital Adequacy – Tier 2 Rules under Turkish Law*" in the Base Prospectus.

Status and Subordination:.. The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and claims for payment by the Issuer in respect of the Notes shall, in the case of a Subordination Event and for so long as that Subordination Event subsists, rank:

(a) subordinate in right of payment to the payment of all Senior Obligations,

(b) *pari passu* without any preference among themselves and with all Parity Obligations, and

(c) in priority to all payments in respect of Junior Obligations.

By virtue of the subordination of the Notes set out in Condition 3, no amount will, in the case of a Subordination Event and for so long as that Subordination Event subsists, be paid under the Notes until all payment obligations in respect of Senior Obligations have been satisfied. Please refer to Condition 3.1.

Non-Viability/Write-Down of the Notes:.............................. If a Non-Viability Event occurs at any time, then the Issuer will:

(a) *pro rata* with the other Notes and any other Parity Loss-Absorbing Instruments, and

(b) in conjunction with, and such that no Write-Down shall take place without there also being: (i) the maximum possible reduction in the principal amount of and/or corresponding conversion into equity being made in respect of all Junior Loss-Absorbing Instruments and (ii) the implementation of Statutory Loss-Absorption Measures to the maximum extent allowed by law of the relevant loss(es) giving rise to the Non-Viability of the Issuer within the framework of the procedures and other measures by which the relevant loss(es) of the Issuer giving rise to the Non-Viability Event may be absorbed by such Junior Obligations pursuant to Article 71 of the Banking Law and/or otherwise under Turkish law and regulations,

reduce the then Prevailing Principal Amount of each outstanding Note by the relevant Write-Down Amount in the manner described in Condition 6. Please refer to Condition 6 for further information on such potential Write-Downs, including for the definitions of various terms used in this section.

No Set-off or Counterclaim: All payment obligations of, and payments made by, the Issuer under and in respect of the Notes must be determined and made without reference to any right of set-off or counterclaim of any holder of the Notes, whether arising before or in respect of any Subordination Event. By virtue of the subordination of the Notes, following a Subordination Event and for so long as that Subordination Event subsists and prior to all payment obligations in respect of Senior Obligations having been satisfied, no holder of the Notes shall exercise any right of set-off or counterclaim in respect of any amount owed to such holder by the Issuer in respect of the Notes and any such rights shall be deemed to be waived. Please refer to Condition 3.2.

No Link to Derivative Transactions, Guarantees or Security: The Issuer will not: (a) link its obligations in respect of the Notes to any derivative transaction or derivative contract in a way which would result in a violation of Article 8(2)(b) of the Equity Regulation or (b) provide in any manner for such obligations to be the subject of any guarantee or security. Please refer to Condition 3.3.

Certain Covenants: The Bank will agree to certain covenants, including covenants limiting transactions with affiliates. Please refer to Condition 4.

Issuer Call: The Bank may, having given not less than 30 nor more than 60 days' notice to the Noteholders (which notice will be irrevocable), redeem all, but not some only, of the Notes then outstanding, subject to having obtained the prior approval of the BRSA, on the Issuer Call Date (*i.e.*, 24 May 2022) at their respective then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the Issuer Call Date. Please refer to Condition 8.3 for further information.

Optional Redemption for Capital Disqualification Event: The Issuer may, having given notice to the Noteholders in accordance with Condition 8.4, redeem all, but not some only, of the Notes then outstanding at any time at their respective then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the date of redemption upon the occurrence of a Capital Disqualification Event. Please refer to Condition 8.4.

Taxation; Payment of Additional Amounts: Subject to certain customary exceptions set out in Condition 9, all payments by the Issuer in respect of the Notes are to be made without withholding or deduction for or on account of Turkish taxes, unless the withholding or deduction of the taxes is required by law or regulations. In that event, the Issuer will pay such additional amounts as shall be necessary that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction. Please refer to Condition 9.

Under current Turkish law, withholding tax at the rate of 0% applies on interest on the Notes. See "*Taxation - Certain Turkish Tax Considerations*" in the Base Prospectus.

Optional Redemption for Tax Reasons:................................The Issuer may, having given notice to the Noteholders in accordance with Condition 8.2, redeem all, but not some only, of the Notes at any time at their respective then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the date of redemption upon the occurrence of certain tax changes after 19 May 2017 that would require the Issuer to pay additional amounts to Noteholders under Condition 9. Please refer to Condition 8.2.

Events of Default:..Upon the occurrence of certain events, the holder of any Note may exercise certain limited remedies. Please see Condition 11 for further information.

Form, Transfer and Denominations:...................................Notes offered and sold in reliance upon Regulation S will be represented by beneficial interests in the Regulation S Global Note in registered form, without interest coupons attached, which will be deposited with the Common Depositary and registered in the name of the Common Depositary (or a nominee thereof). Notes offered and sold in reliance upon Rule 144A will be represented by beneficial interests in one or more Rule 144A Global Note(s), in registered form, without interest coupons attached, which will be deposited with the Custodian and registered in the name of Cede & Co. as nominee for DTC. Except in limited circumstances, certificates for the Notes will not be issued to investors in exchange for beneficial interests in the Global Notes.

Interests in the Regulation S Global Note for the Notes will be represented in, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg (or their respective direct or indirect participants, as applicable). Interests in the Rule 144A Global Note(s) for the Notes will be represented in, and transfers thereof will be effected only through, records maintained by DTC (or its direct or indirect participants, as applicable). Interests in the Global Notes will be subject to certain restrictions on transfer. See "*Subscription and Sale and Transfer and Selling Restrictions*" in the Base Prospectus.

Notes will be issued in denominations of US$200,000 and in integral multiples of US$1,000 in excess thereof.

Purchases by the Issuer and Related Entities:...................... Except to the extent permitted by applicable law, the Notes shall not be purchased by, or otherwise assigned and/or transferred to, or for the benefit of, a Related Entity (as defined in Condition 8.5) or the Issuer. If so permitted and subject to having obtained the prior approval of the BRSA, the Issuer or any Related Entity may at any time purchase or otherwise acquire Notes in any manner and at any price in the open market or otherwise. Please see Condition 8.5.

ERISA:.. Subject to certain conditions, the Notes may be invested in by an "employee benefit plan" as defined in and subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended, a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (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*" in the Base Prospectus.

Governing Law: .... The Notes will be, and the Agency Agreement, the Deed of Covenant and the Deed Poll are, and any non-contractual obligations arising out of or in connection with any of them will be, governed by and construed in accordance with English law, except for the provisions of Condition 3 (including as referred to in Condition 6.1), which will be governed by, and construed in accordance with, Turkish law.

Listing and Admission to Trading: .... Application has been made by the Bank to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted.

Turkish Selling Restrictions:.. The offer and sale of the Notes (or beneficial interests therein) are subject to restrictions in Turkey in accordance with applicable CMB and BRSA laws and regulations. See "*Plan of Distribution*" below and "*Subscription and Sale and Transfer and Selling Restrictions - Selling Restrictions - Turkey*" in the Base Prospectus.

Other Selling Restrictions: .... The Notes have not been and will not be registered under the Securities Act or the securities laws of any State or other jurisdiction of the United States and the Notes (or beneficial interests therein) may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S) except to QIBs in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise

	pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes (or beneficial interests therein) are also subject to restrictions in other jurisdictions, including (*inter alia*) the EEA (including the United Kingdom), Japan, Switzerland, the People's Republic of China (the "*PRC*") and the Hong Kong Special Administrative Region of the PRC. See "*Subscription and Sale and Transfer and Selling Restrictions – Selling Restrictions*" in the Base Prospectus.
Risk Factors:	There are certain factors that might affect the Issuer's ability to fulfil its obligations under the Notes. The material of these are set out under "*Risk Factors*" in the Base Prospectus (as revised for the purposes of the Notes hereby) and "*Risk Factors*" herein include risks relating to the Group and its business, the Group's relationship with the Issuer's principal shareholders, Turkey and the Turkish banking industry. In addition, there are certain other factors that are material for the purpose of assessing the risks associated with the Notes, including certain market risks. See "*Risk Factors*."
Issue Price:	100.00% of the principal amount of the Notes.
Yield:	6.125% *per annum* (for the period through the Issuer Call Date)
Regulation S Global Note Security Codes:	ISIN: XS1617531063 Common Code: 161753106
Rule 144A Global Note(s) Security Codes:	CUSIP: 900148 AE7 ISIN: US900148AE73 Common Code: 161752479
Representation of Noteholders:	There will be no trustee.
Expected Ratings:	"BB+" by Fitch and "Ba3" by Moody's.
Fiscal Agent and Principal Paying Agent:	The Bank of New York Mellon, London Branch
Registrar, Transfer Agent and Paying Agent:	The Bank of New York Mellon SA/NV, Luxembourg Branch
United States Paying Agent and Transfer Agent:	The Bank of New York Mellon, New York Branch

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which (except for the paragraphs in italics, which are for informational purposes only) will be incorporated by reference into each Global Note (as defined below) and endorsed on or attached to each definitive Note.

This Note is one of a Series (as defined below) of US$750,000,000 Fixed Rate Resettable Tier 2 Notes due 2027 (the **Notes**) issued by Türkiye Garanti Bankası A.Ş. (the **Issuer**) pursuant to the Agency Agreement (as defined below).

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

(a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in U.S. Dollars;

(b) any Global Note; and

(c) any definitive Notes in registered form (whether or not issued in exchange for a Global Note in registered form).

The Notes have the benefit of an amended and restated agency agreement dated 25 April 2017 (such agency agreement as supplemented by a supplemental agency agreement dated 23 May 2017 and as further amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) and made among the Issuer, The Bank of New York Mellon, London Branch, as fiscal and principal paying agent and exchange agent (the **Fiscal Agent** and the **Exchange Agent**, which expression shall, in each case, include any successor fiscal agent and exchange agent) and the other paying agents named therein (together with the Fiscal Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents), The Bank of New York Mellon, New York Branch, as transfer agent (together with the Registrar (as defined below), the **Transfer Agents**, which expression shall include any additional or successor transfer agent) and The Bank of New York Mellon SA/NV, Luxembourg Branch, as registrar (the **Registrar**, which expression shall include any successor registrar).

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes: (a) which are expressed in their terms to be consolidated and form a single series and (b) the terms and conditions of which are identical in all respects except for their respective issue dates, interest commencement dates and/or issue prices.

The Noteholders are entitled to the benefit of a deed of covenant dated 25 April 2017 (such deed of covenant as modified and/or supplemented and/or restated from time to time, the **Deed of Covenant**) made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, a deed poll dated 25 April 2017 (such deed poll as modified and/or supplemented and/or restated from time to time, the **Deed Poll**) made by the Issuer and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Fiscal Agent, the Registrar and the other Paying Agents, the Exchange Agent and the other Transfer Agents (such agents and the Registrar being together referred to as the **Agents**). The Noteholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll and the Deed of Covenant which are applicable to them. The statements in these Terms and Conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

1. Form, Denomination and Title

1.1 Form and denomination

The Notes are in registered form, serially numbered and issued in the amounts of US$200,000 and integral multiples of US$1,000 thereafter (each, a **Specified Denomination**). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination. The Notes are issued pursuant to the Turkish Commercial Code (No. 6102), the Capital Markets Law (No. 6362) of Turkey and the Communiqué VII-128.8 on Debt Instruments issued by the Turkish Capital Markets Board (*Sermaye Piyasası Kurulu*) (the **CMB**). The proceeds of the Notes shall be paid in cash in a single sum to the Issuer.

1.2 Title

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

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

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

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

2. Transfers of Notes

2.1 Transfers of interests in Global Notes

Transfers of beneficial interests in Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Global Note, in each case only in the Specified Denomination(s) (and provided that the aggregate nominal amount of any balance of such beneficial interest of the transferor not so transferred is an amount of at least the Specified Denomination) and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

2.2 Transfers of Notes in definitive form

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

2.3 Costs of registration

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

3. Status of the Notes

3.1 Subordination

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and claims for payment by the Issuer in respect of the Notes shall, in the case of a Subordination Event and for so long as that Subordination Event subsists, rank:

(a) subordinate in right of payment to the payment of all Senior Obligations;

(b) *pari passu* without any preference among themselves and with all Parity Obligations; and

(c) in priority to all payments in respect of Junior Obligations.

In addition, no amount will, in the case of a Subordination Event and for so long as that Subordination Event subsists, be paid under the Notes until all payment obligations in respect of Senior Obligations have been satisfied.

3.2 No Set-off or Counterclaim

All payment obligations of, and payments made by, the Issuer under and in respect of the Notes must be determined and made without reference to any right of set-off or counterclaim of any holder of the Notes, whether arising before or in respect of any Subordination Event. Following a Subordination Event and for so long as that Subordination Event subsists and prior to all payment obligations in respect of Senior Obligations having been satisfied, no holder of the Notes shall exercise any right of set-off or counterclaim in respect of any amount owed to such holder by the Issuer in respect of the Notes and any such rights shall be deemed to be waived.

3.3 No Link to Derivative Transactions

The Issuer will not: (a) link its obligations in respect of the Notes to any derivative transaction or derivative contract in a way which would result in a violation of Article 8(2)(b) of the Equity Regulation or (b) provide in any manner for such obligations to be the subject of any guarantee or security.

3.4 Interpretation

In these Conditions:

BRSA means the Banking Regulation and Supervision Agency (*Bankacılık Düzenleme ve Denetleme Kurumu*) of Turkey or such other governmental authority in Turkey having primary bank supervisory authority with respect to the Issuer.

Equity Regulation means the BRSA Regulation on the Equity of Banks (published in the Official Gazette dated 5 September 2013 (No. 28756), with an effective date of 1 January 2014).

Junior Obligations means any class of share capital (including ordinary and preferred shares) of the Issuer together with any obligations of the Issuer in respect of any securities or other instruments, including any present and future subordinated loans or debt instruments (as provided under Article 7 of the Equity Regulation), or other payment obligations of the Issuer, which obligations in each case rank, or are expressed to rank, junior to the Issuer's obligations under the Notes.

Parity Obligations means any obligations of the Issuer in respect of any securities or other instruments, including any present and future subordinated loans or debt instruments (as provided under Article 8 of the Equity Regulation), or other payment obligations of the Issuer, which in each case rank, or are expressed to rank, *pari passu* with the Issuer's obligations under the Notes.

Senior Obligations means any of the Issuer's present and future indebtedness and other obligations (including, without limitation: (a) obligations for any Senior Taxes, statutory preferences and other legally-required payments, (b) obligations to depositors and trade creditors, and (c) obligations under hedging and other financial instruments), other than its obligations under: (i) the Notes, (ii) any Parity Obligations and (iii) any Junior Obligations.

Senior Taxes means any tax, levy, fund, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) including, without limitation, the Banking and Insurance Transactions Tax (*Banka ve Sigorta Muameleleri Vergisi*) imposed by Article 28 of the Expenditure Taxes Law (No. 6802), income withholding tax pursuant to the Decrees of the Council of Ministers of Turkey (No. 2011/1854 and No. 2010/1182), Articles 15 and 30 of the Corporate Income Tax Law (No. 5520) and Article 94 and Provisional Article 67 of the Income Tax Law (No. 193), any reverse VAT imposed by the VAT Law (No. 3065), any stamp tax imposed by the Stamp Tax Law (No. 488) and any withholding tax imposed by, or anti-tax haven regulations under, Article 30.7 of the Corporate Income Tax Law (No. 5520).

Subordination Event means any distribution of the assets of the Issuer on a dissolution, winding-up or liquidation of the Issuer whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation of indebtedness (*konkordato*) or any analogous proceedings referred to in the Banking Law (No. 5411), the Turkish Commercial Code (No. 6102) or the Turkish Execution and Bankruptcy Code (No. 2004).

Turkey means the Republic of Turkey.

4. Covenants

4.1 Maintenance of Authorisations

So long as any of the Notes remains outstanding, the Issuer shall take all necessary action to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, permissions, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in Turkey (including, without limitation, with the CMB and the BRSA) for: (a) the execution, delivery or performance of the Agency Agreement, the Deed of Covenant, the Deed Poll and the Notes or for the validity or enforceability thereof, or (b) the conduct by it of the Permitted Business, save for any consents, permissions, licences, approvals, authorisations, registrations, recordings and filings which are immaterial in the conduct by the Issuer of the Permitted Business.

4.2 Transactions with Affiliates

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

4.3 Financial Reporting

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

(a) not later than six months after the end of each financial year of the Issuer, English language copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding financial year, and all such annual financial statements of the Issuer shall be accompanied by the report of the auditors thereon; and

(b) not later than 120 days after the end of the first six months of each financial year of the Issuer, English language copies of its unaudited 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.

4.4 Merger, Amalgamation, Consolidation, Sale, Assignment or Disposal

So long as any of the Notes remains outstanding, the Issuer shall not merge, amalgamate or consolidate with or into, or sell, assign or otherwise dispose of all or substantially all of its property and assets (whether in a single transaction or a series of related transactions) to, any other Person (a **New Bank**) without the prior approval of the Noteholders by way of an Extraordinary Resolution unless either:

(a) (i) the New Bank is incorporated, domiciled and resident in Turkey and executes a deed poll and such other documents (if any) as may be necessary to give effect to its assumption of all of the obligations, covenants, liabilities and rights of the Issuer in respect of the Notes (together, the **Documents**) and (without limiting the generality of the foregoing) pursuant to which the New Bank shall undertake in favour of each Noteholder to be bound by the Notes, these Conditions and the provisions of the Agency Agreement, the Deed of Covenant and the Deed Poll as fully as if it had been named in the Notes, these Conditions, the Agency Agreement, the Deed of Covenant and the Deed Poll in place of the Issuer; and

(ii) the Issuer (or the New Bank) delivers to the Fiscal Agent a legal opinion from a leading firm of lawyers in each of Turkey and England to the effect that, subject to no greater limitations as to enforceability than those which would apply in any event in the case of the Issuer, the Documents constitute or, when duly executed and delivered, will constitute, legal, valid and binding obligations of the New Bank, with each such opinion to be dated not more than seven days prior to the date of such merger, amalgamation or consolidation or sale, assignment or other disposition;

and provided: (A) none of the events or circumstances described in paragraphs (a), (b) or (c) of Condition 11 below has occurred and is continuing and (B) such merger, amalgamation or consolidation or sale, assignment or other disposition does not and would not: (I) result in any other default or breach of the obligations and covenants of the Issuer under the Notes or of the New Bank on its assumption of such obligations and covenants in accordance with the provisions of this Condition 4.4(a) or (II) otherwise have a Material Adverse Effect; or

(b) the surviving legal entity following any such merger, amalgamation or consolidation is the Issuer.

4.5 Interpretation

For the purposes of these Conditions:

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

Group means the Issuer and its Subsidiaries.

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

Material Adverse Effect means a material adverse effect on: (i) the business, financial condition or results of operations of the Issuer or the Group, or (ii) the Issuer's ability to perform its obligations under the Notes, which shall be determined by reference to the Issuer and the Group immediately prior to, and to the New Bank and the New Group immediately after, the relevant merger, amalgamation or consolidation or sale, assignment or other disposition.

New Group means the New Bank and its Subsidiaries.

Permitted Business means any business which is the same as or related, ancillary or complementary to any of the businesses of the Issuer on the Issue Date (as defined in Condition 5.5).

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

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

5. Interest

5.1 Interest Rate and Interest Payment Dates

Each Note bears interest:

(a) in respect of the period from (and including) the Issue Date to (but excluding) the Issuer Call Date, at the rate of 6.125 *per cent. per annum* (the **Initial Interest Rate**); and

(b) in respect of the period from (and including) the Issuer Call Date to (but excluding) the Maturity Date (the **Reset Period**), at the rate *per annum* equal to the aggregate of: (i) the Reset Margin and (ii) the 5 Year Mid-Swap Rate (the **Reset Interest Rate** and, together with the Initial Interest Rate, each, a **Rate of Interest**), as determined by the Fiscal Agent on the Reset Determination Date.

Interest will be payable semi-annually in arrear on each of 24 May and 24 November (each, an **Interest Payment Date**) in each year up to (and including) the Maturity Date, commencing on 24 November 2017.

In the case of any Write-Down (as defined in Condition 6.1) of the Notes, interest will be paid on the Notes:

(i) if the Notes are Written-Down in full, on the date of the Write-Down (the **Write-Down Date**) and in respect of: (A) the period from (and including) the Interest Payment Date immediately preceding the Write-Down Date (or, if none, the Issue Date) to (but excluding) the Write-Down Date and (B) the Prevailing Principal Amount(s) of the outstanding Notes during that period; and

(ii) if the Notes are not Written-Down in full, on the Interest Payment Date immediately following such Write-Down (the **Partial Write-Down Interest Payment Date**) and calculated as the sum of the amount of interest payable in respect of:

(A) the period from (and including) the Interest Payment Date immediately preceding the Write-Down Date (or, if none, the Issue Date) to (but excluding) the Write-Down Date; and

(B) the period from (and including) the Write-Down Date to (but excluding) the Partial Write-Down Interest Payment Date,

and, in each case, the Prevailing Principal Amount(s) of the outstanding Notes during those respective periods.

Interest shall be calculated in respect of any period by applying the Rate of Interest to:

(I) in the case of Notes which are represented by a Global Note, the aggregate Prevailing Principal Amount of the outstanding Notes represented by such Global Note, or

(II) in the case of Notes in definitive form, US$1,000 (the **Calculation Amount**),

and, in each case, multiplying such sum by 30/360, and rounding the resultant figure to the nearest US$0.01 (with US$0.005 being rounded upwards). Where the Prevailing Principal Amount of a Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach such Prevailing Principal Amount, without any further rounding. For any Prevailing Principal Amount of a Note in definitive form that is not a multiple of the Calculation Amount, the amount of interest payable in respect of such Prevailing Principal Amount shall be determined in the same manner as for a Global Note above.

In the case of a period for which interest is to be calculated where different Prevailing Principal Amounts have applied, the above calculation shall be performed separately for each sub-period within that period during which the Prevailing Principal Amount was different and the aggregate of the amounts resulting from such calculations shall be the interest payable in respect of the relevant period.

5.2 Determination and notification of Reset Interest Rate

The Fiscal Agent will at or as soon as practicable after the Relevant Time determine the Reset Interest Rate and cause it to be notified to the Issuer and any stock exchange on which the Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after such determination but in no event later than the fourth London Business Day thereafter. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

5.3 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 5 shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the other Agents and all Noteholders and (in the absence of wilful default or bad faith) no liability to the Issuer or the Noteholders shall attach to the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.4 Accrual of interest

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

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

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

5.5 Interpretation

In these Conditions:

5 Year Mid-Swap Rate means the annual mid-swap rate for U.S. Dollar swap transactions with a maturity of five years (quoted on a semi-annual basis), expressed as a percentage, which appears on the Screen Page at the Relevant Time. If such rate does not appear on the Screen Page at the Relevant Time, the 5 Year Mid-Swap Rate will be the percentage *per annum* determined by the Fiscal Agent on the basis of the arithmetic mean of the bid and offered rates quoted by the Reference Banks at the Relevant Time for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating U.S. Dollar interest rate swap transaction with an acknowledged dealer of good credit in the swap market, which swap transaction has a term of five years commencing on the Issuer Call Date and is in a Representative Amount, where the floating leg (calculated on an Actual/360 day count basis) is equivalent to the rate for deposits in U.S. Dollars for a three month period offered at the Relevant Time by the principal London offices of leading swap dealers in the New York City interbank market to prime banks in the London interbank market. The Fiscal Agent will request each of the Reference Banks to provide such quotations. If three or more quotations are so provided, the 5 Year Mid-Swap Rate will be the percentage reflecting the arithmetic mean of those quotations, eliminating the highest such quotation (or, in the event of equality, one of the highest) and the lowest such quotation (or, in the event of equality, one of the lowest). If only two quotations are so provided, it will be the arithmetic mean of the quotations provided. If only one quotation is so provided, it will be such quotation. If no quotations are provided, the 5 Year Mid-Swap Rate will be 1.905 *per cent. per annum*.

30/360 means the number of days in the Interest Period or the Relevant Period, as the case may be, to (but excluding) the relevant payment date, divided by 360, calculated on the basis of a year of 360 days with twelve 30-day months.

Actual/360 means the actual number of days in the Interest Period or the Relevant Period, as the case may be, to (but excluding) the relevant payment date, *divided by* 360.

Business Day means a day (other than a Saturday or Sunday) 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 Istanbul, London and New York City.

Initial Principal Amount means US$1,000 for each US$1,000 of the Specified Denomination of the Notes as of the Issue Date.

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

Issue Date means 23 May 2017.

Issuer Call Date means 24 May 2022.

Maturity Date means 24 May 2027.

Prevailing Principal Amount means, in respect of a Note at any time, the Initial Principal Amount of that Note as reduced (on one or more occasions) by any Write-Down (as defined in Condition 6.1) at or prior to such time.

Reference Banks means five leading swap dealers in the New York City interbank market as selected by the Fiscal Agent after consultation with the Issuer.

Relevant Period means the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant date of payment.

Relevant Time means at or around 11:00 a.m. (New York City time) on the Reset Determination Date.

Representative Amount means an amount that is representative of a single transaction in the relevant market at the Relevant Time.

Reset Determination Date means the third Business Day immediately preceding the Issuer Call Date.

Reset Margin means 4.220 *per cent. per annum*.

Screen Page means the display page on the relevant Reuters information service designated as the "ICESWAP1" page or such other page as may replace it on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, in each case, for the purpose of displaying equivalent or comparable rates to the 5 Year Mid-Swap Rate.

6. LOSS ABSORPTION UPON THE OCCURRENCE OF A NON-VIABILITY EVENT

6.1 Write-Down of the Notes

Under Article 8(2)(ğ) of the Equity Regulation, to be eligible for inclusion as Tier 2 capital of the Issuer, it should, among other things, be possible pursuant to the terms of the Notes for the Notes to be written-down or converted into equity of the Issuer upon the decision of the BRSA in the event it is probable that: (a) the operating licence of the Issuer may be revoked or (b) shareholder rights, and the management and supervision of the Issuer, may be transferred to the SDIF, in each case pursuant to Article 71 of the Banking Law (No. 5411) (as further defined below, a Non-Viability Event). For the purposes of the Notes, the Issuer has elected pursuant to Article 8(2)(ğ) of the Equity Regulation to provide for the permanent write-down of the Notes and not their conversion into equity on the occurrence of a Non-Viability Event as follows.

If a Non-Viability Event occurs at any time, the Issuer shall:

(a) *pro rata* with the other Notes and any other Parity Loss-Absorbing Instruments; and

(b) in conjunction with, and such that no Write-Down (as defined below) shall take place without there also being:

(i) the maximum possible reduction in the principal amount of, and/or corresponding conversion into equity being made in respect of, all Junior Loss-Absorbing Instruments (including "Additional Tier 1" (*İlave Ana Sermaye*)) in accordance with the provisions of such Junior Loss-Absorbing Instruments, and

(ii) the implementation of Statutory Loss-Absorption Measures, involving the absorption by all other Junior Obligations (including Common Equity Tier 1 Capital (*Çekirdek Sermaye*)) to the maximum extent allowed by law of the relevant loss(es) giving rise to the Non-Viability of the Issuer within the framework of the procedures and other measures by which the relevant loss(es) of the Issuer giving rise to the Non-Viability Event may be absorbed by such Junior Obligations pursuant to Article 71 of Banking Law (No. 5411) and/or otherwise under Turkish law and regulations,

reduce the then Prevailing Principal Amount of each outstanding Note by the relevant Write-Down Amount (any such reduction, a **Write-Down,** and **Written-Down** and **Writing Down** shall be construed accordingly).

For these purposes, any determination of a Write-Down Amount shall take into account the absorption of the relevant loss(es) by all Junior Obligations to the maximum extent possible or otherwise allowed by law and the Writing Down of the Notes *pro rata* with any other Parity Loss-Absorbing Instruments, thereby maintaining the respective rankings described under Condition 3.1 above.

As of the date of this Prospectus, there are a number of corrective, rehabilitative and restrictive measures that the BRSA may require to be taken under Articles 68 to 70 of the Banking Law (No. 5411) prior to any determination of Non-Viability of the Issuer. In conjunction with any such determination by the BRSA, losses may be absorbed by shareholders of the Issuer pursuant to Article 71 of the Banking Law (No. 5411) upon: (a) the transfer of shareholders' rights (except to dividends) and the management and supervision of the Issuer to the SDIF, on the condition that such loss(es) are deducted from the capital of the shareholders, or (b) the revocation of the Issuer's operating licence and its liquidation. However, the Write-Down of the Notes under the Equity Regulation may take place before any such transfer or liquidation.

Pursuant to the first paragraph of this Condition 6.1, while the Notes may be Written-Down before any transfer or liquidation as described in the preceding paragraph, the Write-Down must take place in conjunction with such transfer of shareholders' rights to the SDIF or revocation of the Issuer's operating licence and liquidation pursuant to Article 71 of the Banking Law (No. 5411) in order that the respective rankings described in Condition 3.1 are maintained and the relevant loss(es) are absorbed by Junior Obligations to the maximum extent possible. In this respect, such action will be taken as is decided by the Board of the BRSA. Where a Write-Down of the Notes takes place before the liquidation of the Issuer, Noteholders would only be able to claim and prove in such liquidation in respect of the Prevailing Principal Amount of the outstanding Notes following the Write-Down.

The Issuer shall notify the Noteholders of any Non-Viability Event in accordance with Condition 14 as soon as practicable upon receiving notice thereof from the BRSA; provided that prior to the publication of such notice the Issuer shall deliver to the Fiscal Agent the statement(s) in writing received from (or published by) the BRSA of its determination of such Non-Viability Event. The Issuer shall further notify the Noteholders in accordance with Condition 14 and deliver to the Fiscal Agent the statement(s) in writing received from (or published by) the BRSA specifying the Write-Down Amount as soon as practicable upon receiving notice thereof from the BRSA.

A Non-Viability Event may occur on more than one occasion and the Notes may be Written-Down on more than one occasion, with each such Write-Down to involve the reduction of the then Prevailing Principal Amount of each outstanding Note by the relevant Write-Down Amount.

Noteholders will have no further claim against the Issuer in respect of any Written-Down Amount of the Notes and if, at any time, the Notes are Written-Down in full, the Notes shall be cancelled following payment of interest accrued and unpaid to (but excluding) the date of such final Write-Down and Noteholders will have no further claim against the Issuer in respect of any such Notes.

6.2 Interpretation

For the purposes of this Condition 6:

Junior Loss-Absorbing Instruments means any Loss-Absorbing Instrument that is or represents a Junior Obligation.

Loss-Absorbing Instrument means any security or other instrument or payment obligation that has provision for all or some of its principal amount to be reduced and/or converted into equity (in accordance with its terms or otherwise) on the occurrence or as a result of a Non-Viability Event (which shall not include ordinary shares or any other instrument that does not have such provision in its terms or otherwise but which is subject to any Statutory Loss Absorption Measure).

Non-Viable means, in the case of the Issuer, where the Issuer is at the point at which the BRSA may determine pursuant to Article 71 of the Banking Law (No. 5411) that: (a) its operating licence is to be revoked and the Issuer liquidated or (b) the rights of all of its shareholders (except to dividends), and the management and supervision of the Issuer, are to be transferred to the SDIF on the condition that losses are deducted from the capital of existing shareholders, and **Non-Viability** shall be construed accordingly.

Non-Viability Event means the determination by the BRSA that, upon the incurrence of a loss by the Issuer (on a consolidated or non-consolidated basis), the Issuer has become, or it is probable that the Issuer will become, Non-Viable.

Parity Loss-Absorbing Instruments means any Loss-Absorbing Instrument that is or represents a Parity Obligation.

SDIF means the Savings Deposit Insurance Fund (*Tasarruf Mevduatı Sigorta Fonu*) of Turkey.

Statutory Loss Absorption Measure means the transfer of shareholders' rights and the management and supervision of the Issuer to the SDIF pursuant to Article 71 of the Banking Law (No. 5411) or any analogous procedure or other measure under the laws of Turkey by which the relevant loss(es) of the Issuer giving rise to the Non-Viability Event may be absorbed by Junior Obligations.

Write-Down Amount, in respect of an outstanding Note, means the amount by which the Prevailing Principal Amount of such Note as of the date of the relevant Write-Down is to be Written-Down, which shall be determined as described in Condition 6.1 and may be all or part only of such Prevailing Principal Amount, in each case as specified in writing (including by way of publication) by the BRSA, and **Written-Down Amount** shall be construed accordingly.

While a Write-Down of the Notes may take place before the absorption of the relevant loss(es) giving rise to the Non-Viability Event to the maximum extent possible by Junior Obligations, such loss absorption might be taken into account by the BRSA, where relevant, in the determination of the Write-Down Amount in order for the respective rankings described in Condition 3.1 to be maintained on any Write-Down as provided in Condition 6.1.

7. Payments

7.1 Method of payment

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

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

7.2 Payments in respect of Notes

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

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

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

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

7.3 General provisions applicable to payments

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

7.4 Payment Business Day

If the date for payment of any amount in respect of any Note is not a Payment Business Day, the holder thereof shall not be entitled to payment until the next following Payment Business Day in the relevant place and, in any such case, shall not be entitled to further interest or other payment in respect of such delay.

For these purposes:

Payment Business Day means any day which is a day (other than a Saturday or Sunday) 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:

(a) Istanbul, London and New York City; and

(b) in the case of Notes in definitive form only, the relevant place of presentation.

7.5 Interpretation of principal and interest

Any reference in these Conditions to principal or interest in respect of a Note shall be deemed to include, as applicable, any additional amounts which may be payable with respect to principal or interest under Condition 9.

8. Redemption and Purchase

8.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each outstanding Note will be redeemed by the Issuer at its then Prevailing Principal Amount on the Maturity Date.

8.2 Redemption for tax reasons

If, as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 19 May 2017, on the next Interest Payment Date, the Issuer would:

(a) be required to: (i) pay additional amounts as provided or referred to in Condition 9 and (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on 19 May 2017, where such requirement cannot be avoided by the Issuer taking reasonable measures available to it; or

(b) no longer be entitled to claim a deduction in calculating its tax liability in a Relevant Jurisdiction in respect of the payment of interest to be made on the next Interest Payment Date, or the value of such deduction to the Issuer, as compared to what it would have been on 19 May 2017, is reduced, then the Issuer may, at its option, having given not less than 30 and not more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes then outstanding, subject (if required by applicable laws and regulations) to having obtained the prior approval of the BRSA, at any time at their respective then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent:

(i) a certificate signed by two authorised signatories of the Issuer stating that the requirements referred to in sub-paragraph (a) or (b) above, as the case may be, will apply on the next Interest Payment Date and, in the case of sub-paragraph (a), cannot be avoided by the Issuer taking reasonable measures available to it,

(ii) if the BRSA's approval is required by applicable law or regulations, a copy of the BRSA's written approval for such redemption of the Notes, and

(iii) an opinion of independent legal advisers, in the case of sub-paragraph (a) above, or independent tax advisers, in the case of sub-paragraph (b) above, in each case of recognised standing to the effect that (as a result of the change or amendment) the Issuer: (A) in the case of sub-paragraph (a) above, has or will become obliged to pay such additional amounts, or (B) in the case of sub-paragraph (b) above, is or will no longer be entitled to claim such deduction or the value of such deduction has or will be so reduced.

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

The Issuer may, having given not less than 30 and not more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all, but not some only, of the Notes then outstanding, subject to having obtained the prior approval of the BRSA, on the Issuer Call Date at their respective then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the Issuer Call Date.

8.4 Redemption upon a Capital Disqualification Event

If a Capital Disqualification Event occurs at any time after the Issue Date, the Issuer may, having given not less than 30 and not more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption, which date shall not be earlier than the date on which the Notes (or the applicable portion thereof) cease to be eligible for inclusion as Tier 2 capital of the Issuer), redeem all, but not some only, of the Notes then outstanding at any time at their respective then Prevailing Principal Amount together with interest accrued and unpaid to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition 8.4, the Issuer shall deliver to the Fiscal Agent: (a) a copy of the confirmation in writing by the BRSA required for the purpose of clause (B) of the definition of Capital Disqualification Event, if applicable, and (b) a certificate signed by two authorised signatories of the Issuer stating that such Capital Disqualification Event has occurred.

For the purposes of this Condition 8.4:

(i) **Capital Disqualification Event** means if, as a result of: (A) any change in applicable law (including the Equity Regulation), or (B) the application or official interpretation thereof, which change in application or official interpretation is confirmed in writing by the BRSA, all or any part of the aggregate Prevailing Principal Amount of the outstanding Notes is not (or will cease to be) eligible for inclusion as Tier 2 capital of the Issuer; and

(ii) **Tier 2 capital** means tier 2 capital as provided under Article 8 of the Equity Regulation.

8.5 Purchases

Except to the extent permitted by applicable law and regulations, the Notes shall not be purchased by, or otherwise assigned and/or transferred to, or for the benefit of: (a) any entity that is controlled by the Issuer or over which the Issuer has significant influence (as contemplated in the Banking Law (No. 5411) and the Equity Regulation) (a **Related Entity**) or (b) the Issuer. If so permitted and subject to having obtained the prior approval of the BRSA, the Issuer or any Related Entity may at any time purchase or otherwise acquire Notes in any manner and at any price in the open market or otherwise. Subject to applicable law and regulations, such Notes may be held, resold or, at the option of the Issuer or any such Related Entity (as the case may be) for those Notes held by it, surrendered to any Paying Agent and/or the Registrar for cancellation.

8.6 Cancellation

All Notes which are redeemed pursuant to this Condition 8 will forthwith be cancelled. All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 8.5 above shall be forwarded to the Fiscal Agent and cannot be held, reissued or resold.

8.7 No other redemption or purchase

Neither the Issuer nor any Related Entity may redeem or purchase the Notes, as applicable, before the Maturity Date other than as provided in this Condition 8.

9. Taxation

9.1 Payment without Withholding

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

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

(b) presented for payment in Turkey; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder of the relevant Note would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Payment Business Day (as defined in Condition 7.4).

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

In these Conditions:

(i) the **Relevant Date** means, with respect to any payment, the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the holder of the relevant Note, as the case may be, by the Issuer in accordance with Condition 14.

(ii) **Relevant Jurisdiction** means Turkey or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

9.2 Additional Amounts

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

10. Prescription

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

11. Events of Default

If:

(a) default is made by the Issuer in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or

(b) a Subordination Event occurs; or

(c) any order is made by any competent court or resolution is passed for the winding up, dissolution or liquidation of the Issuer,

the holder of any Note may:

(i) in the case of (a) above, institute proceedings for the Issuer to be declared bankrupt or insolvent or for there otherwise to be a Subordination Event, or for the Issuer’s winding up, dissolution or liquidation, and prove in the winding-up, dissolution or liquidation of the Issuer; and/or

(ii) in the case of (b) or (c) above, claim or prove in the winding-up, dissolution or liquidation of the Issuer,

but (in either case) may take no further or other action to enforce, claim or prove for any payment by the Issuer in respect of the Notes and may only claim such payment in the winding-up, dissolution or liquidation of the Issuer.

In any of the events or circumstances described in (b) or (c) above, the holder of any outstanding Note may give notice to the Issuer that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its then Prevailing Principal Amount, together with interest accrued and unpaid to (but excluding) the date of repayment, subject to the subordination provisions described under Condition 3.1 above.

The holder of any Note may at its discretion institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Notes (other than, without prejudice to the provisions above, any obligation for the payment of any principal or interest in respect of the Notes), provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any amount or amounts sooner than the same would otherwise have been payable by it, except with the prior approval of the BRSA.

No remedy against the Issuer other than as provided above shall be available to the holders of Notes, whether for the recovery of amounts owing in respect of the Notes or otherwise in respect to any of the events or circumstances described in sub-paragraphs (a), (b) and (c) above or in respect of any breach by the Issuer of any of its obligations, covenants or undertakings under the Notes.

12. Replacement of Notes

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

13. Agents

The names of the initial Agents and their initial specified offices are set out in the Agency Agreement.

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

(a) there will at all times be a Fiscal Agent and a Registrar;

(b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Transfer Agent (which may be the Registrar) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

(c) there will at all times be a Paying Agent in a jurisdiction other than the jurisdiction in which the Issuer is incorporated.

Notice of any variation, termination, appointment or change in Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

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

14. Notices

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

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

15. Meetings of Noteholders and Modification

15.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. of the then Prevailing Principal Amount of the Notes for the time being remaining outstanding. A meeting that has been validly convened in accordance with the provisions of the Agency Agreement may be cancelled by the Person who convened (or, if applicable, caused the Issuer to convene) such meeting giving at least five days' notice, which, in the case of a meeting convened by the Issuer, will be given to applicable Noteholders in accordance with Condition 14.

The quorum at any such meeting for passing an Extraordinary Resolution is one or more person(s) holding or representing not less than 50 per cent. of the then Prevailing Principal Amount of the Notes for the time being outstanding, or at any adjourned meeting one or more person(s) being or representing Noteholders whatever the Prevailing Principal Amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes (including modifying the Maturity Date or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes or amending the Deed of Covenant in certain respects), the quorum shall be one or more person(s) holding or representing not less than two-thirds of the then Prevailing Principal Amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more person(s) holding or representing not less than one-third of the then Prevailing Principal Amount of the Notes for the time being outstanding. An Extraordinary Resolution passed by the Noteholders will be binding on all the Noteholders, whether or not they are present at any meeting and whether or not they vote on the resolution.

The Agency Agreement provides that: (a) a resolution in writing signed on behalf of the Noteholders of not less than 75 per cent. of the then Prevailing Principal Amount of the Notes for the time being outstanding (whether such resolution in writing is contained in one document or several documents in the same form, each signed on behalf of one or more Noteholders) or (b) consent given by way of electronic consents through the relevant clearing systems by or on behalf of Noteholders of not less than 75 per cent. of the then Prevailing Principal Amount of the Notes for the time being outstanding will, in each case, take effect as if it were an Extraordinary Resolution and shall be binding upon all Noteholders.

15.2 Modification

The Fiscal Agent and the Issuer may agree in writing, without the consent of the Noteholders, to any modification of any of these Conditions, the Deed of Covenant or any of the provisions of the Agency Agreement which is, in the opinion of the Issuer, either: (a) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (b) following the advice of an independent financial institution of international standing, not materially prejudicial to the interests of the Noteholders. Any such modification shall be binding on the Noteholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

16. Further Issues

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

17. The Contracts (Rights of Third Parties) Act 1999

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

18. Governing Law and Submission to Jurisdiction

18.1 Governing law

The Agency Agreement, the Deed of Covenant, the Deed Poll and the Notes and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Deed Poll and the Notes are and shall be governed by, and construed in accordance with, English law, except for the provisions of Condition 3 (including as referred to in Condition 6.1), which are 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 Noteholders, that the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) is to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes) and accordingly submits to the exclusive jurisdiction of the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales). The Issuer waives any objection to the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) on the grounds that they are an inconvenient or inappropriate forum.

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

18.3 Consent to Enforcement

The Issuer agrees, without prejudice to the enforcement of a judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) according to the provisions of Article 54 of the International Private and Procedural Law of Turkey (No. 5718), that in the event that any action is brought in relation to the Issuer in a court in Turkey in connection with the Notes, in addition to other permissible legal evidence pursuant to the Civil Procedure Code of Turkey (No. 6100), any judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer, pursuant to the provisions of the first paragraph of Article 193 of the Civil Procedure Code of Turkey (No. 6100) and Articles 58 and 59 of the International Private and Procedural Law of Turkey (No. 5718).

18.4 Appointment of Process Agent

Service of process may be made upon the Issuer in respect of any Proceedings in England at its representative office at Fifth Floor, 192 Sloane Street, London, SW1X 9QX and the Issuer undertakes that in the event of such representative office ceasing so to act it will appoint another person as its agent for that purpose.

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 High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) and appointed an agent in England for service of process in terms substantially similar to those set out above.

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

The following discussion and analysis should be read in conjunction with the Group's IFRS Financial Statements incorporated by reference into this Prospectus.

As used in this Prospectus, the term "**Group**" is used to denote the Group on a consolidated basis and the term "**Bank**" indicates that the context refers to the Bank on a stand-alone basis.

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

The Group's financial condition, results of operations and prospects depend significantly upon the macro-economic, political and regulatory conditions prevailing in Turkey as well as other factors. The impact of these and other potential factors might vary significantly in the future and many of these factors are outside the control of the Group. Prospective investors should (among other things) consider the factors set forth under "*Cautionary Statement Regarding Forward-Looking Statements*" in the Base Prospectus and "*Risk Factors*." The following describes the most significant of such factors since the beginning of 2014.

Political Developments

On 15 July 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling government remained in control. Following the coup attempt, there have been arrests of numerous individuals, including senior members of the military, police and judiciary, as well as suspension, dismissal, travel bans and legal proceedings against police officers, public employees and a number of individuals in the business community. As of the date of this Prospectus, investigations with respect to the attempted coup are on-going. There might be further arrests and actions taken by the government in relation to these investigations, including changes in policies and laws. Although, through the date of this Prospectus, the Group's operations have not been materially affected by the attempted coup, the political and social circumstances following the attempted coup and its aftermath (including ratings downgrades of Turkey and the Bank) or any other political developments might have a negative impact on the Turkish economy (including the value of the Turkish Lira, international investors' willingness to invest in Turkey and domestic demand), the institutional and regulatory framework in Turkey and/or Turkey's international relations, which, in turn, might have an adverse impact on the Group's financial condition and results of operations.

On 20 July 2016, the government declared a 90 day state of emergency in the country, entitling the government to exercise additional powers. Under Article 120 of the Turkish Constitution, in the event of serious indications of widespread acts of violence aimed at the destruction of the free democratic order, a state of emergency may be declared in one or more regions of, or throughout, the country for a period not exceeding three months; *however*, this period may be extended. The state of emergency has been extended three times (most recently on 19 April 2017) for additional three month periods pursuant to Article 121 of the Turkish Constitution and might be further extended.

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

Turkish Economy

The Group's operations are primarily in Turkey (or related to Turkish activities) and almost all of its operating income and net income are derived from its Turkish operations (including Turkish-related business for the Group's operations abroad). Accordingly, its results of operations and financial condition are and will continue to be significantly affected by Turkish political, regulatory and macro-economic factors, including factors such as economic growth rates, currency fluctuations, the Central Bank's regulatory policy, inflation and fluctuations in interest rates in Turkey.

The following table provides certain macro-economic indicators for Turkey, including real GDP, inflation rates and the Central Bank's overnight Turkish Lira interest rate for each of the indicated periods, as well as the average exchange rates announced by the Bank between the Turkish Lira and each of the U.S. dollar and the euro for such periods:

	2012	**2013**	**2014**	**2015**	**2016**	**For the three month period ended 31 March 2017**
GDP (real)(1)(2)	4.8%	8.5%	5.2%	6.1%	2.9%	(3)
Consumer price index(1)	6.2%	7.4%	8.2%	8.2%	8.5%	10.2%
Producer price index(1)	2.5%	7.0%	6.4%	5.6%	9.9%	15.0%
Period-end Central Bank overnight TL lending rate(4)	5.00%	7.75%	11.09%	10.75%	8.50%	9.25%
Daily average TL/$ exchange rate(5)	1.78	1.88	2.16	2.70	3.02	3.69
Daily average TL/€ exchange rate(6)	2.28	2.50	2.87	2.99	3.34	3.93
Closing TL/$ exchange rate(5)	1.82	2.12	2.31	2.91	3.51	3.64
Closing TL/€ exchange rate (6)	2.32	2.92	2.79	3.17	3.70	3.88

(1) As published by TurkStat.

(2) On 12 December 2016, Turkstat changed the method of calculation to determine economic growth in Turkey and revised the figures announced for the previous periods that were calculated in line with the former method. The figures in this table reflect the GDP growth revised in line with the calculations made with the new method.

(3) The real GDP growth for the first three months of 2017 is not available as of 15 May 2017.

(4) The overnight borrowing rate announced by the Central Bank. The Central Bank announces the weekly repo lending rate as the reference rate, which was 8.25% as of 31 December 2014, 8.78% as of 31 December 2015 and 8.50% as of 31 December 2016.

(5) The Turkish Lira exchange rate for purchases of U.S. dollars announced by the Bank.

(6) The Turkish Lira exchange rate for purchases of euro announced by the Bank.

In 2015 and 2016, Bank-only loan growth was 18.5% and 17.0%, respectively, principally driven by consumer demand and the Group's strategy to focus on more profitable products, such as retail and SME loans. This same pattern continued in the first quarter of 2017, during which Bank-only loan growth was 5.3% (in just the three months from 31 December 2016), reflecting the significant support for SMEs provided by the Credit Guarantee Fund (*Kredi Garanti Fonu*) (the "*KGF*").

In December 2016, the Turkish government announced that the Undersecretariat of Treasury will provide a guarantee for SME loans up to an aggregate amount of TL 250 billion via the KGF, which aims to boost economic growth, support high potential companies that have difficulty accessing funding due to collateralisation constraints and help Turkish banks to grow by allowing 0% risk weight to be applied to the guaranteed portion of these loans. Banks are assigned certain limits to grant these loans and the amount corresponding to 85% of such limit will be guaranteed by the Undersecretariat of Treasury. The guarantee also extends to NPLs from these SME loans that constitute up to 7% of a bank's NPL levels. If the NPLs from these loans exceed 7% of a bank's NPL ratio, then the banks will bear the risk. In the first three months of 2017, the Group's loan portfolio grew by 5.0% principally as a result of growth in the portfolio of loans benefitting from the support of the KGF; *however*, the growth rate of KGF lending started to normalise in April 2017 and the Bank's management expects such growth to continue at normal levels such that the SME loan growth rates are expected to be lower in future periods.

Currency Exchange Rates

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly the U.S. dollar and the euro. The share of Turkish Lira-denominated assets and liabilities in the Group's balance sheet has changed from 52.3% and 42.0%, respectively, as of 31 December 2014 to 52.4% and 39.8%, respectively, as of 31 March 2017. While the Group monitors its net open position in foreign currencies (which is the amount by which its foreign currency-denominated assets differ from its foreign currency-denominated liabilities) and each of the Bank and the Group is required to comply with foreign currency net open position limits promulgated by the BRSA, each of the Bank and the Group has maintained and likely will continue to maintain gaps between the balances of its foreign currency assets and liabilities. The limit imposed by the BRSA is defined as an amount plus/minus 20% of the total capital used in the calculation of regulatory capital adequacy ratios. The Group's and the Bank's foreign currency net open position ratios were 7.9% and 7.8%, respectively, as of 31 March 2017, 3.1% and 3.4%, respectively, as of 31 December 2016, 4.6% and 6.0%, respectively, as of 31 December 2015 and negative 9.0% and negative 5.7%, respectively, as of 31 December 2014.

The Group had a long foreign currency position of US$658 million as of 31 March 2017, while it had long foreign currency positions of US$152 million as of 31 December 2016 and US$401 million as of 31 December 2015 and a short foreign currency position of US$1,199 million as of 31 December 2014. The following table provides the Group's net open position in different currencies as of the indicated dates:

	As of 31 December			As of 31 March 2017
	2014	2015	2016	
		(millions)		
U.S. dollars	$(941)	$133	$(70)	$97
euro	€(591)	€84	€79	€331
Other currencies[1]	$457	$177	$140	$207
Total net foreign exchange position[1][2]	**$(1,199)**	**$401**	**$152**	**$658**

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

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

The Group translates its foreign currency assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains or losses realised upon the sale of such assets, to Turkish Lira in preparing its financial statements at the foreign exchange rate on the balance sheet date. As a result, the Group's reported income is affected by changes in the value of the Turkish Lira with respect to foreign currencies. The overall effect of exchange rate movements on the Group's results of operations depends upon the successful implementation of the Group's hedging strategies as well as upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading currencies. The Group generally seeks to be fully hedged in terms of foreign exchange exposures; *however*, depending upon market conditions, it may prefer to carry certain open positions through spot or derivative foreign exchange transactions. In such cases, exposures are managed with hedges subject to the limits set by the management of the Bank and its subsidiaries and applicable BRSA legal limits.

By maintaining a reasonably balanced foreign currency position throughout each of 2014, 2015 and 2016 and the first three months of 2017, the Group had moderate net foreign exchange gains or losses (after giving effect to the Group's hedging strategy and other off-balance sheet positions) in each such period – net foreign exchange gains of TL 1,031,033 thousand in 2014 and TL 880,370 thousand in 2015, net foreign exchange losses of TL 235,417 thousand in 2016 and net foreign exchange gains of TL 118,253 thousand for the first three months of 2017. The foreign exchange gains in 2014 and 2015 resulted from overall management of the Group's foreign currency position. The foreign exchange losses in 2016 was mainly due to the volatility of the Turkish Lira. The foreign exchange gains in the first quarter of 2017 resulted from overall management of the Group's foreign currency position. See also "*Operating Income - Other Operating Income*" and "*Operating Expenses*" in "*Analysis of Results of Operations for the Three Months Ended 31 March 2017*" and "*Analysis of Results of Operations for the Years Ended 31 December 2014, 2015 and 2016*."

Exchange rate movements also affect the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital, which can affect capital adequacy either positively (for example, if the Turkish Lira appreciates, then assets in foreign currencies convert into fewer Turkish Lira in the calculations of capital adequacy ratios and thus increase the capital adequacy ratios) or negatively (for example, if the Turkish Lira depreciates, then assets in foreign currency convert into more Turkish Lira in the calculations of capital adequacy ratios and thus reduce the capital adequacy ratios).

Interest Rate Environment

One of the primary factors influencing the Group's profitability is the level of interest rates in Turkey, which in turn influences the return on its securities portfolio and its loan and deposit rates. Interest earned and paid on the Group's assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, shifts in short-term interest rates set by the Central Bank and movements in long-term real interest rates. The fluctuations in short-term and long-term interest rates impact the Group's net interest income differently based upon the re-pricing profile of the Group's interest-earning assets and interest-bearing liabilities. As of 31 March 2017, 21.7% of the Bank's Turkish Lira-denominated cash loan portfolio carried a floating rate of interest (17.5%, 18.0% and 20.1% as of 31 December 2014, 2015 and 2016, respectively).

Because the Group's interest-bearing liabilities (principally deposits) generally re-price faster than its interest-earning assets, changes in the short-term interest rates in the economy generally are reflected in the rates of interest paid by the Group on its liabilities before such interest rates are reflected in the rates of interest earned by the Group on its assets. Therefore, when short-term interest rates fall, the Group is both positively affected (for example, the value of its fixed rate securities portfolio may increase and its interest margins can improve), but can also be negatively impacted (for example, through the decline in net interest margins on assets funded by 0% interest rate demand deposits). On the other hand, when short-term rates increase, the Group's interest margin is generally negatively affected as it will generally pay higher interest rates on its interest-bearing liabilities before it can modify the rates of its interest-earning assets. An increase in long-term rates generally has at least a short-term negative effect on the Group's net interest margin because its interest-earning assets generally have a longer re-pricing duration than its interest-bearing liabilities and because a portion of its interest-earning assets have fixed rates of interest (for example, 61.6%, 61.3%, 62.5% and 64.7% of the Bank's interest-earning assets were fixed-rate as of 31 December 2014, 2015 and 2016 and 31 March 2017, respectively); *however*, 38.1% of the Group's securities portfolio consisted of consumer price index-linked securities as of 31 March 2017 (34.3%, 36.1% and 35.8% as of 31 December 2014, 2015 and 2016, respectively). The Group's yield on its securities has been declining mainly due to the redemption of older securities and lower CPI readings; *however*, the Group's net interest margin increased in 2015 and 2016 due to an increasing interest rate environment.

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

				For the three month period ended 31 March	
	2014	**2015**	**2016**	**2016[(1)]**	**2017[(1)]**
Net interest margin	4.1%	4.7%	4.9%	4.7%	5.2%
Turkish Lira assets	5.4%	6.4%	6.8%	6.6%	7.4%
Foreign currency assets	1.8%	2.0%	1.9%	1.7%	1.8%
Average spread					
Turkish Lira assets/liabilities	3.5%	3.7%	4.6%	3.7%	4.6%
Foreign currency assets/liabilities	2.5%	2.3%	2.3%	2.2%	2.3%

(1) The figures are annualised by multiplying the amount for the indicated period of such year by 365 *divided by* 90. For annualised figures, there can be no guarantee, and the Bank does not represent or predict, that actual results for the full year will equal or exceed the annualised figure and actual results might vary materially.

In January 2014, to counter a significant depreciation in the Turkish Lira, the Central Bank held an interim Monetary Policy Committee meeting and increased its overnight TL borrowing rate to 8.00% from 3.50%, its one-week repo rate to 10.00% from 4.50% and its overnight lending rate to 12.00% from 7.75%. While such increases resulted in a limited increase in the Group's short-term funding costs and negatively affected the Bank's net interest margin due to the maturity mismatch between deposits and loans, they also led to a deceleration in loan growth and an increase in deposit funding costs in the Turkish market as banks reflect the increased rates in the loan and deposit interest rates and, as a result, the impact on the Bank's net interest margin was limited.

The improvement in net interest margins and spreads of the Group in 2015 and 2016 was principally due to the Bank's management's primary focus on profitability through sustainable core banking revenue generators. In the first quarter of 2017, the Group continued to focus on sustainable profitability and further improved its net interest margin.

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

	2014	2015	2016	For the three month period ended 31 March 2016(1)	2017(1)
Net interest margin	3.4%	3.5%	3.8%	3.5%	4.1%
Average spread	2.0%	3.5%	4.2%	3.7%	3.2%

(1) The figures are annualised by multiplying the amount for the indicated period of such year by 365 *divided by* 90. For annualised figures, there can be no guarantee, and the Bank does not represent or predict, that actual results for the full year will equal or exceed the annualised figure and actual results might vary materially.

The relatively lower Group figures for net interest margin (when compared to the Bank's stand-alone results) is principally a result of the different balances of currencies in which the Bank and its non-Turkish subsidiaries operate (for example, interest rates and margins are generally lower in U.S. dollar- and euro-denominated transactions than Turkish Lira-denominated transactions).

Significant Securities Portfolio

The Group has historically generated a significant portion of interest income from its securities portfolio, with interest and similar income derived from the Group's securities portfolio in 2014, 2015, 2016 and the first quarter of 2017, accounting for 23.1%, 19.1%, 16.3% and 14.7%, respectively, of its total interest income (and 17.4%, 16.9%, 14.1% and 9.1%, respectively, of its gross operating income before deducting interest expense and fee and commission expense when net trading gains/(losses) on securities are also considered). The Group also has obtained large realised and unrealised gains from the mark-to-market valuation and sale of securities, which gains represented 36.0% of the Group's other operating income in 2015 and 21.6% in 2016 (no such gains were realised in 2014 and in the first quarter of 2017).

While the contribution of income from the Group's securities portfolio (including interest earned, trading gains and other income) has been significant over the past three fiscal years, the Group expects that while interest income from securities will continue to contribute to net profits, trading gains will not continue to be as large going forward and that the percentage of its assets invested in securities will remain constant or slightly decrease as loan demand keeps accelerating due to the continued (though limited) growth in the Turkish economy.

The Group's securities portfolio principally contains Turkish government debt securities, with more limited holdings of other securities such as corporate and foreign government debt securities. The Group's investment securities portfolio (which excludes its trading portfolio) represented 18.6%, 16.8%, 15.3% and 14.6%, respectively, of the Group's total assets as of 31 December 2014, 2015 and 2016 and 31 March 2017. The share of the Group's investment securities portfolio in its total assets decreased in 2015 and 2016 as the Group increased its cash loan lending, in part due to higher loan demand and the Group's strategy to improve its net interest margin. As the Group's investment securities portfolio is comprised largely of high quality securities (principally Turkish government debt, most of which is held in the available-for-sale portfolio), the Group experienced insignificant credit losses on its investment securities portfolio and established immaterial provisions relating thereto during each of 2014, 2015, 2016 and the first quarter of 2017; *however*, its trading portfolio and available-for-sale investment securities portfolio are marked-to-market with the mark-to-market losses or gains being included in income (for the trading portfolio and where there is an impairment of available-for-sale securities) or shareholders' equity (for the available-for-sale portfolio) as appropriate. In case of impairments of held-to-maturity securities, such impairment losses are also recognised in income. See Note 10 of the IFRS Financial Statements and "*Selected Statistical and Other Information – Securities Portfolio*."

Provisions for Probable Loan Losses

The Group's financial results can be significantly affected by the amount of provisions for probable loan losses. The net provision for probable losses on cash loans increased from TL 1,552,532 thousand in 2014 to TL 1,814,152 thousand (a 15.5% increase) in 2015, and further increased to TL 2,487,707 thousand (a 32.3% increase) in 2016. During the first quarter of 2017, the net provision for probable losses on cash loans was TL 308,278 thousand. The ratio of the Group's non-performing loans to total gross cash loans increased from 3.1% as of 31 December 2014 to 3.3% as of 31 December 2015. In 2015, the ratio of non-performing loans to total gross cash loans increased due to new NPLs as a result of the Group's conservative risk approach. In 2016, the ratio of non-performing loans to total gross cash loans decreased to 3.2% due to strong collection performance supported by debt sales. In the first quarter of 2017, the ratio slightly decreased to 3.1% due to the growth in the loan portfolio and the slowdown of NPL flows.

In addition to the provisions that the Group is required to take for NPLs according to BRSA requirements (see "*Turkish Regulatory Environment – Loan Loss Reserves*" in the Base Prospectus; IFRS provisioning is described below in "*Significant Accounting Policies – Allowance for Loan Losses, Guarantees and Other Commitments*"), the Group's management may take additional provisions should the management determine this to be prudent either in the form of specific provisions or general provisions. Within these general provisions, the Group might take additional provisions in accordance with the conservatism principle; for example, 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. See "*Risk Factors – Risks Relating to the Group's Business – Audit Qualification*" in the Base Prospectus.In addition to the negative impact on net income caused by the increase to total operating expenses resulting from such provisions, from a tax perspective the Group is unable to deduct these general provisions from its taxable income, thus increasing its effective tax rate. 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 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, and, in 2015, the Bank's management decided that certain related risks had diminished and reversed TL 73,000 thousand of these provisions. In 2016, the Bank's management further reversed TL 42,000 thousand of these provisions. In the first quarter of 2017, the Bank's management decided to increase the level of general provisions by TL 200,000 thousand. As a result, as of 31 March 2017, the Group's general reserves amounted to TL 500,000 thousand. DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of Deloitte Touche Tohmatsu Ltd) ("**Deloitte**") has qualified its audit reports and Akis Bağımsız Denetim ve SMMM A.Ş. (KPMG Türkiye) (a member firm of KPMG International Cooperative, a Swiss entity) ("**KPMG**") has qualified its review report included in the IFRS Financial Statements incorporated by reference into this Prospectus because general provisions are not permitted under IFRS. See the IFRS Financial Statements incorporated by reference into this Prospectus.

Significant Accounting Policies

The Group's accounting policies are integral to understanding its results of operations and financial condition presented in the IFRS Financial Statements. The Group's significant accounting policies under IFRS are described in the notes included in the IFRS Financial Statements. In the application of the Group's significant accounting policies, the management is required to make judgments, estimates and assumptions about future conditions. The use of available information and the application of judgment are inherent in the formation of estimates. The Group's critical accounting policies are those that are most important to the portrayal of its financial condition and results of operations and that require the Group to make its most difficult and subjective judgments, often as a result of a need to make estimates of matters that are inherently unpredictable. The Bank's management believes that the Group's critical accounting policies where judgment is necessarily applied are those related to allowance for loan losses, guarantees and other commitments; valuation of investments and derivatives; valuation of defined benefit plans; and income taxes. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. The Group's results may differ from the estimates under different assumptions, judgments and conditions.

The policies related to the critical accounting judgments are outlined below. All other significant accounting policies that are necessary to fair presentation of the Group's financial condition and results of operations are presented in the "Significant accounting policies" disclosure in the Group's IFRS Financial Statements incorporated by reference into this Prospectus.

Allowance for Loan Losses, Guarantees and Other Commitments

The Group's accounting policy for losses arising from the impairment of customer loans and advances is described in the "Significant accounting policies" disclosure in the IFRS Financial Statements. Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date based upon its evaluation of credits granted (see, however, the discussion under "*Significant Factors Affecting the Group's Financial Condition and Results of Operations – Provisions for Probable Loan Losses*" above). In addition, the Group establishes provision liabilities for probable losses under guarantees and other commitments. The Group reviews its financial assets as of each balance sheet date to determine whether there is objective evidence of impairment. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to the original contractual terms of a loan, then the loan is considered impaired and classified as an "NPL." The allowance for a loan is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate, including any probable foreclosure of collateral. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

These allowances involve significant estimates and are regularly evaluated by the Group for adequacy. The allowances are based upon the Group's own loss experience and management's judgment of the level of losses that will most likely be recognised from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for loan losses in the IFRS Financial Statements have been determined on the basis of existing economic and political conditions, except for the general provisions discussed elsewhere herein. The Group is not able to predict with certainty what changes in conditions will take place in the markets in which it operates and what effect such changes might have on the adequacy of the allowances for loan losses in future periods. See "*Turkish Regulatory Environment – Loan Loss Reserves*" in the Base Prospectus with respect to the Turkish regulatory requirements for provisions for loans.

Fair Value of Securities

The Group's securities are classified as either financial assets at fair value through profit or loss (*i.e.*, trading securities) or investment securities (which include both available-for-sale securities and held-to-maturity securities). While held-to-maturity securities are recorded at their acquisition cost and measured at amortised cost calculated as per the effective interest rate method, the Group's trading securities and available-for-sale investment securities (which collectively represented 54.4% of the Group's total securities portfolio as of 31 December 2015, 52.0% as of 31 December 2016 and 52.1% as of 31 March 2017) are recorded at fair value, with changes in fair value being recorded in income (for the trading portfolio and where there is an impairment or sale of available-for-sale securities) or shareholders' equity (for mark-to-market movements in available-for-sale securities). In the case of impairment of held-to-maturity securities, such impairment losses are also recognised in income. The following table sets out the distribution of the Group's securities recorded at fair value as of each of the indicated dates:

	31 December			31 March
	2014	**2015**	**2016**	**2017**
		(TL thousands)		
Financial assets at fair value through profit or loss	1,086,670	660,193	1,086,299	729,928
Investment securities available-for-sale	23,530,111	24,755,577	23,983,255	24,397,044
Total	**24,616,781**	**25,415,770**	**25,069,554**	**25,126,972**

Fair value is defined as the value at which a position could be closed out or sold in a transaction with a willing and knowledgeable unrelated party, without any deduction for transaction costs. The Group estimates fair value using quoted market prices when available. When quoted market prices are not available, the Group uses a variety of models that include dealer quotes, pricing models and quoted prices from instruments with similar characteristics or discounted cash flows. The determination of fair value when quoted market prices are not available involves judgment by the Group's management. There is often limited market data to rely upon when estimating the impact of holding a large or aged position. Similarly, judgment must be applied in estimating prices when no external parameters exist. Other factors that can affect the estimates include incorrect model assumptions and unexpected correlations. The imprecision in estimating these factors may affect the amount of revenue or loss recorded for a specific asset or liability. As of 31 March 2017, the Group held trading securities and available-for-sale investment securities for which it could not use market prices or observable market inputs to determine fair value representing only 0.2% of its total assets (representing approximately the same ratio as of 31 December 2015 and 2016).

Besides the trading securities and available-for-sale securities, the Group also monitors the fair value of its securities held-to-maturity to determine whether a decline in their fair value reflects that a write-down would be appropriate, which occurs if such a decline represents a loss event as described in the IFRS Financial Statements. Although the investment securities held-to-maturity are kept at their amortised costs on the balance sheet and the marked-to-market differences on the investment securities available-for-sale are recorded under other comprehensive income instead of the income statement, if the Group's management determines such to be the case, then such securities would be written-down and be reflected as impairment losses, net, under other operating expenses in the income statement. Factors that are used by the Group's management in determining whether a decline is "other-than-temporary" and represents a loss event include the credit quality of the issuer, the conditions of the issuer's operations and business segments, the observed period of the loss, the degree of the loss and management's expectations.

Derivatives

The Group enters into transactions with derivative instruments, including forward contracts, swaps and options in the foreign exchange and capital markets. For example, the Group enters into interest rate swap transactions in order to hedge certain cash flow exposures primarily on floating rate assets and liabilities through converting its floating rate income/payments into fixed rate income/payments. These derivative transactions are considered as effective economic hedges under the Group's risk management policies but (other than transactions in which the hedge accounting relationship is evidenced), if they do not qualify for hedge accounting under the specific provisions of IAS 39, are treated as derivatives held-for-trading. Derivative financial instruments are recognised in the balance sheet at their fair value.

The fair value of financial instruments is based upon their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, then the fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies; *however*, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realised in a current transaction.

The fair value of a derivative that is not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract as of the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. For derivatives that do not qualify for special hedge accounting, any gains or losses arising from changes in fair value are taken directly to income for the period whereas gains and losses arising from changes in the fair value of derivatives designated as cash flow hedges are reflected directly as a separate component of equity and reclassified to income when the hedged transaction is settled.

Defined Benefit Plan

As described in "*Management – Compensation – Pension Plans*" in the Base Prospectus, the Bank has a defined benefit plan for its Turkish employees (*i.e.*, the Fund). As described therein, certain of the assets and obligations of the Fund are subject to transfer to the SSF and the SSF is required to collect the unfunded portion (if any) from the employee benefit funds and the banks employing the relevant fund participants, which will be severally liable, in annual instalments to be paid over a period of up to 15 years. If there is a shortfall at the time of the transfer of the fund (as determined by the SSF), then the Bank would be liable to make the supplemental payments described above for 15 years.

The excess benefits, which are not subject to the transfer to the SSF, are accounted for in the Group's 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.

Taxation

Income tax is calculated on the basis of taxable income as calculated by applicable tax laws and regulations, which differ in certain material respects from IFRS. The Group's effective tax rate was 21.1% in 2014, 20.0% in 2015, 20.3% in 2016 and 21.8% in the first quarter of 2017. In preparing its financial statements, the Group is required to estimate taxes on income, which involves an estimation of current tax expenses together with an assessment of temporary differences resulting from differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group's carrying value of net deferred tax assets assumes that the Group will be able to generate sufficient future taxable income based upon estimates and assumptions. If these estimates and related assumptions change in the future, then the Group may be required to record valuation allowances against its deferred tax assets resulting in additional tax expense in its income. The Group evaluates the recoverability of the deferred tax assets on each business day.

Key Performance Indicators

The Group calculates certain ratios in order to measure its performance and compare it to the performance of its 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			As of (or for the three months ended) 31 March 2017
	2014[5]	2015[5]	2016	
Net interest margin	3.4%	3.5%	3.8%	4.1%[6]
Adjusted net interest margin	2.7%	2.8%	3.0%	3.7%[6]
Net yield	4.3%	4.5%	4.5%	4.6%[6]
Adjusted net interest income as a percentage of average interest-earning assets	4.0%	4.0%	3.9%	4.2%[6]
Net fee and commission income to total operating income	26.5%	23.4%	23.2%	21.7%
Adjusted cost-to-income ratio[1]	50.6%	53.4%	45.4%	48.4%
Adjusted operating expenses to average total assets	2.2%	2.3%	2.2%	2.3%[6]
Non-performing loans to total gross cash loans	3.1%	3.3%	3.2%	3.1%
Free capital ratio	10.3%	9.6%	9.3%	9.0%
Group's capital adequacy ratios[2]				
Tier 1 capital adequacy ratio[3]	12.77%	12.82%	13.59%	13.30%
Total capital adequacy ratio[4]	13.86%	13.53%	14.67%	14.36%
Adjusted allowance for probable loan losses to NPLs	96.3%	89.6%	75.4%	75.3%
Return on average total assets	1.7%	1.5%	1.8%	2.0%[6]
Return on average shareholders' equity	15.1%	13.1%	14.8%	17.0%[6]
Loans to deposits	111.0%	112.5%	115.3%	116.9%
Loan loss provisions to gross loans	1.0%	1.0%	1.1%	0.5%[6]

(1) If this figure were the adjusted cost-to-income ratio including impairment losses, then the ratios would be 55.2%, 58.5%, 49.2% and 57.9% for 2014, 2015 and 2016 and for the first three months of 2017, respectively.

(2) Calculated in accordance with BRSA regulations for the Group.

(3) The "Tier 1" capital adequacy ratio is calculated by dividing the "Tier 1" capital by the aggregate of the value at credit risk, value at market risk and value at operational risk. See "*Capital Adequacy*" below.

(4) The total capital adequacy ratio is calculated by dividing: (a) the "Tier 1" capital (*i.e.*, its share capital, reserves and retained earnings) *plus* the "Tier 2" capital (*i.e.*, the "supplementary capital," which comprises general provisions, subordinated debt, unrealised gains/losses on available-for-sale assets and revaluation surplus (reduced by certain items such as leasehold improvements and intangibles)) and *minus* items to be deducted from capital (the "deductions from capital," which comprises items such as unconsolidated equity interests in financial institutions and assets held for resale but held longer than five years), by (b) the aggregate of the risk-weighted assets and off-balance sheet exposures (*i.e.*, value at credit risk), value at market risk and value at operational risk. See "*Capital Adequacy*" below.

(5) As of 31 December 2015 and 2016, the Group restated its prior years' financials as per IAS 8 due to accounting policy changes. For details, please see "*Presentation of Financial and Other Information - Restatements and Accounting Policy Changes in Prior Year Financials*" in the Base Prospectus.

(6) The figures are annualised by multiplying the amount for the indicated period of such year by 365 *divided by* 90. For annualised figures, there can be no guarantee, and the Bank does not represent or predict, that actual results for the full year will equal or exceed the annualised figure and actual results might vary materially.

Analysis of Results of Operations for the Three Months Ended 31 March 2017

As of March 31, 2017, the Bank had the following market shares among commercial banks (each as measured on a bank-only basis): (a) based upon BRSA weekly data, 11.8% of total loans, 14.4% of consumer loans (including credit cards), 13.8% of consumer mortgage loans, 18.0% in the number of points-of-sale (POS), 11.4% in customer deposits and 13.3% in customer demand deposits, and (b) based upon BRSA monthly data, 11.6% of total assets, 13.4% in net fees and commissions and 13.2% in ordinary banking income, which is calculated by subtracting provisions for loans and securities and net trading gains/losses from the sum of net interest income and net fees and commissions.

The following summary financial and operating data as of and for the three months ended 31 March 2017 have been extracted from the IFRS Interim Financial Statements incorporated by reference into this Prospectus, without material adjustment. This information should be read in conjunction with the information contained in such IFRS Interim Financial Statements (including the notes thereto). See "*Risk Factors – Risks Relating to the Group's Business – Audit Qualification*" in the Base Prospectus.

The table below summarises the Group's income statement for the indicated periods, the components of which are described in greater detail in the following sections:

	Three months ended 31 March	
	2016(2)	**2017**(2)
	(TL thousands)	
Net interest income	2,434,484	3,163,729
Net fee and commission income	774,330	903,782
Other operating income	303,117	386,876
Total operating income	**3,511,931**	**4,454,387**
Impairment losses, net(1)	(495,206)	(503,060)
Other operating expenses	(1,660,451)	(1,969,412)
Total operating expenses	**(2,155,657)**	**(2,472,472)**
Income before tax	**1,356,274**	**1,981,915**
Taxation charge	(280,548)	(432,947)
Net income for the period	**1,075,726**	**1,548,968**
Attributable to equityholders of the Bank	1,064,938	1,535,850
Attributable to non-controlling interests	10,788	13,118

(1) "Impairment losses, net" includes provisions for loan losses, net and reversal of general reserves, net.

(2) As of 31 December 2016, the Group restated its prior years' financials as per IAS 8 due to accounting policy changes. For details, please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Analysis of Results of Operations for the Three Months Ended 31 March 2017 - Restatements.*"

Net Income

The Group's net income for a period is calculated by reducing its operating income for such period by the amount of its operating expenses and taxation charge for such period. The Group's net income for the first quarter of 2017 was TL 1,548,968 thousand, a 44.0% increase from TL 1,075,726 thousand in the same period of 2016. The net income for these periods was affected by certain exceptional items, which are quantified in the table below:

	For the three months ended 31 March	
	2016	**2017**
	(TL thousands)	
Reported net income for the period	**1,075,726**	**1,548,968**
Exceptional items		
Sale of NPLs	(31,898)	(25,947)
Penalties included within other operating expenses(1)	60,442	19,245
Provision for general banking risks(2)	-	200,000
Tax effects of the items listed above	6,380	5,189
Total impact on net income	**34,924**	**198,487**
Net income adjusted for exceptional items	**1,110,650**	**1,747,455**

(1) This figure includes repayments of fees and commissions to customers recognised in prior years and the related legal expenses borne by the Bank as per decisions of the Turkish Competion Board or other relevant courts.

(2) See "*Provisions for Probable Loan Losses*" above. As such general provisions are not permitted under IFRS, the Group's independent auditors noted this departure from IFRS in the Group's IFRS Financial Statements by qualifying their opinion. Should the Bank's management determine that market conditions have improved to such an extent that such additional reserves are not required, then they may elect to reverse such reserves in future periods, which would have the result of increasing income in such period.

Net income adjusted for exceptional items increased by 57.3% in the first quarter of 2017 as compared to the amount for the same period in 2016. This increase was a result of the increase in the net interest income together with fee growth and increased efficiencies through disciplined cost management.

The following sections describe the components of the Group's net income (*i.e.*, operating income, operating expenses and taxation charges) in greater detail.

Operating Income

The Group's operating income is comprised of its net interest income, net fee and commission income and other operating income. Each of these is described in greater detail below. The following table identifies the share that net interest income, net fee and commission income and other operating income have represented in the Group's total operating income for each of the indicated periods:

	For the three months ended 31 March	
	2016	**2017**
Net interest income	69.3%	71.0%
Net fee and commission income	22.0%	20.3%
Other operating income	8.7%	8.7%
Total operating income	**100.0%**	**100.0%**

Net Interest Income

The Group's net interest income is the difference between the interest income and its interest expense (each described below) and is the principal area of income for the Group. As a result, the differential between the interest rates that the Group receives on interest-earning assets and the interest rates that it pays on interest-bearing liabilities (*i.e.*, its average spread) and the volume of such assets and liabilities tend to have the most significant impact on the Group's results of operations. Net interest income represented 69.3% and 71.0% of the Group's total operating income in the first quarter of 2016 and 2017, respectively.

Net interest income amounted to TL 3,163,729 thousand in the first quarter of 2017, which was a 30.0% increase from TL 2,434,484 thousand in the same period of 2016. There was a general decline in margins in the Turkish market from 2010 onwards as a result of increased competition across all sectors of the Group's business; *however*, the Group's net interest margins (as further described below) and volumes, especially in lending activities (as further described in "*Assets - Loans and Advances to Customers*" below), increased in the first quarter of 2017 when compared to the same period of 2016. The improvement in 2017 was a result of a decrease in the cost of funding, especially in deposits.

Net interest margin was 5.23% in the first quarter of 2017 for the Bank (4.1% for the Group) compared with 4.66% in the same period of 2016 for the Bank (3.5% for the Group) (see footnote (1) in each of the table under "Interest Rate Environment" above). The Group's net interest margin improved in the first quarter of 2017 due to, in part, an increased contribution of CPI-linked securities to interest income, the Group's focus on more profitable products with a selective lending strategy continued and contributed further to the improvement of the net interest margin.

The average spread for the Bank and the Group followed a similar pattern. See also "*– Significant Factors Affecting the Group's Financial Condition and Results of Operations – Interest Rate Environment.*"

Interest income and interest expense are discussed in greater detail below.

Interest Income. Interest income is the interest (including the amortisation of interest-earning assets purchased at a discount, the interest component of lease receivables and the interest portion of derivative transactions entered into for margin management purposes) and certain loan-related fees (such as closing fees received on project finance loans) received by the Group on its interest-earning assets, principally loans and debt securities. Interest income is a function of both the volume of interest-earning assets and the yield that the Group earns on these holdings. In the first quarter of 2017, the Group's interest income increased by 17.1% to TL 6,228,915 thousand from TL 5,318,498 thousand in the same period of 2016. The following table sets out the interest earnings on the Group's interest-earning assets during each of the indicated periods:

	For the three months ended 31 March	
	2016	**2017**
	(TL thousands)	
Interest on loans	4,129,797	5,048,026
Interest on securities	966,196	918,544
Interest on lease business	106,558	111,131
Interest on deposits at banks	95,865	121,488
Others	20,082	29,726
Total interest income	**5,318,498**	**6,228,915**

As noted above, interest income is a function of both the volume of, and yield earned on, the Group's interest-earning assets. In the first quarter of 2017, the increase in interest income was principally due to a 22.2% increase in "interest income on loans" resulting largely from increasing loan volumes and improved yields through the Group's selective lending strategy on more profitable products.

The following table sets forth the average yield earned by the Bank (daily average) and the Group (quarterly average) on certain interest-earning assets for the indicated periods. For additional information with respect to the Bank's interest income in full years 2014, 2015 and 2016, including with respect to Turkish Lira- and foreign currency-denominated assets, see "*Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Average Balance Sheet and Interest Data*" and "*– Net Changes in Interest Income and Expense – Volume and Rate Analysis*."

	For the three months ended 31 March	
	2016(1)	**2017(1)**
Total average yield for the Bank	**9.24%**	**9.52%**
Deposits at banks	1.99%	2.41%
Investments in securities	9.47%	8.80%
Loans and advances to customers	9.74%	10.20%
Total average yield for the Group	**8.76%**	**9.01%**

(1) The figures are annualised by multiplying the amount for the indicated period of such year by 365 *divided by* 90. For annualised figures, there can be no guarantee, and the Bank does not represent or predict, that actual results for the full year will equal or exceed the annualised figure and actual results might vary materially.

The increase in the yield earned by the Bank in the first quarter of 2017 compared to the same period of 2016 primarily resulted from the Bank's strategy to improve net interest margin and focus on income from core banking operations.

The growth in the Group's interest income in the first quarter of 2017 as compared to the first quarter of 2016 was primarily due to the increase in the size of its loan portfolio.

Interest Expense. Interest expense is the interest and certain loan-related fee expenses (such as fees paid on syndicated loans) of the Group on its interest-bearing liabilities, principally time deposits and borrowings. As with interest income, interest expense is a function of both the volume of interest-bearing liabilities and the interest rates that the Group pays on these liabilities. In the first quarter of 2017, the Group's interest expense increased by 6.3% to TL 3,065,186 thousand from TL 2,884,014 thousand in the same period of 2016. The following table sets out the interest expense on the Group's interest-bearing liabilities by category during each of the indicated periods:

	2016	2017
	(TL thousands)	
Interest on saving, commercial and public deposits	1,690,964	1,755,966
Interest on borrowings and obligations under repurchase agreements	883,887	937,685
Interest on bonds payable	256,150	318,515
Interest on bank deposits	41,359	42,372
Interest on subordinated liabilities	1,438	-
Other	10,216	10,648
Total interest expense	**2,884,014**	**3,065,186**

The increase in the Group's interest expense in the first quarter of 2017 was principally in line with the increase in the size of its funding base. As noted above, changes in the interest rates that the Group pays on its interest-bearing liabilities significantly affect the Group's interest expense. Most significantly, the Group's interest-bearing deposits represent the largest portion of its liabilities by 49.3% and 46.7%, respectively, as of 31 March 2016 and 2017. As a result, the interest rates that the Group pays on its deposits typically have the largest impact on the Group's interest expense. The following table sets forth the average interest rates paid by the Bank (daily average) and the Group (quarterly average) on interest-bearing deposits and other interest-bearing liabilities for the indicated periods:

	For the three months ended 31 March	
	2016	**2017**
Total interest rates for the Bank	**5.23%**	**5.04%**
Deposits from customers	5.22%	4.86%
Short-term debt	8.02%	7.78%
Long-term debt	4.36%	4.49%
Repurchase agreements	7.71%	9.65%
Total interest rates for the Group	**5.04%**	**4.74%**

In the first quarter of 2017, the increase in the interest rates was principally due to the increasing interest rate environment, especially in the second half of 2016 and early 2017. See "*- Financial Condition - Liabilities*" below.

For additional information with respect to the Bank's interest expense during the years of 2014, 2015 and 2016, including with respect to the size of and yield paid on Turkish Lira- and foreign currency-denominated liabilities, see "*Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Liabilities – Average Interest-Bearing Liabilities*" and "*– Net Changes in Interest Income and Expense – Volume and Rate Analysis*." In addition, certain information on the interest rates paid by the Group on its interest-bearing liabilities for such years can be found in "*Selected Statistical and Other Information – Borrowings and Certain Other Liabilities*" below.

Net Fee and Commission Income

The second largest component of the Group's operating income is its net fee and commission income. The Group earns fee and commission income on both capital-intensive products (such as origination fees on cash loans and fees for credit cards, letters of credit and guarantees) and capital-free products (such as investment advice and brokerage fees in respect of debt and equity trading). The principal drivers for fee and commission income are the credit card and retail banking businesses. The Bank's management expects the contribution of fee and commission income to the Group's overall operating income to increase, particularly with the expected growth in its retail lending businesses and tightening interest margins due to changes in market interest rates; *however*, the Turkish government periodically imposes limits or prohibitions on fees and commissions that a bank may charge for certain banking services and the adoption of any such limits or prohibitions could result in lower fee and commission income for the Group. For instance, due to changes to Turkish laws in October 2014, the Group's fee and commission income from the retail banking business decreased from TL 750,105 thousand in 2014 to TL 487,008 thousand in 2015. Also, in February 2016, the Turkish government prohibited Turkish banks from charging account maintenance fees to their customers.

The Group's net fee and commission income for the first quarter of 2017 was TL 903,782 thousand, an increase of 16.7% from TL 774,330 thousand in the same period of 2016. While strong growth was experienced throughout the Group's fee and commission sources in the first quarter of 2017, this increase was primarily due to the growth in the volume of consumer and SME loans and credit cards, which tend to have higher fees and commissions than corporate and commercial loans.

The following table sets out the categories of the Group's fee and commission income and expenses (identified by the principal business lines of the Group) and their respective amounts during each of the indicated period:

	For the three months ended 31 March	
	2016	2017
	(TL thousands)	
Fee and Commission Income		
Credit card fees	614,843	682,121
Retail banking	79,101	114,136
SME banking	99,325	106,117
Commercial banking	69,207	82,347
Brokerage activities-related fees	45,495	63,024
Corporate banking	31,251	43,347
Insurance business fees	24,469	30,448
Other	50,062	59,454
Total fee and commission income	**1,013,753**	**1,180,994**
Fee and Commission Expense		
Credit card fees	199,215	229,947
Retail banking	4,488	6,648
Commercial banking	1,838	3,148
Insurance business fees	1,001	1,043
SME banking	379	1,012
Corporate banking	34	394
Other	32,468	35,020
Total fee and commission expense	**239,423**	**277,212**
Net fee and commission income	**774,330**	**903,782**

Other Operating Income

Other operating income includes net trading gains, net foreign exchange gains, premium income from the insurance business and other items. Total other operating income for the first quarter of 2017 amounted to TL 386,876 thousand, increasing by 27.6% from TL 303,117 thousand in the same period of 2016. The following table sets out the Group's other operating income by category during each of the indicated periods:

	For the three months ended 31 March	
	2016(1)	2017
	(TL thousands)	
Premium income from insurance business	119,865	161,210
Foreign exchange gains, net.	97,871	118,253
Other operating income	85,381	107,413
Total other operating income	**303,117**	**386,876**

(1) As of 31 December 2016, the Group restated its financials as per IAS 8 due to accounting policy changes. For details, please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Analysis of Results of Operations for the Three Months Ended 31 March 2017 - Restatements*."

The largest component of total other operating income in the first quarter of 2017 (representing 41.7% of the total) was the "premium income from insurance business" as in the first quarter of 2016 (representing 39.5% of the total). In the first quarter of 2017, the increase in the premium income from insurance business as compared to the first three months of 2017 was parallel to the increase in the Group's insurance , which was positively affected by the increase in the Bank making loans that require that the borrower obtain related insurance, especially loans benefitting from the support of the KGF.

Another significant component of other operating income is foreign exchange gains, which had a 30.6% share of total other operating income in the first quarter of 2017, compared to 32.3% in the same period of 2016. The Group's net foreign exchange gains/losses include both realised and unrealised gains/losses. The realised gains/losses result from the settlement of foreign exchange transactions and spot legs of derivative transactions, whereas unrealised gains/losses arise from the Group's foreign currency positions. The unrealised gains/losses consist of two parts - unrealised gains/losses on the balance sheet position and unrealised gains/losses on the off-balance sheet position. The foreign exchange gains/losses arising from the settlement of foreign exchange transactions and the unrealised gains/losses from the balance sheet foreign currency position are included under "foreign exchange gains/losses, net" whereas both the realised and unrealised gains/losses on off-balance sheet transactions and positions (which principally result from forward legs of derivative transactions) are recorded under "trading gains/losses, net." Therefore, although the Group did not hold any material foreign currency net open positions throughout the first quarter of both 2016 and 2017 (considering both on-balance sheet and off-balance sheet positions), "foreign exchange gains/losses, net" varied among these periods depending upon the balance sheet and off-balance sheet positions in gross terms. In the first quarter of 2017, the Group recorded foreign exchange gains, net of TL 118,253 thousand, compared to foreign exchange gains, net of TL 97,871 thousand in the same period of 2016 due to the overall management of the Group's foreign currency position. With respect to foreign exchange gains, see "*Significant Factors Affecting the Group's Financial Condition and Results of Operations – Currency Exchange Rates*" above.

Operating Expenses

The Group's operating expenses include business expenses such as salaries/benefits and rent, but also include impairment losses (including provisions for NPLs). Operating expenses in the first quarter of 2017 increased by 14.7% to TL 2,472,472 thousand from TL 2,155,657 thousand in the same period of 2016. The increase in the first quarter of 2017 principally resulted from an increase in the Group's increases in employee and expansion-related expenses (as further explained in "- Salaries and Wages" below). See "*Provisions for Probable Loan Losses*" above.

As noted above, as a banking institution, the Group's management focuses closely on the Group's efficiency and (within the context of maintaining the quality of its services) seeks to decrease its adjusted cost-to-income ratio. The Group's adjusted cost-to-income ratio decreased to 48.4% in the first quarter of 2017 from 51.8% in the same period of 2016. A similar ratio monitored by the Group is its ratio of adjusted operating expenses to average total assets, which ratio slightly increased from 2.2% in the first quarter of 2016 to 2.3% in the same period of 2017 (see footnote (6) in the "Ratios" table in "Key Performance Indicators" above). The improvement in the adjusted cost-to-income ratio in 2017 was due to increased cost-efficiency and disciplined cost management.

The following table sets out the Group's total operating expenses by category during each of the indicated periods:

	For the three months ended 31 March	
	2016[3]	2017
	(TL thousands)	
Salaries and wages	482,533	526,462
Employee benefits[1]	237,853	297,513
Provisions for loans and other credit risks, net	483,188	297,304
Credit card rewards and promotion expenses	183,181	225,789
Impairment losses, net	12,018	205,756
Taxes and duties other than on income	128,208	116,346
Trading loss, net	37,154	112,481
Rent expenses	91,768	103,381
Depreciation and amortisation	83,302	101,367
Communication expenses	52,710	53,570
Foreign exchange loss, net	-	-
Other operating expenses[2]	363,742	432,503
Total operating expenses[2]	**2,155,657**	**2,472,472**

(1) In accordance with IFRS, the expenses associated with the Group's insurance business are, where appropriate, included within the various expense line items set out above.

(2) Other operating expenses include various normal course expenses such as advertising expenses, utility charges and repair and maintenance, none of which is individually material. See Note 30 to the IFRS Financial Statements as of and for the three months ended 31 March 2017 incorporated by reference into this Prospectus.

(3) Due to accounting policy changes, the Group restated prior periods' financials as per IAS 8. For details, please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Analysis of Results of Operations for the Three Months Ended 31 March 2017 - Restatements*."

Two items, salaries and wages and impairment losses, net (including provisions for loans and other credit risks) are discussed in greater detail below. With respect to foreign exchange losses, net, see "*Significant Factors Affecting the Group's Financial Condition and Results of Operations – Currency Exchange Rates*" above.

Impairment Losses, Net. The Group's total operating expenses can be materially negatively affected by provisions that the Group takes for probable losses on its cash loans and other impairments. The provision for loan losses is comprised of amounts for specifically-identified impaired and non-performing cash loans *plus* a further portfolio-basis allowance amount that the Bank's management believes to be adequate to cover the inherent risk of loss present in the pool of performing cash loans. In the first quarter of 2017, the Group's provisions for loans and other credit risks, net decreased by 38.5% as a result of the Group's strong collection performance.

The Group records a provision for probable loan losses for anticipated problem loans and NPLs. For the full years of See 2014, 2015 and 2016, see "*Selected Statistical and Other Information – Summary of Loan Loss Experience*" below.

In addition to provisions for probable losses on cash loans and non-cash loans, the Group's impairment losses, net include provisions for tangible assets and goodwill, investment in equity participations, other receivables and (where applicable) reversal of related prior year provisions. See Notes 9, 11, 12, 13 and 19 to the IFRS Financial Statements as of and for the three months ended 31 March 2017.

The following table sets out the movements in the Group's allowance for probable loan losses on cash loans, including the portfolio-basis allowance, during each of the indicated periods:

	For the three months ended 31 March	
	2016	2017
	(TL thousands)	
Balance at the beginning of the year	**7,216,509**	**8,246,992**
Write-offs	(354,376)	(109,972)
Recoveries and reversals	(249,945)	(404,822)
Provision for the year, specific	581,651	625,625
Provision for the year, portfolio-basis (net)	141,792	118,870
Balance at the end of the period	**7,335,631**	**8,476,693**

The Group's net provision for loans and other credit risks in the first quarter of 2017 was TL 297,304 thousand, a 38.5% decrease from TL 483,188 thousand in the same period of 2016. The Group's non-performing loans to total gross cash loans ratio decreased to 3.1% as of 31 March 2017 from 3.3% as of 31 March 2016 due primarily to debt sales supported by a strong collection performance. The write-offs in the first quarters of 2016 and 2017 were principally due to sales from NPL portfolios.

In addition to the specific and portfolio-basis provisions detailed above, the Group's management elected to take a TL 360,000 thousand general provision in 2009 in order to act conservatively in the context of the uncertainty created by the global financial crisis. This was initially increased by TL 90,000 thousand in 2011, then reduced by TL 115,000 thousand in 2013, increased by TL 80,000 thousand in 2014, reduced by TL 73,000 thousand in 2015 and then reduced further by TL 42,000 thousand in 2016 (there was no change in the first quarter of 2016). With respect to the first quarter of 2017, the Group's management decided to increase general provisions by TL 200,000 thousand, which increased the total amount to TL 500,000 thousand as of 31 March 2017. The IFRS Financial Statements 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. See the IFRS Financial Statements incorporated by reference into this Prospectus. These general provisions are not included in the allowance for probable loan losses on cash loans in the table above but do form a component of "impairment losses, net" when there is an increase and form a component of "other operating income" when there is a reversal, and affect the balance sheet as an element of "other liabilities, accrued expenses and provisions."

Salaries and Wages. The Group's operating expenses include the salaries and wages that it pays to its employees. Salaries and wages increased by 9.1% to TL 526,462 thousand in the first quarter of 2017 from TL 482,533 thousand in 2016. As of 31 March 2017, the Group had 23,461 employees, essentially unchanged from 23,348 as of 31 March 2016.

Taxation Charge

The Group is subject to different forms of income taxation in each market in which it has operations, although the principal driver is Turkish taxation of the Group's income. Taxation and duties other than on income are included in operating expenses whereas taxation on income is applied to income before tax in order to determine the Group's net income. Income taxation charges for the first quarter of 2017 amounted to TL 432,947 thousand, which was a 54.3% increase from TL 280,548 thousand in the same period of 2016. The Group's taxation charges for the first quarter of 2017 included deferred tax charges of TL 183,039 thousand compared to deferred tax charges of TL 98,724 thousand for the same period of 2016, which increase was a result of improvements in mark-to-market valuation of assets and liabilities that are not subject to corporate tax.

The Group's effective income tax rate (calculated based upon its reported taxation charge divided by its income before tax) for the first quarter of 2016 and 2017 was 20.7% and 21.8% (each very close to or equal to the Turkish corporate income tax rate of 20%), respectively. The deviation from the Turkish tax rate of 20% in the first quarter of 2017 was due to the tax effect of general provisions.

Taxes on income from the Group's non-Turkish operations have been immaterial. For more information on the Group's taxation, see Note 19 to the IFRS Financial Statements as of and for the three months ended 31 March 2017 incorporated by reference into this Prospectus.

Restatements

As of 31 December 2016, in accordance with IAS 1 ("Presentation of Financial Statements"), the interest portion of derivative transactions performed for margin management purposes was reclassified from "trading gains/(losses), net" to "interest on borrowings, obligations under repurchase agreements and money market fundings." See "*Presentation of Financial and Other Information - Restatements and Accounting Policy Changes in Prior Year Financials*" in the Base Prospectus.

Due to the aforementioned accounting policy changes and revisions, the Group's consolidated financial statements as of and for the three months ended 31 March 2016 were restated as per IAS 8. The effects of the adjusting entries on such period's consolidated financial statements are as follows:

	As of, or for the three months ended, 31 March 2016		
	Reported	**Correction**	**Restated**
		(TL thousands)	
Interest on borrowings, obligations under repurchase agreements and money market and swap fundings	(563,359)	(320,528)	(883,887)
Trading losses, net	(357,682)	320,528	(37,154)
Other operating income	54,828	(15,055)	39,773
Depreciation and amortisation	(98,357)	15,055	(83,302)

See "*Documents Incorporated by Reference*" for further information.

Analysis of Results of Operations for the Years Ended 31 December 2014, 2015 and 2016

The following summary financial and operating data as of and for the years ended 31 December 2014, 2015 and 2016 have been extracted from the IFRS Annual Financial Statements incorporated by reference into this Prospectus, without material adjustment. This information should be read in conjunction with the information contained in such IFRS Annual Financial Statements (including the notes thereto), which have been audited by Deloitte. See "*Risk Factors – Risks Relating to the Group's Business – Audit Qualification*" in the Base Prospectus.

The table below summarises the Group's income statement for the indicated years, the components of which are described in greater detail in the following sections:

	2014[(2)]	**2015**[(2)]	**2016**
		(TL thousands)	
Net interest income	7,724,871	9,078,436	11,079,889
Net fee and commission income	2,852,232	2,718,490	3,163,329
Other operating income	1,756,925	1,643,172	1,812,555
Total operating income	**12,334,028**	**13,440,098**	**16,055,773**
Impairment losses, net[(1)]	(1,718,787)	(1,860,682)	(2,671,981)
Other operating expenses	(5,747,902)	(6,818,087)	(7,044,557)
Total operating expenses	**(7,466,689)**	**(8,678,769)**	**(9,716,538)**
Income before tax	**4,867,339**	**4,761,329**	**6,339,235**
Taxation charge	(1,026,740)	(953,909)	(1,287,509)
Net income for the year	**3,840,599**	**3,807,420**	**5,051,726**
Attributable to equityholders of the Bank	3,809,122	3,773,207	5,009,403
Attributable to non-controlling interests	31,477	34,213	42,323

(1) "Impairment losses, net" includes provisions for loan losses, net and reversal of general reserves, net.

(2) As of 31 December 2015 and 2016, the Group restated its prior years' financials as per IAS 8 due to accounting policy changes. For details, please see "*Presentation of Financial and Other Information - Restatements and Accounting Policy Changes in Prior Year Financials*" in the Base Prospectus.

Net Income

The Group's net income for a period is calculated by reducing its operating income for such period by the amount of its operating expenses and taxation charge for such period. The Group's net income for 2016 was TL 5,051,726 thousand, a 32.7% increase from TL 3,807,420 thousand in 2015, which itself was a 0.9% decrease from TL 3,840,599 thousand in 2014. The net income for three years was affected by certain exceptional items, which are quantified in the table below:

	2014	2015	2016
		(TL thousands)	
Exceptional items			
Sale/liquidation of equity participations	-	-	(239,483)
Sale of NPLs	(49,225)	(26,839)	(80,944)
Penalties included within other operating expenses[(1)]	218,904	392,403	166,355
Provision for general banking risks[(2)]	80,000	(73,000)	(42,000)
Tax effects of the items listed above	9,845	5,368	45,150
Total impact on net income	**259,524**	**297,932**	**(150,922)**
Reported net income for the year	3,840,599	3,807,420	5,051,726
Net income adjusted for exceptional items	**4,100,123**	**4,105,352**	**4,900,804**

(1) This figure includes repayments of fees and commissions to customers recognised in prior years and the related legal expenses borne by the Bank as per decisions of the Turkish Competion Board or other relevant courts.

(2) See "*Provisions for Probable Loan Losses*" above. As such general provisions are not permitted under IFRS, the Group's independent auditors noted this departure from IFRS in the Group's IFRS Financial Statements by qualifying their audit opinion. Should the Bank's management determine that market conditions have improved to such an extent that such additional reserves are not required, then they may elect to reverse such reserves in future periods, which would have the result of increasing income in such period.

Net income adjusted for exceptional items increased by 19.4% in 2016 as compared to the amount in 2015, which amount was almost unchanged as compared to the amount in 2014. In 2016, the increase in net income adjusted for exceptional items was a result of the significant expansion of the net interest margin together with fee growth and increased efficiencies through disciplined cost management. The slight increase in net income adjusted for exceptional items in 2015 was principally due to strong core banking performance, including increased net interest margin, strong collections from NPLs and sustained fee income, which was offset primarily by regulatory charges.

The following sections describe the components of the Group's net income (*i.e.*, operating income, operating expenses and taxation charges) in greater detail.

Operating Income

The Group's operating income is comprised of its net interest income, net fee and commission income and other operating income. Each of these is described in greater detail below. The following table identifies the share that net interest income, net fee and commission income and other operating income have represented in the Group's total operating income for each of the indicated years:

	2014	2015	2016
Net interest income	62.6%	67.6%	69.0%
Net fee and commission income	23.1%	20.2%	19.7%
Other operating income	14.3%	12.2%	11.3%
Total operating income	**100.0%**	**100.0%**	**100.0%**

Net Interest Income

As noted above, the Group's net interest income is the difference between the interest income and its interest expense (each described below) and is the principal area of income for the Group. As a result, the differential between the interest rates that the Group receives on interest-earning assets and the interest rates that it pays on interest-bearing liabilities (*i.e.*, its average spread) and the volume of such assets and liabilities tend to have the most significant impact on the Group's results of operations. Net interest income represented 62.6%, 67.5% and 69.0% of the Group's total operating income in 2014, 2015 and 2016, respectively.

Net interest income amounted to TL 11,079,889 thousand in 2016, which was a 22.0% increase from TL 9,078,436 thousand in 2015, which itself was a 17.5% increase from TL 7,724,871 thousand in 2014. The Group's net yield was 5.1% in 2016, compared to 4.5% in 2015 and 4.3% in 2014. There was a general decline in margins in the Turkish market from 2010 onwards as a result of increased competition across all sectors of the Group's business; *however*, the Group's net interest margins (as further described below) and volumes, especially in lending activities (as further described in "*Assets - Loans and Advances to Customers*" below), increased in 2014, 2015 and 2016. The improvement in 2016 was a result of a decrease in the cost of funding, especially in deposits.

Net interest margin was 4.9% in 2016 for the Bank (3.8% for the Group) compared with 4.7% in 2015 for the Bank (3.5% for the Group) and 4.1% in 2014 for the Bank (3.4% for the Group). The Group's net interest margin improved in 2015 as a result of the Bank's management's primary focus on profitability through sustainable core banking revenue generators. In 2016, the Group's focus on more profitable products with a selective lending strategy continued and contributed further to the improvement of the net interest margin.

The average spread for the Bank and the Group followed a similar pattern. See also "*– Significant Factors Affecting the Group's Financial Condition and Results of Operations – Interest Rate Environment*."

Interest income and interest expense are discussed in greater detail below.

Interest Income. In 2016, the Group's interest income increased by 19.4% to TL 22,611,719 thousand from TL 18,944,036 thousand in 2015, which itself was an increase of 14.7% from TL 16,519,493 thousand in 2014. The following table sets out the interest earnings on the Group's interest-earning assets during each of the indicated years:

	2014	**2015**	**2016**
		(TL thousands)	
Interest on loans	12,028,430	14,586,832	17,923,941
Interest on securities	3,821,232	3,613,195	3,695,075
Interest on lease business	354,267	397,158	433,225
Interest on deposits at banks	250,640	274,540	470,009
Others	64,924	72,311	89,469
Total interest income	**16,519,493**	**18,944,036**	**22,611,719**

As noted above, interest income is a function of both the volume of, and yield earned on, the Group's interest-earning assets. In 2016, the increase in interest income was principally due to a 22.9% increase in "interest income on loans" resulting largely from increasing loan volumes and improved yields through the Group's selective lending strategy on more profitable products. In 2015, the increase in interest income was principally due to a 21.3% increase in interest income on loans.

The following table sets forth the average yield earned by the Bank (daily average) and the Group (quarterly average) on certain interest-earning assets for the indicated years. For additional information with respect to the Bank's interest income, including with respect to Turkish Lira- and foreign currency-denominated assets, see "*Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Average Balance Sheet and Interest Data*" and "*– Net Changes in Interest Income and Expense – Volume and Rate Analysis*."

	2014	**2015**	**2016**
Total average yield for the Bank	**8.94%**	**8.92%**	**9.41%**
Deposits at banks	1.86%	1.37%	2.01%
Investments in securities	9.73%	9.04%	9.26%
Loans and advances to customers	9.15%	9.41%	10.18%
Total average yield for the Group	**8.35%**	**8.29%**	**8.87%**

While yields in 2015 were generally the same as in 2014, the increase in the yield earned by the Bank in 2016 compared to 2015 primarily resulted from the Bank's strategy to improve net interest margin and focus on income from core banking operations.

The growth in the Group's interest income in the past three years was primarily due to the increase in the size of its loan portfolio.

Interest Expense. In 2016, the Group's interest expense increased by 16.9% to TL 11,531,830 thousand from TL 9,865,600 thousand in 2015, which itself was an increase of 12.2% from TL 8,794,622 thousand in 2014. The following table sets out the interest expense on the Group's interest-bearing liabilities by category during each of the indicated years:

	2014	2015	2016
		(TL thousands)	
Interest on saving, commercial and public deposits	(5,106,895)	(5,655,220)	(6,716,059)
Interest on borrowings and obligations under repurchase agreements	(2,633,792)	(3,078,052)	(3,409,375)
Interest on bonds payable	(851,532)	(942,192)	(1,104,002)
Interest on bank deposits	(184,519)	(170,616)	(280,507)
Interest on subordinated liabilities	(6,234)	(5,776)	(3,126)
Other	(11,650)	(13,744)	(18,761)
Total interest expense	**(8,794,622)**	**(9,865,600)**	**(11,531,830)**

The increase in the Group's interest expense in 2016 was principally in line with the increase in the size of its funding base. As noted above, changes in the interest rates that the Group pays on its interest-bearing liabilities significantly affect the Group's interest expense. Most significantly, the Group's interest-bearing deposits represent the largest portion of its liabilities by 48.0%, 48.3% and 48.3%, respectively, as of 31 December 2014, 2015 and 2016. As a result, the interest rates that the Group pays on its deposits typically have the largest impact on the Group's interest expense. The following table sets forth the average interest rates paid by the Bank (daily average) and the Group (quarterly average) on interest-bearing deposits and other interest-bearing liabilities for the indicated years:

	2014	2015	2016
Total interest rates for the Bank	**5.14%**	**4.81%**	**5.15%**
Deposits from customers	5.03%	4.71%	5.14%
Short-term debt	3.57%	1.94%	7.77%
Long-term debt	5.15%	4.69%	4.21%
Repurchase agreements	6.02%	6.73%	7.57%
Total interest rates for the Group	**4.68%**	**4.55%**	**4.84%**

The decrease in the Group's interest rates and, as a result, interest paid by the Group in 2015 was principally a result of the Group's focus on sticky and low-cost mass deposits and a strategy to use other funding sources to decrease the funding costs. In 2016, the increase in the interest rates was principally due to the increasing interest rate environment, especially in the second half of 2016. See "*- Financial Condition - Liabilities*" below.

For additional information with respect to the Bank's interest expense, including with respect to the size of and yield paid on Turkish Lira- and foreign currency-denominated liabilities, see "*Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Liabilities – Average Interest-Bearing Liabilities*" and "*– Net Changes in Interest Income and Expense – Volume and Rate Analysis.*" In addition, certain information on the interest rates paid by the Group on its interest-bearing liabilities can be found in "*Selected Statistical and Other Information – Borrowings and Certain Other Liabilities*" below.

Net Fee and Commission Income

The Group's net fee and commission income for 2016 was TL 3,163,329 thousand, an increase of 16.4% from TL 2,718,490 thousand in 2015, which itself was a decrease of 4.7% from TL 2,852,232 thousand in 2014. The decrease in the Group's net fee and commission income in 2015 was due to commission reimbursement expenses. While strong growth was experienced throughout the Group's fee and commission sources in 2016, this increase was primarily due to the growth in the volume of consumer and SME loans and credit cards, which tend to have higher fees and commissions than corporate and commercial loans.

The following table sets out the categories of the Group's fee and commission income and expenses (identified by the principal business lines of the Group) and their respective amounts during each of the indicated years:

	2014	2015	2016
		(TL thousands)	
Fee and Commission Income			
Credit card fees	2,057,325	2,218,650	2,565,757
Retail banking	750,105	487,008	542,421
SME banking	355,578	396,636	422,318
Commercial banking	273,446	352,930	336,634
Corporate banking	24,262	22,128	45,150
Other	195,221	176,471	298,811
Total fee and commission income	**3,655,937**	**3,653,823**	**4,211,091**
Fee and Commission Expense			
Credit card fees	648,938	804,778	823,403
Retail banking	26,407	31,633	53,424
Commercial banking	3,395	4,124	14,172
SME banking	4,364	3,497	5,398
Corporate banking	188	180	581
Other	120,413	91,121	150,784
Total fee and commission expense	**803,705**	**935,333**	**1,047,762**
Net fee and commission income	**2,852,232**	**2,718,490**	**3,163,329**

Other Operating Income

As noted above, other operating income includes net trading gains, net foreign exchange gains, premium income from the insurance business and other items. Total other operating income for 2016 amounted to TL 1,812,555 thousand, increasing by 10.3% from TL 1,643,172 thousand in 2015, which itself was a 6.5% decrease from TL 1,756,925 thousand in 2014. The following table sets out the Group's other operating income by category during each of the indicated years:

	2014(2)	2015(2)	2016
		(TL thousands)	
Trading gains, fixed/floating securities	-	-	390,833
Trading gains/(losses), derivative transactions	-	-	215,606
Trading gains/losses, net(1)(3)	**-**	**-**	**606,439**
Premium income from insurance business	402,123	454,908	554,210
Foreign exchange gains, net.	1,031,033	880,370	-
Other operating income	323,769	307,894	651,906
Total other operating income	**1,756,925**	**1,643,172**	**1,812,555**

(1) See Note 29 to the IFRS Financial Statements as of and for the year ended 31 December 2016.

(2) As of 31 December 2015 and 2016, the Group restated its prior years' financials as per IAS 8 due to accounting policy changes. For details, please see "*Presentation of Financial and Other Information - Restatements and Accounting Policy Changes in Prior Year Financials*" in the Base Prospectus.

(3) For 2014 and 2015, "trading gains/(losses), net" was not included in "total other operating income" since the Group realised net trading losses for the relevant periods and presented under "other operating income."

The largest component of total other operating income in 2016 (representing 33.5% of the total) was the net trading gains, while it was net foreign exchange gains in 2015 and 2014 (representing 53.6% and 58.7%, respectively, of the total). In 2016, the increase in other operating income as compared to 2015 was mainly due to gains derived from the sale of shares owned in Visa Mastercard. Net trading gains in 2016 resulted from trading and revaluation of fixed- and floating-rate debt securities and mark-to-market valuation of derivatives.

Another significant component of other operating income is the premium income from the insurance business, which had a 30.6% share of total other operating income in 2016, compared to 27.7% in 2015. Although the Group did not hold any material foreign currency net open positions throughout 2014, 2015 and 2016 (considering both on-balance sheet and off-balance sheet positions), "foreign exchange gains/losses, net" varied among these years depending upon the balance sheet and off-balance sheet positions in gross terms. In 2016, the Group recorded foreign exchange losses, net of TL 235,417 thousand, compared to foreign exchange gains, net of TL 880,370 thousand in 2015 and foreign exchange gains, net of TL 1,031,033 thousand in 2014. The Group's foreign exchange loss in 2016 was due to the volatility of foreign exchange rates during the year. With respect to foreign exchange gains, see "*Significant Factors Affecting the Group's Financial Condition and Results of Operations – Currency Exchange Rates*" above.

Operating Expenses

As noted above, the Group's operating expenses include business expenses such as salaries/benefits and rent, but also include impairment losses (including provisions for NPLs). Operating expenses in 2016 increased by 12.0% to TL 9,716,538 thousand from TL 8,678,769 thousand in 2015, which was an increase by 16.2% from TL 7,466,689 thousand in 2014. The increase in 2016 principally resulted from an increase in the Group's provisions for loans and other credit risks, an increase in impairment losses (including general provisions) and increases in employee and expansion-related expenses (as further explained in "- Salaries and Wages" below). The increase in 2015 primarily resulted from an increase in the Group's provisions for loans and other credit risks and an increase in taxes and duties other than on income. See "*Provisions for Probable Loan Losses*" above.

The Group's adjusted cost-to-income ratio decreased to 45.4% in 2016 from 53.4% in 2015 (50.6% in 2014). A similar ratio monitored by the Group is its ratio of adjusted operating expenses to average total assets, which ratio improved from 2.2% in 2014 to 2.3% in 2015 and then was reduced to 2.2% in 2016. The improvement in the adjusted cost-to-income ratio in 2016 was due to increased cost-efficiency and disciplined cost management.

The following table sets out the Group's total operating expenses by category during each of the indicated years:

	2014[3]	**2015[3]**	**2016**
		(TL thousands)	
Provisions for loans and other credit risks, net	1,564,155	1,819,109	2,445,570
Salaries and wages	1,851,813	1,881,216	2,141,196
Employee benefits[1]	453,218	763,730	901,801
Credit card rewards and promotion expenses	601,296	754,968	796,256
Rent expenses	292,529	340,701	385,225
Depreciation and amortisation	271,551	285,994	344,363
Taxes and duties other than on income	193,826	257,942	263,461
Foreign exchange loss, net	-	-	235,417
Impairment losses, net	154,632	41,573	226,411
Communication expenses	181,735	197,841	211,062
Trading loss, net	464,132	581,273	-
Other operating expenses[2]	1,437,802	1,754,422	1,765,776
Total operating expenses[2]	**7,466,689**	**8,678,769**	**9,716,538**

(1) In accordance with IFRS, the expenses associated with the Group's insurance business are, where appropriate, included within the various expense line items set out above.

(2) Other operating expenses include various normal course expenses such as advertising expenses, utility charges and repair and maintenance, none of which is individually material. See Note 31 to the IFRS Financial Statements as of and for the year ended 31 December 2016 incorporated by reference into this Prospectus.

(3) Due to accounting policy changes, the Group restated prior years' financials as per IAS 8. For details, please see "*Presentation of Financial and Other Information - Restatements and Accounting Policy Changes in Prior Year Financials*" in the Base Prospectus.

Two items, salaries and wages and impairment losses, net (including provisions for loans and other credit risks) are discussed in greater detail below. With respect to foreign exchange losses, net, see "*Significant Factors Affecting the Group's Financial Condition and Results of Operations – Currency Exchange Rates*" above.

Impairment Losses, Net. In 2015 and 2016, the Group's provisions for loans and other credit risks, net increased by 16.3% and 34.4%, respectively, as a result of the Group's conservative risk approach. The Group records a provision for probable loan losses for anticipated problem loans and NPLs. See "*Selected Statistical and Other Information – Summary of Loan Loss Experience*" below.

As noted above, in addition to provisions for probable losses on cash loans and non-cash loans, the Group's impairment losses, net include provisions for tangible assets and goodwill, investment in equity participations, other receivables and (where applicable) reversal of related prior year provisions. See Notes 9, 11, 12, 13 and 21 to the IFRS Financial Statements as of and for the year ended 31 December 2016.

The following table sets out the movements in the Group's allowance for probable loan losses on cash loans, including the portfolio-basis allowance, during each of the indicated years:

	2014	2015	2016
		(TL thousands)	
Balance at the beginning of the year	**4,669,097**	**5,657,900**	**7,216,509**
Write-offs	(547,716)	(433,073)	(1,676,257)
Recoveries and reversals	(634,132)	(904,159)	(1,127,778)
Provision for the year, specific	1,912,347	2,222,090	2,558,415
Provision for the year, portfolio-basis (net)	258,304	673,751	1,276,103
Balance at the end of the year	**5,657,900**	**7,216,509**	**8,246,992**

The Group's net provision for loans and other credit risks in 2016 was TL 2,445,570 thousand, a 34.4% increase from TL 1,819,109 thousand in 2015, which itself was a 16.3% increase from TL 1,564,155 thousand in 2014. As a result of the growth of the Group's loan portfolio and strong collection performance, the Group's non-performing loans to total gross cash loans ratio increased from 3.1% as of 31 December 2014 to 3.3% as of 31 December 2015 and then decreased to 3.2% as of 31 December 2016 due primarily to debt sales supported by a strong collection performance. The write-offs in 2014, 2015 and 2016 were principally due to sales from NPL portfolios. The effect of such sales on this NPL ratio was to reduce it by 0.2%, 0.1% and 0.6% for 2014, 2015 and 2016, respectively.

In addition to the specific and portfolio-basis provisions detailed above, the Group's management elected to take a TL 360,000 thousand general provision in 2009 in order to act conservatively in the context of the uncertainty created by the global financial crisis. This was initially increased by TL 90,000 thousand in 2011, then reduced by TL 115,000 thousand in 2013, increased by TL 80,000 thousand in 2014, reduced by TL 73,000 thousand in 2015 and then reduced further by TL 42,000 thousand in 2016. The IFRS Financial Statements 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. See the IFRS Financial Statements incorporated by reference into this Prospectus. These general provisions are not included in the allowance for probable loan losses on cash loans in the table above but do form a component of "impairment losses, net" when there is an increase and form a component of "other operating income" when there is a reversal, and affect the balance sheet as an element of "other liabilities, accrued expenses and provisions."

Salaries and Wages. The Group's operating expenses include the salaries and wages that it pays to its employees. Salaries and wages increased by 13.8% to TL 2,141,196 thousand in 2016 from TL 1,881,216 thousand in 2015, itself a 1.6% increase from TL 1,851,813 thousand in 2014. As of 31 December 2016, the Group had 23,692 employees, compared to 23,191 as of 31 December 2015 and 22,249 as of 31 December 2014. The increase in the number of employees was a result of the Group's general growth.

Taxation Charge

Income taxation charges for 2016 amounted to TL 1,287,509 thousand, which was a 35% increase from TL 953,909 thousand in 2015, itself a 7.1% decrease from TL 1,026,740 thousand in 2014. The Group's taxation charges for 2016 included deferred tax charges of TL 251,956 thousand compared to deferred tax charges of TL 121,122 thousand for 2015 (and deferred tax benefits of TL 425,014 thousand for 2014).

The Group's effective income tax rate (calculated based upon its reported taxation charge divided by its income before tax) for 2014, 2015 and 2016 was 21.1%, 20.0% and 20.3% (each very close to or equal to the Turkish corporate income tax rate of 20%), respectively. The deviation from the Turkish tax rate of 20% in 2014 was due to the disallowable expenses. In 2015 and 2016, the deviation from the Turkish tax was insignificant.

Taxes on income from the Group's non-Turkish operations have been immaterial. For more information on the Group's taxation, see Note 20 to the IFRS Financial Statements as of and for the year ended 31 December 2016 incorporated by reference into this Prospectus.

Financial Condition

The following summary balance sheet data for each of the indicated dates have been extracted from the IFRS Financial Statements incorporated by reference into this Prospectus. This information should be read in conjunction with such IFRS Financial Statements.

	As of 31 December						As of	
	2014[3]	% of Total	2015[3]	% of Total	2016	% of Total	31 March 2017	% of Total
	(TL thousands, except for percentages)							
Assets								
Cash and balances with central banks	6,596,475	2.8	6,802,108	2.5	11,601,263	3.8	13,763,193	4.2
Financial assets at fair value through profit or loss	1,086,670	0.5	660,193	0.2	1,086,299	0.3	729,928	0.2
Loans and advances to banks	10,815,218	4.5	14,378,087	5.2	15,281,197	5.0	13,758,392	4.2
Loans and advances to customers	148,081,415	62.2	175,681,692	63.9	205,988,793	66.8	216,385,255	66.8
Other assets[1]	23,851,216	10.0	25,812,148	9.4	21,160,736	6.8	25,937,099	8.0
Investment securities	44,197,153	18.6	46,072,823	16.8	47,092,951	15.3	47,505,638	14.7
Investment in equity participations	40,896	-	41,216	-	39,954	-	40,109	-
Tangible and intangible assets	2,319,268	1.0	4,376,178	1.6	5,210,737	1.7	5,228,596	1.6
Deferred tax asset	925,821	0.4	1,013,552	0.4	856,597	0.3	945,888	0.3
Total assets	**237,914,132**	**100.0**	**274,837,997**	**100.0**	**308,318,527**	**100.0**	**324,294,098**	**100.0**
Liabilities								
Deposits from banks	7,114,771	3.0	6,960,181	2.5	4,487,946	1.5	5,075,902	1.6
Deposits from customers	126,292,539	53.1	149,154,274	54.3	174,155,645	56.5	180,039,819	55.5
Obligations under repurchase agreements and money market fundings	12,021,165	5.0	16,567,796	6.0	11,230,193	3.6	15,723,806	4.8
Loans and advances from banks and other institutions	38,218,041	16.1	39,959,934	14.5	47,327,944	15.4	48,247,332	14.9
Bonds payable	14,438,356	6.0	15,511,597	5.7	17,846,340	5.8	20,445,321	6.3
Subordinated liabilities	140,766	0.1	159,792	0.1	-	-	-	-
Current tax liabilities	450,209	0.2	376,779	0.1	120,542	-	565,732	0.2
Other liabilities, accrued expenses and provisions[2]	11,948,711	5.0	14,141,954	5.2	16,711,961	5.4	16,922,454	5.2
Total liabilities	**210,624,558**	**88.5**	**242,832,307**	**88.4**	**271,880,571**	**88.2**	**287,020,366**	**88.5**
Total shareholders' equity and non-controlling interests	**27,289,574**	**11.5**	**32,005,690**	**11.6**	**36,437,956**	**11.8**	**37,273,732**	**11.5**
Total liabilities, shareholders' equity and non-controlling interests	**237,914,132**	**100.0**	**274,837,997**	**100.0**	**308,318,527**	**100.0**	**324,294,098**	**100.0**

(1) Includes "Goodwill, net."
(2) Includes deferred tax liabilities.
(3) As of 31 December 2015 and 2016, the Group restated prior years' consolidated financials as per IAS 8 due to accounting policy changes. For details, please see "*Presentation of Financial and Other Information - Restatements and Accounting Policy Changes in Prior Year Financials*" in the Base Prospectus.

The following summarises the Group's assets, liabilities and shareholders' equity as extracted from its IFRS Financial Statements (without any material adjustment).

Assets

As of 31 March 2017, the Group's total assets amounted to TL 324,294,098 thousand, a 5.2% increase from TL 308,318,527 thousand as of 31 December 2016, which was a 12.2% increase from TL 274,837,997 thousand as of 31 December 2015, which itself was a 15.5% increase from TL 237,914,132 thousand as of 31 December 2014. Cash and balances with central banks represented 4.2%, 3.8%, 2.5% and 2.8% of the Group's total assets as of 31 March 2017 and 31 December 2016, 2015 and 2014, respectively, as most of the Group's funds are invested in interest-earning assets. The following describes the Group's loans and advances to customers and investment securities, which jointly represented 81.4% of the Group's total assets as of 31 March 2017, 82.1% as of 31 December 2016, 80.7% as of 31 December 2015 and 80.8% as of 31 December 2014.

Loans and Advances to Customers. Loans and advances to customers represented 66.7%, 66.8%, 63.9% and 62.2% of the Group's total assets as of each of 31 March 2017 and 31 December 2016, 2015 and 2014, respectively. The Group's loans and advances to customers amounted to TL 216,385,255 thousand as of 31 March 2017, a 5.0% increase from TL 205,988,793 thousand as of 31 December 2016, which was a 17.3% increase from TL 175,681,692 thousand as of 31 December 2015, which itself was an 18.6% increase from TL 148,081,415 thousand as of

31 December 2014. The following table summarises the Group's loans and advances to customers as of the indicated dates:

	As of 31 December						As of	
	2014	% of Total	2015	% of Total	2016	% of Total	31 March 2017	% of Total
	(TL thousands, except for percentages)							
Consumer loans	48,038,219	32.4	54,080,094	30.8	60,932,999	29.6	62,122,777	28.7
Mortgage loans	*15,907,643*	*10.7*	*19,341,743*	*11.0*	*22,544,347*	*10.9*	*23,168,230*	*10.7*
General purpose and other consumer loans	*17,349,907*	*11.7*	*18,203,500*	*10.4*	*20,086,551*	*9.8*	*20,626,139*	*9.5*
Credit card receivables	*13,424,359*	*9.1*	*14,981,373*	*8.5*	*16,125,229*	*7.8*	*16,205,629*	*7.5*
Auto loans	*1,356,310*	*0.9*	*1,553,478*	*0.9*	*2,176,872*	*1.1*	*2,122,779*	*1.0*
Energy	16,237,323	11.0	18,866,417	10.7	23,686,229	11.5	22,166,591	10.2
Service sector	10,638,343	7.2	14,005,954	8.0	16,221,852	7.9	19,076,556	8.8
Construction	6,495,423	4.4	9,008,359	5.1	10,319,625	5.0	11,575,734	5.3
Transportation and logistics	4,826,086	3.3	5,616,571	3.2	9,217,292	4.5	9,258,790	4.3
Textile	5,829,731	3.9	6,433,026	3.7	8,122,466	3.9	9,017,473	4.2
Food	5,696,340	3.8	7,137,335	4.1	8,409,563	4.1	8,692,226	4.0
Financial institutions	5,954,668	4.0	7,886,038	4.5	8,534,641	4.1	8,315,226	3.8
Metals and metal products	5,657,688	3.8	5,442,433	3.1	6,283,548	3.1	6,708,711	3.1
Transportation vehicles and sub-industry	4,792,766	3.2	7,212,974	4.1	6,227,605	3.0	6,280,761	2.9
Tourism	4,229,025	2.9	4,919,498	2.8	5,451,790	2.6	5,633,570	2.6
Data processing	3,532,173	2.4	4,168,324	2.4	4,948,330	2.4	5,310,152	2.5
Agriculture and stockbreeding	2,279,105	1.5	2,177,618	1.2	2,557,898	1.2	2,842,351	1.3
Other	16,022,696	10.8	19,927,498	11.2	25,179,927	12.2	29,645,304	13.8
Total performing loans	**140,229,586**	**94.6**	**166,882,139**	**94.9**	**196,093,765**	**95.1**	**206,646,222**	**95.5**
Financial lease receivables, net of unearned income	3,979,924	2.7	4,857,333	2.8	5,339,815	2.6	5,272,669	2.4
Factoring receivables	2,929,216	2.0	2,823,833	1.6	2,806,998	1.4	2,550,074	1.2
Income accrual on loans, factoring and lease receivables	1,851,447	1.3	2,244,728	1.3	3,084,374	1.5	3,323,474	1.5
Total performing loans and advances to customers	**148,990,173**	**100.6**	**176,808,033**	**100.6**	**207,324,952**	**100.6**	**217,792,439**	**100.6**
NPLs, factoring and lease receivables	4,749,142	3.2	6,090,168	3.5	6,910,833	3.4	7,069,509	3.3
Allowance for probable losses from loans, factoring and lease receivables	(5,657,900)	(3.8)	(7,216,509)	(4.1)	(8,246,992)	(4.0)	(8,476,693)	(3.9)
Loans and advances to customers, net	**148,081,415**	**100.0**	**175,681,692**	**100.0**	**205,988,793**	**100.0**	**216,385,255**	**100.0**

In the first quarter of 2017, the Group's loan portfolio grew by 5.0% principally as a result of growth in the portfolio of loans benefitting from the support of the KGF. In 2016, the Group's loan portfolio grew by 17.3%, principally as a result of growth on Turkish Lira-denominated business banking loans in sectors such as energy, transportation and logistics, service and textile. In 2015, the Group's loan portfolio grew by 18.6%, principally as a result of growth in mortgage loans, credit cards and commercial loans, especially in the service, energy and construction sectors. In 2014, the Group's loan portfolio grew by 12.8% primarily due to growth in commercial loans. This growth was reflected across a wide range of groups and industries, but, in particular, the Group achieved growth in its loan portfolio by meeting increased demand for consumer loans, loans to certain industry sectors, including energy and transportation vehicles. In the first quarter of 2017, the Group's NPLs increased by 2.3% to TL 7,069,509 thousand from TL 6,910,833 thousand as of 31 December 2016, which was a 13.5% increase from TL 6,090,168 thousand as of 31 December 2015, which itself was a 28.2% increase from TL 4,749,142 thousand as of 31 December 2014.

The proportion of the Group's non-performing loans to gross cash loans was 3.1% as of 31 March 2017, 3.2% as of 31 December 2016, 3.3% as of 31 December 2015 and 3.1% as of 31 December 2014. In 2015 and 2014, the ratio increased primarily due to an inflow of non-performing commercial loans with strong collateralisation. In 2016, the ratio decreased due to the large increase in debt sales as compared to 2015 and 2014, whereas in the first quarter of 2017, the ratio slightly declined due to a decrease in new NPLs. The ratio of the Group's non-performing loans to total gross cash loans and non-cash loans was 2.5% as of 31 March 2017, 2.6% as of 31 December 2016, 2.6% as of 31 December 2015 and 2.5% as of 31 December 2014.

For additional information on the Group's loan portfolio, including its NPLs and related provisions, see Note 7 to the IFRS Financial Statements as of and for the three months ended 31 March 2017 and "*Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Average Balance Sheet and Interest Data*" and "*– Summary of Loan Loss Experience*."

Investment Securities. Investment securities, principally Turkish government securities, have historically represented a significant portion of the Group's assets. As of 31 December 2014, 2015 and 2016 and 31 March 2017, investment securities represented 18.6%, 16.8%, 15.3% and 14.7%, respectively, of the Group's total assets. In 2016 and the first quarter of 2017, the decline in investment securities as a portion of the Group's total assets was the result of the growth of the Group's assets while the Group's investment security portfolio remained almost constant. The decline in investment securities as a portion of the Group's assets in 2015 was as a result of a lower growth pace of the investment security portfolio compared to the growth rate of the Group's assets. The following table provides information as to the breakdown of the Group's investment securities portfolio as of the indicated dates:

	As of 31 December						As of 31 March 2017	% of Total
	2014	**% of Total**	**2015**	**% of Total**	**2016**	**% of Total**		
	(TL thousands, except for percentages)							
Securities available-for-sale								
Turkish government bonds indexed to consumer price index	5,258,773	11.9	6,883,939	14.9	7,755,182	16.5	8,686,654	18.3
Turkish government bonds and treasury bills in TL	3,231,567	7.3	5,499,427	11.9	6,292,374	13.4	6,787,155	14.3
Turkish government bonds at floating rate	6,052,824	13.7	6,074,069	13.2	3,486,266	7.4	3,421,352	7.2
Bonds issued by financial institutions	3,185,196	7.2	3,235,670	7.0	3,002,066	6.4	2,620,895	5.5
Bonds issued by foreign governments	1,129,157	2.6	1,246,837	2.7	1,425,545	3.0	1,039,630	2.2
Bonds issued by corporations	745,523	1.7	812,449	1.8	945,009	2.0	795,834	1.7
Eurobonds (Turkish government)	871,296	2.0	526,266	1.1	722,603	1.5	718,614	1.5
Discounted Turkish government bonds in TL	2,957,358	6.7	128,360	0.3	135,588	0.3	87,794	0.2
Other	98,417	0.1	348,560	0.8	218,622	0.4	239,116	0.5
Total securities available-for-sale	**23,530,111**	**53.2**	**24,755,577**	**53.7**	**23,983,255**	**50.9**	**24,397,044**	**51.4**
Securities held-to-maturity								
Turkish government bonds indexed to consumer price index	9,106,525	20.6	7,298,498	15.8	7,298,497	15.5	7,298,497	15.4
Eurobonds (Turkish government)	4,557,883	10.3	5,739,860	12.5	6,909,117	14.7	7,071,278	14.9
Bonds issued by financial institutions	2,516,479	5.7	3,299,190	7.2	3,617,908	7.7	3,764,727	7.9
Turkish government bonds in TL	2,998,590	6.8	2,998,498	6.5	2,521,608	5.4	2,082,541	4.4
Discounted Turkish government bonds in TL	14,354	-	-	-	-	-	-	-
Other	116,317	0.3	189,013	0.4	336,593	0.7	319,404	0.7
Sub-total	**19,310,148**	**43.7**	**19,525,059**	**42.4**	**20,683,723**	**44.0**	**20,536,447**	**43.3**
Income accrual on held-to-maturity	1,356,894	3.1	1,792,187	3.9	2,425,973	5.1	2,572,147	5.3
Total securities held-to-maturity	**20,667,042**	**46.8**	**21,317,246**	**46.3**	**23,109,696**	**49.1**	**23,108,594**	**48.6**
Total investment securities	**44,197,153**	**100.0**	**46,072,823**	**100.0**	**47,092,951**	**100.0**	**47,505,638**	**100.0**

Securities issued by the Turkish government represented 79.3%, 76.2%, 74.7% and 76.2% of the Group's total investment securities portfolio as of 31 December 2014, 2015 and 2016 and 31 March 2017, respectively.

The most significant change in the Group's investment portfolio in 2014, 2015, 2016 and the first quarter of 2017 was the increase in holdings of eurobonds classified under "eurobonds (Turkish government)" in the table above, which increased from 12.3% of the Group's total investment securities portfolio as of 31 December 2014 to 13.6% as of 31 December 2015, to 16.2% as of 31 December 2016 and then to 16.4% as of 31 March 2017. The increase was a result of the Group's decision to increase its investments in such securities in order to hedge itself against currency volatility. The held-to-maturity portfolio declined from 46.8% of the Group's total investment securities portfolio as of 31 December 2014 to 46.3% as of 31 December 2015 as a result of redemptions, then increased to

49.1% as of 31 December 2016 as a result of the Group's total investment securities portfolio, and then decreased slightly to 48.6% as of 31 March 2017.

Pursuant to Turkish market practice, the Group pledges securities to acquire funding under security repurchase agreements. The Group utilises such funding depending upon the difference in rates paid on deposits compared to Central Bank rates, which vary based upon market conditions as well as Central Bank policy. The securities so pledged amounted to TL 12,874,827 thousand as of 31 December 2014, TL 16,499,273 thousand as of 31 December 2015, TL 8,109,910 thousand as of 31 December 2016 and TL 7,688,300 thousand as of 31 March 2017, comprising 29.1%, 35.8%. 17.2% and 16.2%, respectively, of the Group's total investment securities portfolio.

For additional information on the Group's investment securities portfolio, see Note 10 to the IFRS Financial Statements as of and for the three months ended 31 March 2017 and "*Selected Statistical and Other Information – Securities Portfolio*."

Liabilities

As of 31 March 2017, the Group's total liabilities amounted to TL 287,020,366 thousand, an 5.6% increase from TL 271,880,571 thousand as of 31 December 2016, which was a 12.0% increase from TL 242,832,307 thousand as of 31 December 2015, which itself was a 15.3% increase from TL 210,624,558 thousand as of 31 December 2014.

The Group's TL 212,432,327 thousand in average interest-bearing liabilities during the first quarter of 2017 resulted primarily from TL 132,721,917 thousand in average time deposits of customers, TL 13,477,000 thousand in average obligations under repurchase agreements and TL 47,787,638 thousand in average loans and advances from banks. The Group's TL 193,718,800 thousand in average interest-bearing liabilities during 2016 resulted primarily from TL 123,347,054 thousand in average time deposits of customers, TL 14,356,624 thousand in average obligations under repurchase agreements and TL 40,403,691 thousand in average loans and advances from banks. The Group's TL 178,943,925 thousand in average interest-bearing liabilities during 2015 resulted primarily from TL 111,349,409 thousand time deposits of customers, TL 13,911,409 thousand in average obligations under repurchase agreements and TL 39,070,368 thousand in average loans and advances from banks.

The following summarises the three principal categories of the Group's liabilities - deposits, obligations under repurchase agreements and loans and advances from banks and other financial institutions.

Deposits. Deposits have been and are expected to continue to be the most important source of funding for the Group. The Group's total deposits from customers (including expense accruals) amounted to TL 180,039,819 thousand as of 31 March 2017, a 3.4% increase from TL 174,155,645 thousand as of 31 December 2016, which was a 16.8% increase from TL 149,154,274 thousand as of 31 December 2015, which itself was an 18.1% increase from TL 126,292,539 thousand as of 31 December 2014. The share of deposits from customers in total liabilities decreased to 55.5% as of 31 March 2017 from 56.5% as of 31 December 2016, which had increased from 54.3% as of 31 December 2015, itself an increase from 53.1% as of 31 December 2014. Foreign currency deposits (principally U.S. dollars and euro) represented 53.6%, 57.6%, 57.5% and 59.4% of the Group's total deposits as of 31 December 2014, 2015 and 2016 and 31 March 2017, respectively. For additional information on the Group's deposits, see Notes 14 and 15 to the Group's IFRS Financial Statements as of and for the three months ended 31 March 2017 and "*Selected Statistical and Other Information – Deposits*."

Obligations under Repurchase Agreements. Obligations under repurchase agreements amounted to TL 11,230,193 thousand as of 31 December 2016, constituting 3.6% of the Group's total liabilities, decreasing its share as compared to TL 16,567,796 thousand as of 31 December 2015, which constituted 6.0% of the Group's total liabilities, which itself was an increase of its share as compared to TL 12,021,165 thousand as of 31 December 2014, which constituted 5.1% of the Group's total liabilities. As of 31 March 2017, obligations under repurchase agreements amounted to TL 15,723,806 thousand, constituting 4.8% of the Group's total liabilities. The share of the outstanding balances of such transactions in the Group's balance sheet changes depending upon the relative costs of funding in the market. For additional information on the Group's obligations under repurchase agreements, see Note 16 to the IFRS Financial Statements as of and for the three months ended 31 March 2017.

Loans and Advances from Banks and Other Institutions. As deposits are generally of a short-term duration, the Group has obtained wholesale funding on a more limited basis principally to better match the maturity and currency of its longer-term assets. This funding has included (among others) syndicated bank loans and financings collateralised by certain of the wire transfers and other remittances received by the Bank from its correspondent banks and other senders of such transfers. Loans and advances from banks and other institutions amounted to TL 48,247,332 thousand as of 31 March 2017 (14.9% of the Group's total liabilities), TL 47,327,944 thousand as of 31 December 2016 (15.4% of the Group's total liabilities) as compared to TL 39,959,934 thousand as of 31 December 2015 (14.5% of the Group's total liabilities) and TL 38,218,041 thousand as of 31 December 2014 (16.1% of the Group's total liabilities). It is important to note that a portion of these liabilities (either when incurred or as a result of aging) are themselves short-term (as of 31 March 2017, 48.9% of loans and advances from banks and other institutions had a remaining term-to-maturity of one year or less as compared to 52.1% as of 31 December 2016, 46.9% as of 31 December 2015 and 53.0% as of 31 December 2014). For additional information on the Group's loans and advances from banks and other financial institutions, see Note 17 to the IFRS Financial Statements as of and for the three months ended 31 March 2017 and "*Selected Statistical and Other Information – Borrowings and Certain Other Liabilities*."

Shareholders' Equity

The Group's total shareholders' equity including non-controlling interests as of 31 March 2017 amounted to TL 37,273,732 thousand, which was a 2.3% increase from TL 36,437,956 thousand as of 31 December 2016, which was a 13.8% increase from TL 32,005,690 thousand as of 31 December 2015, itself a 17.3% increase from TL 27,289,574 thousand as of 31 December 2014. Shareholders' equity principally changes as a result of the Group's net income and changes in the amount of unrealised gains and losses on available-for-sale assets (which changes are not included in income). The following table summarises the components of the Group's shareholders' equity and non-controlling interests as of the indicated dates:

	As of 31 December			**As of**
	2014[(1)]	**2015**	**2016**	**31 March 2017**
		(TL thousands)		
Share capital	5,146,371	5,146,371	5,146,371	5,146,371
Share premium	11,880	11,880	11,880	11,880
Unrealised (losses)/gains on available-for-sale assets	88,631	(283,792)	(543,775)	(103,526)
Hedging reserve	(191,244)	(241,097)	(426,418)	(474,689)
Actuarial gain/(loss)	(53,170)	(76,718)	(104,510)	(104,510)
Revaluation surplus on tangible assets	-	1,590,481	1,511,483	1,511,783
Translation reserve	367,064	696,557	1,149,369	1,292,500
Legal reserves	1,182,824	1,229,498	1,275,230	1,381,986
Retained earnings	20,543,485	23,705,893	28,150,518	28,331,008
Non-controlling interests	193,733	226,617	267,808	280,929
Total shareholders' equity and non-controlling interests	**27,289,574**	**32,005,690**	**36,437,956**	**37,273,732**

(1) As of 31 December 2015, the Group changed its accounting policy in accordance with IAS 40 and the Group's financial statements for 2014 were restated as per IAS 8. See "*Presentation of Financial and Other Information - Restatements and Accounting Policy Changes in Prior Year Financials*" in the Base Prospectus.

The net unrealised market value performances of available-for-sale assets was negative in 2016 due to redemptions and renewals of certain available-for-sale securities (for which the Group recorded gains to the income statement) and partly due to the continued reduction in yields. In the first three months of 2017, the unrealised market value of available-for-sale assets continued to be negative despite a strong recovery in the performance of available-for-sale assets. For additional information on the Group's shareholders' equity and non-controlling interests, see Notes 10 and 21 in the IFRS Financial Statements as of and for the three months ended 31 March 2017. In addition, see "*Capital Adequacy*" below.

Off-Balance Sheet Arrangements

In the normal course of business in order to meet the needs of its customers and to hedge the Group's own positions (and generally not for speculative purposes), the Group enters into certain off-balance sheet transactions. These transactions expose the Group to credit risk that is not reflected on the Group's balance sheet. The Group applies to these transactions the same credit policies in making commitments and assuming conditional obligations as it does for on-balance sheet transactions, including the requirement to obtain collateral when it is considered necessary.

The most significant category of such transactions includes letters of guarantee, letters of credit and other support that the Group provides to its import and export customers, as well as off-balance sheet exposure for the Group's commitments to make loans to its borrowers, derivatives and other transactions. For detailed information on the Group's off-balance sheet commitments and contingencies, see Notes 23 and 24 to the IFRS Financial Statements as of and for the three months ended 31 March 2017.

The following summarises the three principal categories of the Group's off-balance sheet exposures – letters of credit and similar transactions, derivatives and commitments to customers under credit facilities.

Letter of credit and similar transactions. As of 31 March 2017, the Group had issued (or confirmed) letters of credit amounting to TL 15,781,448 thousand, guarantee letters and other guarantees amounting to TL 39,334,862 thousand and acceptance credits amounting to TL 1,770,645 thousand, compared to letters of credit amounting to TL 15,754,367 thousand, guarantee letters and other guarantees amounting to TL 38,203,779 thousand and acceptance credits amounting to TL 2,127,334 thousand as of 31 December 2016, itself compared to letters of credit amounting to TL 14,576,338 thousand, guarantee letters and other guarantees amounting to TL 32,818,315 thousand and acceptance credits amounting to TL 1,538,069 thousand as of 31 December 2015 (letters of credit amounting to TL 9,308,035 thousand, guarantee letters and other guarantees amounting to TL 27,605,275 thousand and acceptance credits amounting to TL 815,887 thousand as of 31 December 2014). Most of such letters of credit and guarantees were issued (or confirmed) in connection with the export and trade finance-related activities of the Group's customers. The following table summarises the Group's exposure under such transactions as of the indicated dates:

	As of 31 December			As of 31 March
	2014	**2015**	**2016**	**2017**
		(TL thousands)		
Letters of guarantee	27,518,573	32,709,109	38,012,713	39,153,292
Letters of credit	9,308,035	14,576,338	15,754,367	15,781,448
Acceptance credits	815,887	1,538,069	2,127,334	1,770,645
Others	86,702	109,206	191,066	181,570
Total commitments and contingencies	**37,729,197**	**48,932,722**	**56,085,480**	**56,886,955**

The Group generates significant amounts of fees from these transactions while incurring a very small amount of credit losses thereon as almost all of these transactions expire without any need for payment by the Group (for example, a letter of credit expiring when the related buyer of goods makes its payment to the seller).

Derivatives. The Group's exposure to derivative transactions arises principally in connection with customer-dealing and funding activities. The Group also enters into certain derivatives transactions in order to hedge its currency, interest rate and other risks. The Group enters into derivative transactions with domestic and foreign counterparties that it considers to be credit-worthy (mostly with an investment grade rating) or, in most cases, that are fully-secured. As of 31 March 2017, the Group's notional amounts of outstanding derivative contracts arising from various derivatives amounted to TL 143,843,068 thousand, a 3.0% decrease from TL 148,281,594 thousand as of 31 December 2016, which was a 12.3% increase from TL 132,069,129 thousand as of 31 December 2015, which itself was a 36.2% increase from TL 96,974,214 thousand as of 31 December 2014. The changes resulted from currency swap transactions and interest rate swaps entered into for the Group and its customers mainly in order to hedge the positions against the volatility in exchange rates and interest rates in the markets. See Note 24 to the IFRS Financial Statements as of and for the three months ended 31 March 2017 and, for a breakdown of the Group's commitments arising from derivatives as of 31 December 2014, 2015 and 2016, see "*Selected Statistical and Other Information – Derivative Transactions*."

Governments in the United States, Europe and elsewhere have made or are expected to make changes in laws relating to derivatives transactions, including how they settle. The Bank's management does not anticipate that such changes will have a material adverse effect on its ability to obtain reasonably-priced hedges for its currency, interest rate and other risks; *however*, the volatility in the markets in recent years has made certain derivatives more expensive than in previous years and such increased costs may make the Group's hedging operations less cost-effective.

Commitments to Customers. The Group's commitments to customers include unused credit limits for credit cards, overdrafts, checks and loans to customers and commitments for credit-linked-notes, which amounted to approximately TL 46,953,098 thousand as of 31 March 2017, an increase of 2.5% from TL 45,790,059 thousand as of 31 December 2016, which was a 12.1% increase from TL 40,851,564 thousand as of 31 December 2015, which itself was a 3.4% decrease from TL 42,301,547 thousand as of 31 December 2014. The increase from 2014 to 2016 is consistent with the general growth of the Group's lending business, including its credit card business.

Capital Adequacy

Each of the Bank and the Group is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures. In accordance with these guidelines, each of the Bank and the Group must maintain a total capital ratio in excess of 8% calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio (see "*Turkish Regulatory Environment* **-** *Capital Adequacy*" in the Base Prospectus for further details).

In order to implement the rules of the report entitled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee on Banking Supervision (the "**Basel Committee**") in December 2010 and revised in June 2011 (*i.e*., Basel III) into Turkish law, the Regulation on the Equities of Banks (the "**Equity Regulation**") and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (the "**2012 Capital Adequacy Regulation**") each entered into force on 1 January 2014. The Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e*., Tier 1 capital), which is composed of core capital (*i.e.,* Common Equity Tier 1 capital) and additional principal capital (*i.e*., additional Tier 1 capital), and (b) supplementary capital (*i.e*., Tier 2 capital) *minus* capital deductions. Pursuant to the 2012 Capital Adequacy Regulation (as so amended): (i) both the unconsolidated and consolidated minimum common equity Tier 1 capital adequacy ratio are 4.5% and (ii) both unconsolidated and consolidated minimum Tier 1 capital adequacy ratio are 6.0%.

The Bank calculates its capital adequacy ratios according to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (published in the Official Gazette dated 23 October 2015 and numbered 29511) (the "**2015 Capital Adequacy Regulation**"), which allows the Bank to use ratings of eligible external credit assessment institutions (namely Fitch, Standard & Poor's, Moody's, Japan Credit Rating Agency, Ltd., DBRS Ratings Ltd. and, as of 12 January 2017, International Islamic Rating Agency) while calculating the risk-weighted assets for capital adequacy purposes. On 27 January 2017, Fitch (which the Bank has been using for such purposes) downgraded Turkey's sovereign credit rating to "BB+" (with a stable outlook) from "BBB-" (with a negative outlook). According to guidance published by the BRSA on 24 February 2017, foreign exchange reserves held with the Central Bank will now be subjected to a 0% risk weight, which amendment offset the negative impact on capital adequacy that otherwise would have resulted from the Fitch downgrade.

The Group maintains regulatory capital adequacy ratios on both a Bank-only and consolidated basis in excess of the regulatory minimums required and recommended levels. The Bank's total capital adequacy ratio (calculated pursuant to the BRSA Financial Statements) was 15.92% as of 31 March 2017 compared to 16.21% as of 31 December 2016, 15.03% as of 31 December 2015 and 15.23% as of 31 December 2014. The Bank's Tier 1 capital adequacy ratio (calculated pursuant to the BRSA Financial Statements) was 14.86% as of 31 March 2017, 15.13% as of 31 December 2016, 14.08% as of 31 December 2015 and 14.17% as of 31 December 2014.

The following table sets forth the calculation of the Group's capital adequacy ratios as of each of the indicated dates based upon its BRSA Financial Statements:

	As of 31 December			As of 31 March
	2014[(1)]	2015[(1)]	2016[(1)]	2017
	(TL thousands, except percentages)			
Paid-in capital	4,200,000	4,200,000	4,200,000	4,200,000
Paid-in capital inflation adjustments	772,554	772,554	772,554	772,554
Reserves	17,253,772	20,601,493	23,704,951	27,514,275
Profit	3,508,591	3,584,869	5,114,182	1,525,502
Tier 1 Capital (I)	25,882,218	30,968,875	35,120,258	35,929,123
Tier 2 Capital (II)	2,401,373	2,817,785	2,889,903	2,993,201
Deductions (III)	187,314	1,120,150	93,350	111,520
Own Funds (I+II-III)	28,096,277	32,666,510	37,916,811	38,810,804
Risk Weighted Assets (including market and operational risk)	202,673,112	241,514,617	258,425,540	270,220,368
Capital Ratios:				
Tier 1 Ratio	12.77%	12.82%	13.59%	13.30%
Own Funds/Risk Weighted Assets	13.86%	13.53%	14.67%	14.36%

(1) As of 31 December 2014 and 2015, capital was calculated within the scope of the 2012 Capital Adequacy Regulation. As of 31 December 2016 and 31 March 2017, capital was calculated within the scope of 2015 Capital Adequacy Regulation.

The significant increases in the Group's capital in each of these periods represented the growth in the Group's retained earnings.

Liquidity and Funding

The Group manages its assets and liabilities to seek to ensure that it has sufficient liquidity to meet its present and future financial obligations and that it is able to take advantage of appropriate business opportunities as they arise. Liquidity risk represents the potential for loss as a result of limitations on the Group's ability to adjust future cash flows to meet the needs of depositors and borrowers and to fund operations on a timely and cost-effective basis. Financial obligations arise from withdrawals of deposits, repurchase transactions, extensions of loans or other forms of credit and the Group's own working capital needs.

The ability to replace interest-bearing deposits at their maturity is a key factor in determining liquidity requirements, as well as the exposure to interest and exchange rate risks. The Group's principal source of funding is short-term and demand deposits and the Group has developed a diversified and stable deposit base in each of its retail, commercial, corporate and SME business lines. The Bank's management believes that funds from the Group's deposit-taking operations generally will continue to meet its liquidity needs for the foreseeable future. As of 31 December 2014, 2015 and 2016 and 31 March 2017, the Group's cash loan to total deposit ratio was 111.0%, 112.5%, 115.3% and 116.9%, respectively. For additional information on deposits, see "*Selected Statistical and Other Information – Deposits*."

To a lesser extent, the Group also funds its operations through short-term and long-term borrowings, "diversified payment rights" transactions and other transactions. The Bank uses the relationships that it develops with its correspondent banks in connection with international payment and trade-related finance activities to raise funds from the syndicated loan markets. The Bank has also capitalised on its ability to generate foreign currency-denominated payments from abroad (such as diversified payment rights) by tapping international capital markets through "future flow" transactions. See "*Selected Statistical and Other Information - Borrowings and Certain Other Liabilities*."

In each of 2014, 2015 and 2016 and the first three months of 2017, the Bank and certain of its subsidiaries issued debt securities and the Bank also raised long-term funds through its existing "diversified payment rights" programme. See "*Selected Statistical and Other Information - Borrowings and Certain Other Liabilities – Bonds Payable*."

The Bank may issue, from time to time, additional Series of Notes under the Programme, which (as permitted by the Programme) may be in any currency, with any tenor and with any interest rate and which issuances may be listed or unlisted.

The Bank is subject to the BRSA's regulations on the measurement of the liquidity adequacy of a bank. 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 Ratios 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 No. 6143 dated 26 December 2014 (the "**BRSA Decision on Liquidity Ratios**"), for the period from 5 January 2015 to 31 December 2015, such ratios were applied as 60% and 40%, respectively, and, pursuant to the BRSA Decision on Liquidity Ratios, such ratios have (and shall be) applied as increases in increments of ten percentage points for each year from 1 January 2016 until 1 January 2019.

The Group's month-end liquidity ratios as of the last day of each of the last three months of the past three fiscal years and 31 March 2017 are shown below:

	Turkish Lira + Foreign Currency	**Foreign Currency**
31 October 2014	120.90%	108.93%
30 November 2014	151.97%	134.94%
31 December 2014	143.29%	129.55%
31 October 2015	104.50%	108.78%
30 November 2015	123.34%	115.35%
31 December 2015	120.27%	130.13%
31 October 2016	109.44%	83.64%
30 November 2016	112.29%	95.90%
31 December 2016	105.17%	80.63%
31 March 2017	112.48%	140.94%

The following table sets out the calculation of the Group's period-end liquidity ratios during each of the past three fiscal years and the first fiscal quarter of 2017, including the "liquidity conversion ratios" that are applied to the applicable asset and liability category in determining (with respect to assets) how much liquidity the Group maintains and (with respect to liabilities) how much liquidity the Group is required to maintain:

	2014		2015		2016		For the three months ended 31 March 2017	
	TL + FC	Foreign Currency	TL + FC	Foreign Currency	TL + FC	Foreign Currency	TL + FC	Foreign Currency
	(TL thousands, except percentages)							
High-Quality Liquid Assets								
Total high-quality liquid assets (HQLA)	37,431,171	23,064,659	37,833,270	27,033,637	42,314,112	19,669,159	47,613,930	30,722,956
Cash Outflows								
Retail deposits and deposits from small business customers, of which	7,222,378	3,227,273	8,558,576	4,283,205	10,835,879	5,851,987	11,474,262	6,473,434
Stable deposits	1,387,330	457,821	1,569,869	550,195	1,240,007	10,546	1,264,243	10,662
Less stable deposits	5,835,048	2,769,452	6,988,707	3,733,010	9,595,872	5,841,441	10,228,020	6,462,771
Unsecured wholesale funding, of which	27,941,057	11,450,092	26,882,595	14,904,038	30,946,515	19,099,273	31,178,425	17,863,642
Non-operational deposits	15,912,118	10,298,251	17,034,681	11,444,962	16,870,900	11,558,547	18,994,111	13,604,644
Unsecured funding	12,028,939	1,151,841	9,847,914	3,459,076	14,075,615	7,540,726	12,184,313	4,258,998
Secured wholesale funding	1,016,202	2,088,493	425,587	425,587	-	-	-	-
Other cash outflows, of which	6,309,204	3,915,721	9,691,427	7,254,594	12,175,619	10,854,403	11,227,222	10,095,174
Outflows related to derivative exposures and other collateral requirements	3,765,825	3,402,782	6,487,923	6,139,283	9,244,636	10,174,330	8,393,195	9,594,177
Payment commitments and other off-balance sheet commitments granted for debts to financial markets	2,543,379	512,939	3,203,504	1,115,311	2,930,983	680,073	2,834,028	500,997
Other revocable off-balance sheet commitments and contractual obligations	1,856,575	1,245,710	24,626	17,807	263,505	256,526	25,212	18,815
Other irrevocable or conditionally revocable off-balance sheet obligations	858,982	313,982	2,404,587	1,661,679	2,933,540	2,076,833	3,018,626	2,119,260
Total Cash Outflows	**45,204,398**	**22,241,271**	**47,987,398**	**28,546,910**	**57,155,058**	**38,139,022**	**56,923,747**	**36,570,325**
Cash Inflows								
Secured receivables	4,105	4,105	582	582	-	-	-	-
Unsecured receivables	18,006,704	4,221,661	15,625,221	7,434,475	15,286,045	7,168,410	13,609,111	6,089,755
Other cash inflows	1,071,605	211,480	905,083	337,217	1,636,238	6,576,831	983,516	8,681,841
Total Cash Inflows	**19,082,414**	**4,437,246**	**16,530,886**	**7,772,274**	**16,922,283**	**13,745,241**	**14,592,627**	**14,771,596**
Total High-Quality Liquid Assets (HQLA)	**37,431,171**	**23,064,659**	**37,833,270**	**27,033,637**	**42,314,112**	**19,669,159**	**47,613,690**	**30,722,956**
Total Net Cash Outflows	**26,121,984**	**17,804,025**	**31,456,512**	**20,774,636**	**40,232,775**	**24,393,781**	**42,331,120**	**21,798,729**
Liquidity Coverage Ratio	**143.29%**	**129.55%**	**120.27%**	**130.13%**	**105.17%**	**80.63%**	**112.48%**	**140.94%**

In addition to the liquidity ratios described above, the Bank is also required to maintain deposits with the Central Bank against a minimum reserve requirement. These reserve deposits are calculated on the basis of Turkish Lira and foreign currency liabilities taken at the rates determined by the Central Bank. The Turkish Lira reserve deposits started to provide interest monthly as of November 2014 and have been providing interest quarterly since January 2015, which interest is paid by the Central Bank on the first business day following the end of March, June, September and December. U.S. dollar reserve deposits have been providing interest since May 2015. The interest rates are calculated by the Central Bank according to market conditions.

The Group's banks in the Netherlands and Romania are also subject to similar reserve deposit requirements. For detailed information on the Group's reserve deposits requirements see Note 9 to the IFRS Financial Statements as of and for the three months ended 31 March 2017.

Capital Expenditures

As a financial group, capital expenditures are not a material part of the Group's expenses and principally relate to expenses for branch expansion. The following table summarises the Group's capital expenditures for each of the past three years and the first quarter of 2017:

	2014	2015	2016	For the three months ended 31 March 2017
			(TL thousands)	
Land and buildings	26,266	27,211	21,406	506
Furniture, fixture, equipment and motor vehicles	468,364	585,048	934,476	126,991
Leasehold improvements and software	107,277	124,289	207,394	63,589
Construction in progress	89,328	148,251	175,615	35,426
Total capital expenditures	**691,235**	**884,799**	**1,338,891**	**226,512**

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain selected statistical and other information for the Group (or, when information about the Group is not readily available or relevant, the Bank) as of the indicated dates and for the periods indicated. Except as specifically noted herein, the selected statistical and other information should be read in conjunction with the IFRS Financial Statements and the information included in "*Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

I. Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

A. Average Balance Sheet and Interest Data

The following tables set out the average balances of assets and liabilities, and the interest earned or expensed on such amounts, of the Bank for the indicated years. For purposes of the following tables, except as otherwise indicated, the average is calculated on a daily basis for each respective period and is based upon management estimates. For purpose of the following tables: (a) non-accruing credits have been treated as non-interest earning assets and (b) loan fees have been included in interest income.

	For the year ended 31 December								
	2014			2015			2016		
	Average Balance	Avg. Yield	Interest Income	Average Balance	Avg. Yield	Interest Income	Average Balance	Avg. Yield	Interest Income
				(TL thousands, except percentages)					
ASSETS									
Average Interest-Earning Assets									
Deposits with banks[1]	7,833,252	1.86%	145,466	9,149,161	1.54%	141,163	12,917,875	2.58%	333,506
Turkish Lira	1,375,837	8.53%	117,335	539,962	15.76%	85,106	275,935	75.58%	208,543
Foreign Currency	6,457,415	0.44%	28,131	8,609,199	0.65%	56,057	12,641,940	0.99%	124,963
Investments in securities	37,909,094	9.73%	3,687,727	38,256,022	9.04%	3,457,696	38,615,183	9.26%	3,577,267
Turkish Lira	31,761,355	10.42%	3,308,371	28,558,429	10.04%	2,867,917	27,622,909	10.59%	2,925,080
Foreign currency	6,147,739	6.17%	379,356	9,697,593	6.08%	589,779	10,992,274	5.93%	652,187
Loans and advances to customers, and other interest-earning assets	122,918,400	9.15%	11,252,344	146,807,450	9.41%	13,821,148	167,018,328	10.18%	17,004,444
Turkish Lira	72,587,931	11.98%	8,698,093	87,657,687	12.46%	10,924,065	100,916,977	13.36%	13,483,636
Foreign currency	50,330,469	5.07%	2,554,251	59,149,763	4.90%	2,897,083	66,101,351	5.33%	3,520,808
Total for Average Interest-Earning Assets	**168,660,746**	**8.94%**	**15,085,537**	**194,212,633**	**8.97%**	**17,420,007**	**218,551,386**	**9.57%**	**20,915,218**
Turkish Lira	**105,725,123**	**11.47%**	**12,123,799**	**116,756,078**	**11.89%**	**13,877,088**	**128,815,821**	**12.90%**	**16,617,260**
Foreign currency	**62,935,623**	**4.71%**	**2,961,738**	**77,456,555**	**4.57%**	**3,542,918**	**89,735,565**	**4.79%**	**4,297,958**
Average Non-Interest-Earning Assets									
Cash and cash equivalents	2,164,598			2,909,172			3,592,099		
Tangibles	1,718,846			2,080,931			4,260,459		
Equity participations	3,403,799			3,834,612			5,131,338		
Other assets and accrued income	28,229,838			32,613,962			34,790,845		
Average Total Non-Interest-Earning Assets	**35,517,081**			**41,438,677**			**47,774,741**		
Average Total Assets	**204,177,827**			**235,651,310**			**266,326,127**		

(1) Comprises balances with banks and interbank funds sold.

	For the year ended 31 December								
	2014			2015			2016		
	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense
				(TL thousands, except percentages)					
LIABILITIES									
Average Interest-Bearing Liabilities									
Deposits from customers...	101,463,738	5.03%	5,106,074	120,829,780	4.71%	5,685,660	134,844,391	5.10%	6,883,319
Turkish Lira	52,293,844	8.22%	4,299,608	55,878,343	8.45%	4,721,149	62,096,020	9.11%	5,654,906
Foreign currency........	49,169,894	1.64%	806,466	64,951,437	1.48%	964,511	72,748,371	1.75%	1,228,413
Short-term debt and other interest bearing liabilities[1]	711,977	3.57%	25,431	1,167,604	1.94%	22,593	5,583,218	7.77%	433,861
Turkish Lira	543,824	2.80%	15,245	999,333	1.56%	15,541	5,177,800	8.25%	427,045
Foreign currency........	168,153	6.06%	10,187	168,271	4.19%	7,052	405,418	1.68%	6,816
Long-term debt and other interest bearing liabilities..........................	34,107,753	5.15%	1,757,670	37,700,163	4.69%	1,769,530	39,541,801	4.72%	1,706,333
Turkish Lira	7,943,829	10.53%	836,285	5,703,558	11.25%	641,515	5,413,350	8.38%	453,423
Foreign currency........	26,163,924	3.52%	921,385	31,996,605	3.53%	1,128,015	34,128,451	3.67%	1,252,910
Repurchase agreements.....	12,521,472	6.02%	753,674	10,408,271	6.73%	700,891	10,505,102	7.57%	794,762
Turkish Lira	7,489,756	9.27%	694,565	7,560,502	8.57%	647,663	9,081,617	8.44%	766,105
Foreign currency........	5,031,716	1.17%	59,109	2,847,769	1.87%	53,228	1,423,485	2.01%	28,657
Total for Average Interest-Bearing Liabilities........................	**148,804,940**	5.14%	**7,642,849**	**170,105,818**	4.81%	**8,178,674**	**190,474,512**	5.15%	**9,818,275**
Turkish Lira............	**68,281,253**	8.56%	**5,845,701**	**70,141,736**	8.59%	**6,025,868**	**81,768,787**	8.93%	**7,301,478**
Foreign currency......	**80,533,687**	2.23%	**1,797,151**	**99,964,082**	2.15%	**2,152,807**	**108,705,725**	2.32%	**2,516,796**
Average Non-Interest-Bearing Liabilities and Equity									
Deposits-demand	22,725,483			28,116,320			32,110,712		
Accrued expenses and other liabilities.................	7,742,379			9,577,680			10,424,592		
Current and deferred tax liabilities..........................	425,207			364,224			94,095		
Shareholders' equity and net profit..........................	24,479,820			27,487,270			33,222,216		
Total Average Non-Interest-Bearing Liabilities and Equity	**55,372,889**			**65,545,494**			**75,851,615**		
Total Average Liabilities and Equity	**204,177,829**			**235,651,312**			**266,326,127**		

(1) Interbank Money Market (*Bankalararası Para Piyasası*) placements are included under "Short-term debt and other interest bearing liabilities."

The following tables set out the average balances of assets and liabilities, and the interest earned or expensed on such amounts, of the Group for the indicated years. For purposes of the following tables, the average is calculated as the average of the opening, quarter-end and closing balances for the applicable year. For the purpose of the following tables: (a) non-accruing credits have been treated as non-interest earning assets and (b) loan fees have been included in interest income.

	For the year ended 31 December								
	2014			2015			2016		
	Average Balance	Avg. Yield	Interest Income	Average Balance	Avg. Yield	Interest Income	Average Balance	Average Yield	Interest Income
	(TL thousands, except percentages)								
ASSETS									
Average Interest-Earning Assets									
Loans and advances to banks	7,810,874	3.21%	250,640	7,983,342	3.44%	274,540	9,969,941	4.71%	470,009
Investments in securities..............	40,424,653	9.45%	3,821,232	41,899,569	8.62%	3,613,195	41,810,053	8.84%	3,695,075
Loans and advances to customers.............	138,177,735	9.01%	12,447,621	163,768,392	9.19%	15,056,301	186,316,766	9.90%	18,446,635
Total for Average Interest-Earning Assets	**186,413,262**	**8.86%**	**16,519,493**	**213,651,303**	**8.87%**	**18,944,036**	**238,096,760**	9.50%	**22,611,719**
Average Non-Interest-Earning Assets	44,310,567			46,043,396			50,213,079		
Average Total Assets	**230,723,829**			**259,694,699**			**288,309,839**		

	For the year ended 31 December								
	2014			2015			2016		
	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense
	(TL thousands, except percentages)								
LIABILITIES									
Average Interest-Bearing Liabilities									
Deposits from banks	6,084,304	3.03%	184,519	5,356,120	3.19%	170,616	3,080,408	9.11%	280,507
Deposits from customers......................	88,823,323	5.75%	5,106,895	106,690,243	5.30%	5,655,220	122,211,876	5.50%	6,716,059
Loans and advances from banks and obligations under repurchase agreements....................	49,506,183	5.43%	2,645,442	52,607,773	5.88%	3,091,796	54,505,641	6.29%	3,428,136
Bonds payable	12,684,632	6.71%	851,532	14,836,393	6.35%	942,192	15,834,434	6.97%	1,104,002
Subordinated liabilities.......................	143,388	4.35%	6,234	150,350	3.84%	5,776	31,671	9.87%	3,126
Total for Average Interest-Bearing Liabilities.....................	**157,241,830**	5.62%	**8,794,622**	**179,640,879**	5.49%	**9,865,600**	**195,664,030**	5.89%	**11,531,830**
Average Non-Interest-Bearing Liabilities and Equity....	73,481,999			80,053,820			92,645,811		
Total Average Liabilities and Equity	**230,723,829**			**259,694,699**			**288,309,841**		

The following table shows the net interest income and net yield for the Bank for each of the indicated years.

	As of 31 December		
	2014	**2015**	**2016**
	(TL thousands, except percentages)		
Net Interest Income			
Turkish Lira..	6,278,098	7,851,220	9,315,780
Foreign currency	1,164,588	1,390,112	1,781,163
Total	**7,442,686**	**9,241,332**	**11,096,943**
Net Yield			
Turkish Lira..	5.94%	6.66%	7.03%
Foreign currency	1.85%	1.79%	1.98%
Total	**4.41%**	**4.73%**	**4.99%**

The following table shows the net interest income and net yield for the Group for each of the indicated years.

	As of 31 December		
	2014	**2015**	**2016**
	(TL thousands, except percentages)		
Net Interest Income	7,724,871	9,078,436	11,079,889
Net Yield	4.14%	4.25%	4.65%

B. Net Changes in Interest Income and Expense – Volume and Rate Analysis

The following table provides a comparative analysis of net changes in interest earned and interest expensed by reference to changes in average volume and rates for the years indicated for the Bank. Net changes in net interest income are attributed either to changes in average balances (volume changes) or changes in average rates (rate changes) for interest-earning assets and sources of funds on which interest is earned or expensed. Volume change is calculated as the change in volume multiplied by the current rate, while rate change is the change in rate multiplied by the previous volume. Average balances represent the average of the opening and closing balances for the respective year. For purpose of the following tables, NPLs have been treated as non-interest earning assets.

	For the year ended 31 December 2016/2015 Increase (decrease) due to changes in		
	Volume	**Rate**	**Net Change**
		(TL thousands)	
Interest Income			
Deposits with banks	157,951	34,391	192,342
Turkish Lira	*118,088*	*5,348*	*123,436*
Foreign currency	*39,863*	*29,043*	*68,906*
Investments in securities	(22,250)	141,822	119,572
Turkish Lira	*(99,065)*	*156,229*	*57,164*
Foreign currency	*76,815*	*(14,407)*	*62,408*
Loans and advances to customers, and other interest-earning assets	2,141,857	1,041,438	3,183,295
Turkish Lira	*1,771,589*	*787,981*	*2,559,570*
Foreign currency	*370,268*	*253,457*	*623,725*
Total interest income	**2,277,558**	**1,217,651**	**3,495,209**
Interest Expense			
Deposits from customers	702,303	536,589	1,238,891
Turkish Lira	*566,226*	*367,531*	*933,757*
Foreign currency	*136,077*	*169,058*	*305,135*
Short-term debt and other interest-bearing liabilities	20,351	(15,851)	4,500
Turkish Lira	*16,364*	*(11,628)*	*4,736*
Foreign currency	*3,987*	*(4,223)*	*(236)*
Long-term debt and other interest-bearing liabilities	40,499	58,047	98,546
Turkish Lira	*(35,189)*	*50,073*	*14,884*
Foreign currency	*75,688*	*7,974*	*83,662*
Repurchase Agreements	133,779	163,883	297,662
Turkish Lira	*162,452*	*159,782*	*322,234*
Foreign currency	*(28,673)*	*4,101*	*(24,572)*
Total interest expense	**896,932**	**742,668**	**1,639,600**
Net change in net interest income	**1,380,626**	**474,983**	**1,855,609**

	For the year ended 31 December		
	2015/2014		
	Increase (decrease) due to changes in		
	Volume	Rate	Net Change
		(TL thousands)	
Interest Income			
Deposits with banks	30,510	(34,812)	(4,302)
Turkish Lira	*16,499*	*(48,727)*	*(32,228)*
Foreign currency	*14,011*	*13,915*	*27,926*
Investments in securities	(105,756)	(124,276)	(230,032)
Turkish Lira	*(321,647)*	*(118,807)*	*(440,454)*
Foreign currency	*215,891*	*(5,469)*	*210,422*
Loans and advances to customers and other interest-earning assets	2,309,979	258,825	2,568,804
Turkish Lira	*1,878,021*	*347,951*	*2,225,972*
Foreign currency	*431,958*	*(89,126)*	*342,832*
Total interest income	**2,234,733**	**99,737**	**2,334,470**
Interest Expense			
Deposits from customers	537,206	42,380	579,586
Turkish Lira	*302,854*	*118,687*	*421,541*
Foreign currency	*234,352*	*(76,307)*	*158,045*
Short-term debt and other interest-bearing liabilities	7,089	(9,926)	(2,837)
Turkish Lira	*7,084*	*(6,787)*	*297*
Foreign currency	*5*	*(3,139)*	*(3,134)*
Long-term debt and other interest-bearing liabilities	(46,351)	58,211	11,860
Turkish Lira	*(251,977)*	*57,207*	*(194,770)*
Foreign currency	*205,626*	*1,004*	*206,630*
Repurchase Agreements	(34,760)	(18,023)	(52,783)
Turkish Lira	*6,060*	*(52,960)*	*(46,900)*
Foreign currency	*(40,820)*	*34,937*	*(5,884)*
Total interest expense	**463,184**	**72,642**	**535,826**
Net change in net interest income	**1,771,549**	**27,095**	**1,798,644**

II. Securities Portfolio

The Group's securities portfolio comprises trading securities (*i.e.*, debt and equity securities that the Group principally holds for the purpose of short-term profit taking, which are reflected on the balance sheet as "financial assets at fair value through profit or loss") and investment securities (*i.e.*, both held-to-maturity securities and available-for-sale securities). The Group also enters into purchases (or sales) of securities under agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price (*i.e.*, "repos"). Securities sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the related security portfolio as appropriate. The Group's portfolio of marketable securities consists primarily of Turkish government securities (including bonds, treasury bills and eurobonds) denominated in Turkish Lira, U.S. dollars and euro.

As of 31 December 2016, the size of the Group's aggregate securities portfolio increased by 3.1% to TL 48,179,250 thousand from TL 46,733,016 thousand as of 31 December 2015, which in turn increased by 3.2% from TL 45,283,823 thousand as of 31 December 2014. These changes resulted primarily from the Group's strategy of seeking selective/controlled growth in lending (that is, excess deposits were invested in securities).

A. Book Value of Securities

The following table sets out a breakdown of securities (on a book-value basis) held by the Group as of the indicated dates:

	As of 31 December		
	2014	**2015**	**2016**
		(TL thousands)	
Trading Securities	**1,086,670**	**660,193**	**1,086,299**
TL-denominated	360,045	360,722	157,641
Foreign currency-denominated and indexed	726,625	299,471	928,658
Investment Securities			
Available-for-Sale	**23,530,111**	**24,755,577**	**23,983,255**
TL-denominated	19,276,402	19,311,050	18,497,087
Foreign currency-denominated and indexed	4,253,709	5,444,527	5,486,168
Held-to-Maturity	**20,667,042**	**21,317,246**	**23,109,696**
TL-denominated	13,387,953	11,980,469	12,139,124
Foreign currency-denominated and indexed	7,279,089	9,336,777	10,970,572
Total	**45,283,823**	**46,733,016**	**48,179,250**

Trading Securities (Financial Assets at Fair Value through Profit or Loss)

The Group's trading securities portfolio is composed of debt and equity securities that the Group principally holds for the purpose of short-term profit taking. These include investments designated as trading instruments.

After initial recognition, securities that are classified as held-for-trading are measured at estimated fair value. When market prices are not available or if liquidating the Group's position would reasonably be expected to affect market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realised.

The following table sets out a breakdown of the Group's trading portfolio as of the indicated dates:

	As of 31 December		
	2014	**2015**	**2016**
		(TL thousands)	
Turkish government bonds and treasury bills(1)	88,558	131,238	102,745
Gold	695,861	244,556	876,298
Others	302,251	284,399	107,256
Total trading portfolio	**1,086,670**	**660,193**	**1,086,299**

(1) Turkish currency-denominated securities.

As of 31 December 2016, the size of the Group's trading portfolio increased by 64.5% to TL 1,086,299 thousand from TL 660,193 thousand as of 31 December 2015 (TL 1,086,670 thousand as of 31 December 2014). The Group's portfolio of trading securities comprises Turkish Lira-denominated bonds, eurobonds, bonds issued by corporations (including financial institutions) and foreign governments, gold held for trading and loans held at fair value through profit and loss. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Significant Accounting Policies – Fair Value of Securities*."

Investment Securities Portfolio

Investment securities comprise held-to-maturity securities and available-for-sale securities. Held-to-maturity securities are financial assets with fixed or determinable payments and fixed maturities that the Group intends and has the ability to hold to maturity. The Group cannot classify any financial asset as held-to-maturity if the Group has, during the current fiscal year or during the two preceding fiscal years, sold or transferred any held-to-maturity securities before their maturities as per IAS 39 (except certain permissible transfers). Available-for-sale securities are financial assets that are not held for trading purposes or held-to-maturity. Available-for-sale instruments include certain debt and equity investments. The Group classifies investment securities depending upon the intention of management at the time of the purchase thereof.

Held-to-Maturity Portfolio

The Group's portfolio of held-to-maturity securities primarily consists of Turkish Lira-denominated government bonds and treasury bills, Turkish government eurobonds and bonds issued by foreign governments.

The following table sets out certain information relating to the Group's portfolio of held-to-maturity securities as of the indicated dates including income accruals:

	As of 31 December		
	2014	**2015**	**2016**
		(TL thousands)	
Turkish government bonds and treasury bills[1]	13,360,950	11,966,879	12,122,340
Turkish government eurobonds[2]	4,641,023	5,810,098	6,961,564
Others	2,665,069	3,540,269	4,025,792
Total held-to-maturity securities	**20,667,042**	**21,317,246**	**23,109,696**

(1) Turkish currency-denominated securities.
(2) Foreign currency-denominated securities.

Due to changing market conditions, in 2016, the Group decided not to classify new purchases into the held-to-maturity category. Additionally, in 2016, the Bank sold eurobonds from its held-to-maturity portfolio in accordance with the exception granted by IAS 39 for the sale of such securities in cases where regulatory capital requirements increase. As of 31 December 2016, the size of the held-to-maturity portfolio (including income accruals) increased by 8.4% to TL 23,109,696 thousand from TL 21,317,246 thousand as of 31 December 2015, itself an increase of 3.1% from TL 20,667,042 thousand as of 31 December 2014. The increase in this portfolio during 2016 is consistent with the Group's growth strategies and its intention regarding the portfolio size of securities to be held as "held-to-maturity."

Available-for-Sale Portfolio

The Group's portfolio of available-for-sale securities consists of Turkish government bonds and treasury bills, Turkish government eurobonds and bonds issued by corporations (including financial institutions) and foreign governments.

The following table sets out certain information relating to the portfolio of available-for-sale securities as of the indicated dates:

	As of 31 December		
	2014	**2015**	**2016**
		(TL thousands)	
Turkish government bonds and treasury bills[1]	17,500,522	18,585,795	17,669,410
Bonds issued by corporations and financial institutions	3,930,719	4,048,119	3,947,075
Foreign government bonds	1,129,157	1,246,837	1,425,545
Turkish government eurobonds[2]	871,296	526,266	722,603
Others	98,417	348,560	218,622
Total available-for-sale portfolio	**23,530,111**	**24,755,577**	**23,983,255**

(1) Turkish currency-denominated securities.
(2) Foreign currency-denominated securities.

As of 31 December 2016, the size of the Group's available-for-sale securities portfolio decreased by 3.1% to TL 23,983,255 thousand from TL 24,755,577 thousand as of 31 December 2015, itself an increase of 5.2% as compared to the TL 23,530,111 thousand as of 31 December 2014. The decrease in 2016 was primarily due to a decrease in government bonds at floating rates.

As of 31 December 2014, 2015 and 2016, the Group's IFRS Financial Statements included unrealised gains (net of tax) on its available-for-sale portfolio amounting to TL 88,631 thousand as of 31 December 2014, unrealised loss amounting to TL 283,792 thousand as of 31 December 2015 and unrealised loss amounting to TL 543,775 thousand as of 31 December 2016, in other comprehensive income under shareholders' equity.

In 2016, net losses transferred to income on disposal from other comprehensive income amounted to TL 214,415 thousand, whereas in 2015, net losses transferred to income on disposal from other comprehensive income amounted to TL 109,041 thousand.

B. Maturities of Securities

The following tables set out the maturities of the foreign currency-denominated securities in the Bank's securities portfolio (excluding equity shares and income accruals) as of 31 December 2016 and their respective weighted average yields for 2016:

	As of 31 December 2016				
	1 year or less	**After 1 year through 5 years**	**After 5 years through 10 years**	**After 10 years**	**Total**
			(*TL thousands*)		
Turkish government Eurobonds.............	867	574	871,338	6,406,917	7,279,697
Bonds issued by corporations	-	-	195,193	526,629	721,822
Foreign government bonds	142,830	-	-	-	142,830
Others...	-	1,599,189	2,906,229	27,753	4,533,171
Total	**143,697**	**1,599,763**	**3,972,760**	**6,961,299**	**12,677,520**

	As of 31 December 2016				
	1 year or less	**After 1 year through 5 years**	**After 5 years through 10 years**	**After 10 years**	**Total**
Turkish government Eurobonds	0.6%	-	21.9%	92.0%	57.4%
Bonds issued by corporations..................	0.0%	-	4.9%	7.6%	5.7%
Foreign government bonds.......................	99.4%	-	-	-	1.1%
Others	-	100.0%	73.2%	0.4%	35.8%
Total..	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The following tables set out the maturities of the Turkish Lira-denominated securities in the Bank's investment portfolio (excluding equity shares and income accruals) as of and for the year ended 31 December 2016 and their respective weighted average yields for 2016:

	As of 31 December 2016				
	1 year or less	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
			(*TL thousands*)		
Turkish government bonds and treasury bills ..	2,865	4,668,088	21,565,861	-	26,236,814
Bonds issued by corporations..........................	12,511	92,921	-	-	105,432
Others...	22,845	287,392	383,173	-	693,410
Total..	**38,221**	**5,048,401**	**21,949,034**	**-**	**27,035,656**

	As of 31 December 2016				
	1 year or less	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Turkish government bonds and treasury bills.....	7.5%	92.5%	98.3%	-	97.0%
Bonds issued by corporations............................	32.7%	1.8%	0.0%	-	0.4%
Others	59.8%	5.7%	1.7%	-	2.6%
Total..	**100.0%**	**100.0%**	**100.0%**	**-**	**100.0%**

The following table sets out the remaining maturities of the Group's consolidated securities portfolio in Turkish Lira as of the indicated dates:

	As of 31 December		
	2014	2015	2016
		(*TL thousands)*	
Financial assets at fair value through profit or loss...................	**360,046**	**360,722**	**157,641**
3 months or less	52,679	69,518	93,689
Over 3 months through 12 months	21,471	20,186	5,556
Over 1 year through 5 years	271,684	255,335	45,915
Over 5 years	14,212	15,683	12,481
Investment securities...	**32,664,354**	**31,291,519**	**30,636,211**
3 months or less...	3,246,475	674,285	557,079
Over 3 months through 12 months	1,463,896	3,564,412	413,542
Over 1 year through 5 year...	9,719,861	12,161,308	14,758,348
Over 5 years	18,234,122	14,891,514	14,907,242
Total Turkish Lira-denominated securities................................	**33,024,400**	**31,652,241**	**30,793,852**

The following table sets out the remaining maturities of the Group's consolidated securities portfolio in foreign currencies as of the indicated dates:

	As of 31 December		
	2014	2015	2016
		(TL thousands)	
Financial assets at fair value through profit or loss	**726,624**	**299,471**	**928,658**
3 months or less	695,911	250,860	877,013
Over 3 months through 12 months	-	144	153
Over 1 year through 5 years	29,097	26,983	16,728
Over 5 years	1,616	21,484	34,764
Investment securities	**11,532,799**	**14,781,304**	**16,456,740**
3 months or less	165,596	372,672	310,691
Over 3 months through 12 months	18,595	305,102	266,623
Over 1 year through 5 year	3,052,225	4,240,385	5,591,586
Over 5 years	8,296,383	9,863,145	10,287,840
Total foreign currency and foreign currency indexed securities	**12,259,423**	**15,080,775**	**17,385,398**

The following table sets out the Group's total securities portfolio in Turkish Lira and in foreign currencies as of the indicated dates:

	As of 31 December		
	2014	2015	2016
		(TL thousands)	
Turkish Lira-denominated securities	33,024,400	31,652,241	30,793,852
Foreign currency and foreign currency-indexed securities	12,259,423	15,080,775	17,385,398
Total securities	**45,283,823**	**46,733,016**	**48,179,250**

C. Securities Concentrations

As of 31 December 2016, the Group did not hold debt securities of any one issuer that (in the aggregate) had a book value in excess of 10% of the Group's shareholders' equity, other than securities issued by the Turkish government. As of 31 December 2016, the Group's TL 37,578,661 thousand of Turkish government securities represented 103.1% of the Group's shareholders' equity.

The following table summarises securities that were deposited as collateral with respect to various banking, insurance and asset management transactions as of the indicated dates:

	As of 31 December					
	2014		2015		2016	
	Face Value	Carrying Value	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at Borsa Istanbul	400,000	404,817	6,587,375	7,762,361	3,085,641	4,163,509
Collateralised to foreign banks	19,881,314	22,627,017	12,719,029	13,936,577	7,154,445	7,817,583
Deposited at central banks for repurchase transactions	1,971,471	2,156,548	2,562,224	2,684,281	4,393,998	5,105,955
Deposited at Central Bank for interbank transactions	651,756	695,783	926,832	1,043,307	3,374,800	3,841,962
Deposited at Central Bank for foreign currency money market transactions.	79,500	118,584	79,800	126,179	75,000	128,539
Deposited at Clearing Bank (Takasbank)	188,050	206,695	196,283	214,031	176,992	181,858
Others		19,343		19,292		21,803
Total		**26,228,787**		**25,786,028**		**21,261,209**

Pursuant to market practice, the Group pledges securities to acquire funding under security repurchase agreements. The securities so pledged amounted to TL 12,878,466 thousand as of 31 December 2014, TL 16,508,087 thousand as of 31 December 2015 and TL 8,113,893 thousand as of 31 December 2016, comprising 28.4%, 35.3% and 16.8% (respectively) of the Group's securities portfolio on such dates. Such securities are included in the above table.

III. Loans and Advances to Customers

The Group's loans and advances to customers (*i.e*., cash loans) amounted to TL 205,988,793 thousand as of 31 December 2016, increasing by 17.3% compared to year-end 2015, itself a 18.6% increase from year-end 2014. As discussed below, there are several important characteristics of the Group's loans and advances to customers portfolio, including diversification based upon sector and currency.

Loans and advances to customers represent the largest component of the Group's assets. As of 31 December 2016, the Group's total loans and advances to customers, less allowance for probable losses, comprised 66.8% of the Group's total assets. By comparison, as of 31 December 2015, this amount was TL 175,681,692 thousand (63.9% of the Group's total assets). The increase resulted from customer-driven growth but slowed down in line with the volatile financial conditions (see "*Turkish Regulatory Environment - Consumer Loan, Provisioning and Credit Card Regulations*" in the Base Prospectus).

As of 31 December 2016, on the basis of the total amount of cash loans advanced, 72.0% of the Bank's loans were fixed rate and 28.0% were variable rate. The average interest rate that the Bank charged to borrowers in 2016 was 15.4% for Turkish Lira-denominated loans and advances and 5.3% for foreign currency-denominated loans and advances, calculated on the basis of daily averages of balances and interest rates and according to the Bank's management's estimates. The average interest rates on the Turkish Lira-denominated loan portfolio decreased to 14.5% in 2016 from 15.4% in 2015 and the average interest rates on the foreign currency-denominated loan portfolio decreased to 4.9% in 2016 from 5.3% in 2015.

The Group provides financing for various purposes and although the majority of commercial and corporate loans have an average maturity of up to 36 months, for certain commercial and corporate loans (such as working capital and project finance loans) and for certain retail loans (such as mortgage loans) the maturities are up to 10 years (or occasionally over 10 years). As of 31 December 2016, the Group's loans with remaining maturities over one year and over five years composed 48.9% and 11.9%, respectively, of the Group's total loans and advances to customers.

A. Types of Loans

The following table sets out the composition of the Group's total performing loan portfolio (but excluding financial lease receivables, factoring receivables and income accruals) by industry sectors as of the indicated dates:

	As of 31 December					
	2014		2015		2016	
	(TL thousands, except percentages)					
Consumer loans	48,038,219	34.3%	54,080,094	32.4%	60,932,999	31.1%
Energy	16,237,323	11.6%	18,866,417	11.3%	23,686,229	12.1%
Service sector	10,638,343	7.6%	14,005,954	8.4%	16,221,852	8.3%
Construction	6,495,423	4.6%	9,008,359	5.4%	10,319,625	5.3%
Transportation and logistics	4,826,086	3.4%	5,616,571	3.4%	9,217,292	4.7%
Financial institutions	5,954,668	4.2%	7,886,038	4.7%	8,534,641	4.4%
Food	5,696,340	4.1%	7,137,335	4.3%	8,409,563	4.3%
Textile	5,829,731	4.2%	6,433,026	3.9%	8,122,466	4.1%
Metal and metal products	5,657,688	4.0%	5,442,433	3.3%	6,283,548	3.2%
Transportation vehicles and sub-industries	4,792,766	3.4%	7,212,974	4.3%	6,227,605	3.2%
Tourism	4,229,025	3.0%	4,919,498	2.9%	5,451,790	2.8%
Data processing	3,532,173	2.5%	4,168,324	2.5%	4,948,330	2.5%
Chemistry and chemical products	2,584,425	1.8%	3,309,528	2.0%	4,182,785	2.1%
Agriculture and stockbreeding	2,279,105	1.6%	2,177,618	1.3%	2,557,898	1.3%
Durable consumption	1,669,800	1.2%	2,325,288	1.4%	2,524,186	1.3%
Machinery and equipment	1,384,884	1.0%	1,971,079	1.2%	2,345,946	1.2%
Mining	1,268,218	0.9%	1,326,302	0.8%	2,326,281	1.2%
Stone/rock and related products	1,445,217	1.0%	1,724,809	1.0%	2,101,354	1.1%
Paper and paper products	899,896	0.6%	1,037,931	0.6%	1,422,039	0.7%
Electronic/optical/medical equipment	718,611	0.5%	1,054,627	0.6%	1,257,451	0.6%
Plastic products	524,275	0.4%	787,752	0.5%	869,299	0.4%
Others	5,527,370	3.9%	6,390,182	3.8%	8,150,586	4.2%
Total	**140,229,586**	**100.0%**	**166,882,139**	**100.0%**	**196,093,765**	**100.0%**

B. Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table sets out certain information relating to the maturity profile of the Bank's performing cash loan portfolio (based upon scheduled repayments but excluding interest accruals) as of the indicated date:

	As of 31 December 2016			
	1 year or less(1)	After 1 year through 5 years	After 5 years	Total
	(TL thousands)			
Total performing cash loans	50,206,066	59,022,629	72,944,572	182,173,267

(1) Includes demand loans, loans having no stated schedule of repayment and no stated maturity and overdrafts.

Composition of Loan Portfolio by Currency

As of 31 December 2016, foreign currency-denominated loans comprised 44.9% of the Group's loan portfolio (of which U.S. dollar-denominated obligations were the most significant), compared to 45.3% as of 31 December 2015 and 44.4% as of 31 December 2014.

The following table sets out an analysis by currency of the exposure of the Group's cash loans portfolio as of the indicated dates:

	As of 31 December					
	2014		2015		2016	
	(TL thousands, except percentages)					
Turkish Lira	82,355,352	55.6%	96,093,172	54.7%	113,458,165	55.1%
U.S. dollar	43,147,605	29.1%	47,087,795	26.8%	50,589,133	24.6%
euro and others	22,578,455	15.2%	32,500,722	18.5%	41,941,495	20.4%
Total	**148,081,412**	**100.0%**	**175,681,689**	**100.0%**	**205,988,793**	**100.0%**

Lower inflation and a gradual decline in interest rates in recent years, have led to greater confidence in the banking system and an increase in Turkish Lira-denominated loans. Retail loans, which are a growing portion of the Group's total loans, are generally denominated in Turkish Lira. Longer term loans are likely to remain denominated in foreign currencies as uncertainty still surrounds the future inflation rates and the stability of the Turkish Lira.

C. Risk Elements

1. Non-performing Loans, Past Due but not Impaired Loans and Loans with Renegotiated Terms

The following table sets out the composition of the Group's total NPLs, past due but not impaired loans and loans with renegotiated terms as of the indicated dates:

	As of 31 December		
	2014	2015	2016
	(TL thousands)		
NPLs	4,749,142	6,090,168	6,910,833
Loans past due but not impaired and loans under follow-up	2,022,502	4,182,192	8,286,780
Loans with renegotiated terms	4,084,596	7,046,611	9,847,022
Total	**10,856,240**	**17,318,971**	**25,044,635**

A loan is categorised as non-performing when the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement due to a lack of assets, a high indebtedness ratio, insufficient working capital and/or insufficient equity on the part of the customer.

2. Potential Problem Loans

As of 31 December 2016, there were no material amount of loans that are not included in the preceding table but for which information known to the Group about possible credit problems of borrowers caused the Bank's management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and that may result in disclosure of such loans in the above table for future years. See "*Summary of Loan Loss Experience*" below.

3. Loan Concentrations

As of 31 December 2016, the Group's portfolio of cash loans did not contain any concentration of credits that exceeded 10% of its total credits that are not otherwise already disclosed as a category of credits pursuant to "Types of Loans" above. For the purposes of this paragraph, loan concentrations are considered to exist when there are credits to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions.

From an individual borrower perspective, as of 31 December 2016, the gross cash loans to the Bank's 10 largest customers (on a Bank-only basis) represented approximately 7.7% of its gross loan portfolio, as compared to approximately 6.9% as of 31 December 2015 and 6.7% as of 31 December 2014. In recent years, as a result of improvements in the Turkish economy, the percentage of smaller loans in the loan portfolio has been on an increasing trend. Although limited to some extent by the Group's selective growth strategy, the percentage of small loans like retail and SME loans increased in 2014, 2015 and 2016, as the economy improved and customer demand increased, and the Bank's management expects it to keep increasing in the near future.

D. Other Interest-Earning Assets

As of 31 December 2016, the Group's other interest-earning assets did not include any assets that would be included in III.C.1. ("Non-performing, Past Due but not Impaired and Loans with Renegotiated Terms") or III.C.2. ("Potential Problem Loans") above if such assets were loans.

IV. Summary of Loan Loss Experience

The Bank's head office risk committee: (a) is responsible for monitoring the Bank's loan portfolio and establishing allowances and provisions in relation thereto based upon reports provided by the branch or other applicable risk committees and (b) provides monthly reports directly to the Bank's Board of Directors detailing all aspects of the Bank's loan activity, including the number of new problem loans, the status of existing NPLs and the level of collections. The head office risk committee also conducts evaluations of other assets and off-balance sheet contingent liabilities.

The determination of whether a repayment problem has arisen is based upon a number of objective and subjective criteria, including changes to the borrower's revenue in accounts held by the Bank, changes to the borrower's economic and financial activity giving rise to the suspicion that a loan is not being used for its original purpose, applications to change credit terms, failure of the borrower to fulfill the terms and conditions of its loan agreement and refusal of a borrower to co-operate in supplying current information.

The Bank classifies its loan portfolio in accordance with current Turkish banking regulations in its BRSA Financial Statements. See "*Turkish Regulatory Environment*" in the Base Prospectus. In accordance with the applicable regulations, the Bank makes specific allowances for probable loan losses. These specific allowances must be increased gradually so that the reserves reach a ceiling level of 100% of the NPL, depending upon the type of collateral securing such loan. As noted above, a loan is categorised as non-performing when interest, fees or principal remain unpaid 90 days after the due date. The Group maintains a stricter provisioning policy than required by applicable regulations and seeks to maintain credit loss reserves of equal or greater amounts than NPLs after consideration of the fair value of collateral received.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks 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 of at least 1% of the total cash loan portfolio *plus* at least 0.2% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) (except for: (a) commercial cash loans defined in Group I above, for which the general reserve should be equal to at least 0.5% of the total commercial cash loan portfolio, (b) commercial non-cash loans defined in Group I above, for which the general reserve should be equal to at least 0.1% of the total commercial non-cash commercial loan portfolio, (c) cash and non-cash loans defined in Group I for SMEs and relating to transit trade, export, export sales and deliveries and services, activities resulting in gains of foreign currency and syndicate loans used for the financing of large-scale public tenders, for which the general loan loss reserve is calculated at 0%) for standard loans defined in Group I above and a general reserve calculated at 2.0% of the total cash loan portfolio *plus* 0.4 % of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) for closely-monitored loans defined in Group II above (except for: (i) commercial cash loans, cash loans for SMEs and relating to transit trade, export, export sales and deliveries and services, and activities resulting in gains of foreign currency, for which the general loan loss reserve should be equal to at least 1.0%, and (ii) non-cash loans related to the items stated in (i) above, for which the general loan loss reserve is equal to 0.2%). The exceptions regarding the loan loss reserve calculation stated above will be applied to the respective loans defined in Group I and Group II above until 31 December 2017.

The Group's NPLs amounted to TL 4,749,142 thousand, TL 6,090,168 thousand and TL 6,910,833 thousand as of 31 December 2014, 2015 and 2016, respectively. The Group's ratios of non-performing loans to total gross cash loans and NPLs to total cash loans and non-cash loans (*i.e.*, the total NPLs as of such date *divided by* the sum of total cash loans and non-cash loans as of such date) were 3.1% and 3.3%, 3.2% and 2.5%, and 2.6% and 2.6%, respectively, as of 31 December 2014, 2015 and 2016. The Group's ratio of allowances for probable loan losses as a percentage of NPLs (excluding allowances made on a portfolio basis to cover any inherent risk of loss) was 96.3%, 89.6% and 75.4% as of 31 December 2014, 2015 and 2016, respectively.

Analysis of the Allowance for Loan Losses

The following table sets forth an analysis of the movements in the allowance for probable losses on loans and advances to customers for the Group for each year indicated below:

	2016			
	Corporate/ Commercial Loans	**Consumer Loans**	**Credit Cards**	**Total**
	(TL thousands)			
Balances at beginning of period	**3,037,652**	**2,494,441**	**1,684,416**	**7,216,509**
Additions, recoveries and reversals, (net) (+)	2,325,207	451,199	(69,665)	2,706,741
Write-offs (-)	908,015	474,014	294,229	1,676,258
Balances at end of period	**4,454,844**	**2,471,626**	**1,320,522**	**8,246,992**

	2015			
	Corporate/ Commercial Loans	**Consumer Loans**	**Credit Cards**	**Total**
	(TL thousands)			
Balances at beginning of period	**2,623,984**	**1,839,703**	**1,194,213**	**5,657,900**
Additions and recoveries, (net) (+)	674,793	778,735	538,152	1,991,680
Write-offs (-)	261,125	123,997	47,949	433,071
Balances at end of period	**3,037,652**	**2,494,441**	**1,684,416**	**7,216,509**

	2014			
	Corporate/ Commercial Loans	**Consumer Loans**	**Credit Cards**	**Total**
	(TL thousands)			
Balances at beginning of period	**2,303,670**	**1,346,867**	**1,018,560**	**4,669,097**
Additions and recoveries, (net) (+)	596,305	569,289	370,925	1,536,519
Write-offs (-)	275,991	76,453	195,272	547,715
Balances at end of period	**2,623,984**	**1,839,703**	**1,194,213**	**5,657,900**

The amount of the net additions to the allowance charged to operating expenses were TL 1,619,098 thousand in 2014, TL 1,971,048 thousand in 2015 and TL 2,755,077 thousand in 2016.

V. Deposits

As of 31 December 2016, the Group's major source of funds for its lending and investment activities were deposits from non-bank customers, which accounted for 64.1% of the Group's total liabilities (up from 61.4% as of 31 December 2015 and 60.0% as of 31 December 2014). Loans and advances from banks excluding subordinated liabilities accounted for 17.4% of total liabilities as of 31 December 2016, up from 16.5% as of 31 December 2015 and down from 18.1% as of 31 December 2014. Other sources of funding include (*inter alia*) deposits from banks, obligations under repurchase agreements, bonds issued and subordinated liabilities.

The following table sets out the Group's deposits and other sources of funding as of the indicated dates:

	As of 31 December					
	2014		2015		2016	
	(TL thousands, except percentages)					
Deposits from banks	7,114,771	3.6%	6,960,181	3.0%	4,487,946	1.8%
Deposits from customers	126,292,539	63.7%	149,154,274	65.3%	174,155,645	68.3%
Obligations under repurchase agreements	12,021,165	6.1%	16,567,796	7.3%	11,230,193	4.4%
Loans and advances from banks	38,218,041	19.3%	39,959,934	17.5%	47,327,944	18.6%
Bonds payable	14,438,356	7.3%	15,511,597	6.8%	17,846,340	7.0%
Subordinated liabilities	140,766	0.1%	159,792	0.1%	-	-
Total	**198,225,638**	**100.0%**	**228,313,574**	**100.0%**	**255,048,068**	**100.0%**

Deposits from Customers

The Group's deposits consist of demand and time deposits. Current accounts generally bear no interest and can be withdrawn upon demand. For time deposits, different interest rates are paid on the various types of accounts offered by the Group. The Group's deposits from customers mainly comprise foreign currency-denominated deposits and Turkish Lira-denominated saving and commercial deposits.

The following table sets out a breakdown of the Group's time deposits from customers by composition as of the indicated dates, excluding expense accruals:

	As of 31 December		
	2014	2015	2016
	(TL thousands)		
Foreign currency	63,527,819	83,464,399	96,627,871
Saving	42,799,928	46,195,917	53,533,781
Commercial	14,733,331	14,866,494	18,339,903
Gold, public and other	4,695,309	4,053,355	5,016,793
Total	**125,756,387**	**148,580,165**	**173,518,348**

The following table sets out a breakdown of the Bank's deposits by composition as a daily average during the indicated periods (excluding expense accruals) and the average interest rate paid thereon:

	2014		2015		2016	
	Average Deposits	**Average Interest Rate**	**Average Deposits**	**Average Interest Rate**	**Average Deposits**	**Average Interest Rate**
	(TL thousands, except percentages)					
Demand deposits[(1)]	**22,725,483**	0.01%	**28,116,319**	0.01%	**32,110,711**	0.00%
Foreign currency	11,582,457	0.01%	14,598,723	0.01%	16,231,302	0.00%
From banks	-	-	-	-	-	-
From governments and official institutions	-	-	-	-	-	-
From other customers	*11,582,457*	*0.00%*	*14,598,723*	*0.00%*	*16,231,302*	*0.00%*
Turkish Lira	11,143,026	0.01%	13,517,596	0.01%	15,879,409	0.01%
From banks	*135,380*	*0.00%*	*163,453*	*0.00%*	*192,692*	*0.00%*
From governments and official institutions	*987,697*	*0.00%*	*1,111,191*	*0.00%*	*1,128,146*	*0.00%*
From other customers	*10,019,949*	*0.00%*	*12,242,952*	*0.00%*	*14,558,571*	*0.00%*
Savings deposits	**34,019,646**	8.32%	**37,520,976**	0.00%	**41,116,611**	8.94%
Foreign currency	-	-	-	-	-	-
Turkish Lira	34,019,646	8.32%	37,520,976	8.49%	41,116,611	8.94%
From banks	-	-	-	-	-	-
From governments and official institutions	-	-	-	-	-	-
From other customers	*34,019,646*	*0.00%*	*37,520,976*	*0.00%*	*41,116,611*	*0.00%*
Time Deposits	**67,444,092**	3.37%	**83,308,803**	3.00%	**93,727,780**	3.46%
Foreign currency	49,169,894	1.64%	64,951,437	1.48%	72,748,371	1.75%
From banks	*3,410,843*	*0.00%*	*2,650,175*	*0.00%*	*1,269,422*	*0.00%*
From governments and official institutions	-	-	-	-	-	-
From other customers	*45,759,051*	*0.00%*	*62,301,262*	*0.00%*	*71,478,949*	*0.00%*
Turkish Lira	18,274,198	8.04%	18,357,366	8.36%	20,979,409	9.43%
From banks	*835,131*	*0.00%*	*940,053*	*0.00%*	*1,439,374*	*0.00%*
From governments and official institutions	*171,850*	*0.00%*	*31,464*	*0.00%*	*51,302*	*0.00%*
From other customers	*17,267,217*	*0.00%*	*17,385,849*	*0.00%*	*19,488,733*	*0.00%*
Total	**124,189,221**	**4.11%**	**148,946,098**	**3.82%**	**166,955,102**	**4.15%**

(1) Demand deposits generally do not bear interest; *however*, there are occasional exceptions negotiated with customers such as corporations with large deposits.

The following table sets out by maturity the amount outstanding of the Bank's time deposits of US$100,000 or more (or its equivalent) as of 31 December 2016:

	As of 31 December 2016			
	3 months or less	**Over 3 months through 6 months**	**Over 6 months through 12 months**	**Over 12 months**
	(TL thousands)			
Deposits over U.S. $100,000				
Foreign currency	34,611,490	719,584	5,258,434	8,893,521
Turkish Lira	21,778,070	236,330	784,159	1,632,604

Deposits from Banks

The Group's deposits from banks are comprised of demand and time deposits. The Group's deposits from banks increased by 14.4% to TL 178,643,591 thousand as of 31 December 2016 from TL 156,114,455 thousand as of 31 December 2015, which was TL 133,407,310 thousand as of 31 December 2014.

The following table sets out certain information relating to deposits from banks as of the indicated dates, excluding expense accruals:

	As of 31 December		
	2014	**2015**	**2016**
		(TL thousands)	
Demand deposits	1,906,709	1,824,611	2,912,443
Time deposits	5,187,226	5,129,721	1,568,407
Total	**7,093,935**	**6,954,332**	**4,480,850**

The following table sets out certain information relating to the deposits from customers and banks in Turkish currency and foreign currency as of the indicated dates:

	As of 31 December					
	2014		**2015**		**2016**	
	(TL thousands, except percentages)					
Turkish Lira deposits	61,902,718	46.4%	66,188,875	42,4%	75,979,897	42.5%
Foreign currency deposits	71,504,592	53.6%	89,925,580	57.6%	102,663,694	57.5%
Total	**133,407,310**	**100.0%**	**156,114,455**	**100.0%**	**178,643,591**	**100.0%**

In recent years, the foreign currency distribution of deposits changed in favour of Turkish Lira as a result of lower inflation and significant decline in interest rates.

The following table sets out the maturity of deposits made with the Group by amount as of the indicated dates:

	As of 31 December		
	2014	**2015**	**2016**
		(TL thousands)	
3 months or less	120,815,511	139,403,769	162,935,278
Over 3 months through 12 months	11,172,686	15,276,883	13,941,908
Over 1 year through 5 years	1,406,171	1,417,749	1,744,206
Over 5 years	12,942	16,054	22,199
Total	**133,407,310**	**156,114,455**	**178,643,591**

VI. Return on Equity and Assets

The following table sets out certain of the Group's selected financial ratios and other data for the indicated periods:

	For the years ended 31 December		
	2014	2015	2016
	(TL thousands, except percentages)		
Average total assets(1)	228,126,218	259,694,698	288,309,840
Average shareholders' equity(1)	25,382,073	28,984,351	34,240,347
Average shareholders' equity as a percentage of average total assets	11.1%	11.2%	11.9%
Return on average total assets(2)	1.7%	1.5%	1.8%
Return on average shareholders' equity(3)	15.1%	13.1%	14.8%

(1) Averages are calculated as the average of the opening, quarter-end and closing balances for the applicable year.
(2) Net income as a percentage of average total assets.
(3) Net income as a percentage of average shareholders' equity.

VII. Borrowings and Certain Other Liabilities

Borrowings

The following table sets out a breakdown of loans and advances to the Group from banks outstanding (excluding expense accruals) as of the indicated dates by source and maturity profile:

	As of 31 December		
	2014	2015	2016
	(TL thousands)		
Short-term borrowings from domestic banks and institutions	1,832,315	1,239,704	3,322,932
Short-term borrowings from foreign banks and institutions	11,087,263	12,408,195	13,634,202
Long-term debts (short-term portion)	7,080,489	4,879,261	7,462,893
Long-term debts (medium and long-term portion)	17,668,279	21,205,296	22,623,249
Total	**37,668,346**	**39,732,456**	**47,043,276**

The Bank's management believes that the increase in the short- and long-term debts described in the table above is consistent with the Group's growth strategy.

The following table sets out certain information as to the currency of the Group's loans and advances from banks outstanding (including expense accruals) as of the indicated dates:

	As of 31 December					
	2014		2015		2016	
	(TL thousands, except percentages)					
Turkish currency	5,858,890	15.3%	3,647,830	9.1%	3,223,090	6.8%
Foreign currency	32,359,151	84.7%	36,312,104	90.9%	44,104,854	93.2%
Total	**38,218,041**	**100.0%**	**39,959,934**	**100.0%**	**47,327,944**	**100.0%**

The following table sets out a breakdown of the Bank's borrowings, including bonds payable and subordinated liabilities (for short-term borrowings, including the short-term portion of long-term borrowings), outstanding as of the indicated dates (excluding expense accruals) and the maximum amount in each category outstanding at any month-end during the indicated year (short-term being of one year or less):

	As of 31 December					
	2014		2015		2016	
	Amount	**Maximum Month-end Amount**	**Amount**	**Maximum Month-end Amount**	**Amount**	**Maximum Month-end Amount**
	(TL thousands)					
Short-term borrowings from banks and other institutions ..	587,677	643,572	585,990	655,328	840,482	842,779
Foreign currency................	*353,789*	*258,066*	*330,682*	*255,308*	*501,524*	*341,255*
Turkish Lira	*233,888*	*385,506*	*255,308*	*400,020*	*338,958*	*501,524*
Long-term borrowings.............	39,032,786	46,044,823	46,839,200	50,043,338	53,880,039	53,880,039
Foreign currency................	*30,299,229*	*37,022,752*	*41,254,533*	*42,728,965*	*47,436,276*	*47,436,276*
Turkish Lira	*8,733,557*	*9,022,071*	*5,584,667*	*7,314,373*	*6,443,763*	*6,443,763*
Total...	**39,620,463**	**46,688,395**	**47,425,190**	**50,698,666**	**54,720,521**	**54,722,818**

The following table sets out a breakdown of the Bank's approximate average daily borrowings for the indicated years and the approximate weighted average interest rate thereon:

	2014		2015		2016	
	Average Amount	**Interest Rate**	**Average Amount**	**Interest Rate**	**Average Amount**	**Interest Rate**
	(TL thousands, except percentages)					
Short-term borrowings from banks and other institutions.........................	711,977	0.00%	1,167,604	0.00%	5,583,218	0.00%
Foreign currency	*168,153*	*6.06%*	*168,271*	*4.19%*	*405,418*	*1.68%*
Turkish Lira	*543,824*	*2.80%*	*999,333*	*1.56%*	*5,177,800*	*0.39%*
Long-term borrowings..........................	34,107,753	5.15%	37,700,163	4.69%	39,541,801	4.72%
Foreign currency	*26,163,924*	*3.52%*	*31,996,605*	*3.53%*	*34,128,451*	*3.55%*
Turkish Lira	*7,943,829*	*10.53%*	*5,703,558*	*11.25%*	*5,413,350*	*12.13%*
Total	**34,819,730**	**5.12%**	**38,867,767**	**4.61%**	**45,125,019**	**4.20%**

The following tables set out a description of the Group's material long-term borrowings (or fund-raisings through "future flow" transactions) as of the indicated dates (with many of the indicated interest rates being based upon a floating rate, principally LIBOR, and thus re-set periodically):

	As of 31 December 2016				
	Interest rate	**Latest maturity**	**Amount in original currency**	**Short-term portion**	**Medium and long-term portion**
			(millions)	*(TL thousands)*	
DPR Future Flow Transaction XVI ...	3%	2034	US$1,000	-	3,513,000
DPR Future Flow Transaction XVII..	3%	2034	US$550	-	1,932,150
Deutsche Bank AG II.........................	3%	2019	US$500	-	1,756,500
DPR Future Flow Transaction XVIII	2-3%	2019	US$500	281,040	1,474,879
DPR Future Flow Transaction XIV ...	3%	2026	US$399	175,650	1,224,705
Bilateral Loan I..................................	2%	2017	US$145	667,470	-
Deutsche Bank AG I	11-13%	2017	TL568	-	568,150
ING DIBA	1%	2017	US$161	349,598	216,667
DPR Future Flow Transaction XX.....	3%	2021	US$150	-	526,950
Syndicated Loan	2%	2018	US$149		524,198
EIB I	1-4%	2022	US$118	78,292	335,375
Proparco..	2%	2028	€100	-	370,200
DPR Future Flow Transaction XV.....	3%	2018	US$102	204,925	153,694
DPR Future Flow Transaction XIX ...	2%	2027	US$99	17,137	331,206
DPR Future Flow Transaction XIX ...	2%	2020	US$89	52,695	261,676
DPR Future Flow Transaction XV.....	2%	2018	€78	166,590	124,943
DPR Future Flow Transaction IX	1%	2018	€60	127,165	95,523
EIB III...	10%	2020	TL219	-	218,513
DPR Future Flow Transaction XX.....	3%	2021	US$60	-	210,780
EIB II	9%	2019	TL206	-	206,250
DPR Future Flow Transaction XX.....	2%	2021	€50	-	185,100
Bilateral Loan II................................	3%	2019	US$50	-	175,650
DPR Future Flow Transaction XX.....	3%	2021	US$50	-	175,650
DPR Future Flow Transaction XX.....	3%	2021	US$50	-	175,650
DPR Future Flow Transaction XII.....	2%	2022	€47	27,707	146,044
DPR Future Flow Transaction XII.....	1%	2022	€47	27,707	146,044
OPIC...	3%	2019	US$43	50,587	101,174
DPR Future Flow Transaction VIII ...	1%	2017	US$42	147,546	-
EIB-IV	9%	2019	TL69	-	69,100
EBRD-V	3%	2017	US$17	60,223	-
EBRD-II	1%	2025	US$12	4,960	37,196
DPR Future Flow Transaction VIII ...	1%	2017	US$12	42,133	-
DPR Future Flow Transaction VIII ...	1%	2017	US$12	40,588	-
EBRD-IV...	2%	2017	€6	21,154	-
EFSE...	4%	2017	€5	18,550	-
KfW	1%	2017	€3	12,342	-
Others				4,888,834	7,366,282
Total				**7,462,893**	**22,623,249**

	As of 31 December 2015				
	Interest rate	**Latest maturity**	**Amount in original currency**	**Short-term portion**	**Medium and long-term portion**
			(millions)	*(TL thousands)*	
DPR Transaction XVI	3%	2034	US$1,000	-	2,908,000
DPR Transaction XVII	3%	2034	US$550	-	1,599,400
Deutsche Bank AG II	3%	2019	US$500	-	1,454,000
DPR Transaction XVIII	2-3%	2019	US$500	-	1,453,662
DPR Transaction XIV	3%	2026	US$398	29,080	1,128,752
Deutsche Bank AG I	11-13%	2017	TL568	-	568,150
Bilateral Loan I	2%	2017	US$190	-	552,520
ING DIBA	1%	2017	US$161	179,423	289,952
DPR Transaction XV	3%	2018	US$160	169,633	296,858
Syndicated Loan	2%	2018	US$149	-	431,874
EIB I	1-4%	2022	US$140	64,809	342,427
DPR Transaction XV	2%	2018	€124	142,520	249,409
DPR Transaction IX	1%	2018	€94	108,688	190,353
DPR Transaction XIX	2%	2027	US$99	-	288,013
DPR Transaction VIII	1%	2017	US$98	162,835	122,129
DPR Transaction XIX	2%	2020	US$89	-	259,384
EIB III	10%	2020	TL219	-	218,513
EIB II	9%	2019	TL206	-	206,250
DPR Transaction XII	2%	2022	€54	23,703	148,645
DPR Transaction XII	1%	2022	€54	23,703	148,645
OPIC	3%	2019	US$58	41,875	125,626
DPR Transaction XIII	2%	2016	US$56	163,386	-
EBRD-V	3%	2017	US$34	49,851	49,851
DPR Transaction VIII	1%	2017	US$28	46,505	34,884
DPR Transaction VIII	1%	2017	US$28	46,482	34,872
EIB IV	9%	2019	TL69	-	68,580
EBRD IV	2%	2017	€17	36,153	18,093
DPR Transaction VI	1%	2016	US$17	50,704	-
EFSE	4%	2017	€15	31,511	15,888
DPR Transaction XIII	2%	2016	€13	39,528	-
EBRD II	1%	2025	US$12	-	34,681
KfW	1%	2017	€10	21,118	10,559
DPR Transaction XII	2%	2016	€8	26,382	-
Others				3,421,372	7,955,326
Total				**4,879,261**	**21,205,296**

	As of 31 December 2014				
	Interest rate	Latest maturity	Amount in original currency	Short-term portion	Medium and long-term portion
			(millions)	*(TL thousands)*	
DPR Transaction XVI	2%	2034	US$1,000	-	2,305,000
DPR Transaction XVII	3%	2034	US$550	-	1,267,750
Deutsche Bank AG II	3%	2019	US$500	-	1,152,500
DPR Transaction XVIII	2-3%	2019	US$500	-	1,152,450
DPR Transaction XIV	3%	2026	US$397	-	916,123
Deutsche Bank AG III	9%	2015	TL750	750,000	-
Deutsche Bank AG I	11-13%	2017	TL701	-	701,210
DPR Transaction XV	2%	2018	US$175	33,615	369,760
DPR Transaction XV	2%	2018	€135	31,375	345,126
EIB I	1-4%	2022	US$159	51,352	322,671
DPR Transaction VIII	1%	2017	US$154	129,045	225,837
DPR Transaction IX	1%	2018	€125	92,756	255,881
DPR Transaction XIII	2%	2016	US$131	172,518	129,468
EIB III	9%	2020	TL219	-	218,513
EIB II	9%	2019	TL206	-	206,250
DPR Transaction XII	2%	2022	€62	20,873	151,768
DPR Transaction XII	1%	2022	€62	20,873	151,768
OPIC	3%	2019	US$72	33,192	132,768
DPR Transaction VI	1%	2016	US$52	79,942	40,069
EBRD-V	3%	2017	US$51	39,514	79,029
DPR Transaction XII	2%	2016	€42	92,543	23,228
DPR Transaction VIII	1%	2017	US$44	36,852	64,497
DPR Transaction VIII	1%	2017	US$44	36,834	64,470
DPR Transaction XIII	2%	2016	€29	46,420	34,829
EBRD IV	2%	2017	€29	31,842	47,775
EFSE	3%	2017	€25	28,207	42,311
EIB IV	9%	2019	TL69	-	69,183
KfW	2%	2017	€17	18,591	27,895
EBRD II	1-2%	2025	US$19	15,644	27,210
Others				5,318,501	7,142,940
Total				**7,080,489**	**17,668,279**

The Group's short-term borrowings included the following syndicated loan facilities as of 31 December 2014, 2015 and 2016 are as follows:

- as of 31 December 2014: two one-year-syndicated-loan facilities utilised for general trade finance purposes including export and import contracts in two tranches of: (a) US$361,400,000 and €840,300,000 with rates of LIBOR + 0.90% *per annum* and EURIBOR + 0.90% *per annum*, respectively, and (b) US$318,750,000 and €785,000,000 with rates of LIBOR + 0.90% *per annum* and EURIBOR + 0.90% *per annum*, respectively. These were paid upon their maturity.

- as of 31 December 2015: two one-year-syndicated-loan facilities utilised for general trade finance purposes including export and import contracts in two tranches of: (a) US$364,500,000 and €913,500,000 with rates of LIBOR + 0.80% *per annum* and EURIBOR + 0.80% *per annum*, respectively, and (b) US$266,550,000 and €939,500,000 with rates of LIBOR + 0.75% *per annum* and EURIBOR + 0.75% *per annum*, respectively. These were paid upon their maturity.

- as of 31 December 2016: two one-year syndicated loan facilities utilised for general trade finance purposes including export and import contracts in two tranches of: (a) US$479,325,000 and €814,625,000, with the rates of LIBOR + 0.85% *per annum* and EURIBOR + 0.75% *per annum*, respectively, and (b) US$626,000,000 and €615,500,000 with the rates of LIBOR + 1.10% *per annum* and EURIBOR + 1.00% *per annum*, respectively. The first of these was paid upon its maturity on 5 May 2017 and was replaced with a syndicated loan facility with tranches of US$468,000,000 and €805,500,000, with rates of LIBOR + 1.45% *per annum* and EURIBOR + 1.35% *per annum*, respectively.

Obligations under Repurchase Agreements

The Group's obligations arising from agreements for the repurchase/resale of securities amounted to TL 11,230,193 thousand as of 31 December 2016, as compared to TL 16,567,796 thousand as of 31 December 2015 (TL 12,021,165 thousand as of 31 December 2014). These obligations represented 3.6% of the total assets of the Group as of 31 December 2016, 6.0% as of 31 December 2015 and 5.1% as of 31 December 2014. The securities sold by the Group under such repurchase agreements are recognised in the IFRS Financial Statements as being owned by the Group, but subject to a pledge (see II.C. (Securities Portfolio-Securities Portfolio Concentrations) above).

Bonds Payable

In 2016, the Group issued bonds in Turkish Lira and foreign currencies. The outstanding amount of such bonds amounted to TL 17,846,340 thousand as of 31 December 2016. The following tables set out a description of the Group's bonds payable excluding expense accruals as of the date indicated.

	As of 31 December 2016		
	Latest Maturity	**Interest Rates**	**Carrying Value**
			(*TL thousands*)
Bonds of US$2,632 million	2022	0.7-6.4%	8,449,805
Bonds of TL 5,978 million	2018	7.5-12.1%	5,930,561
Bonds of EUR 586 million	2027	0.5-5.2%	2,160,087
Bonds of AUD 175 million	2018	5.6%	443,378
Bonds of RON 420 million	2019	5.5-6.3%	340,905
Bonds of JPY 5,500 million	2017	0.4-1.3%	165,440
Sub-total			17,490,176
Expense accrual on bonds payable			356,164
Total			**17,846,340**

	As of 31 December 2015		
	Latest Maturity	**Interest Rates**	**Carrying Value**
			(TL thousands)
Bonds of US$2,967 million	2022	0.7-6.4%	7,963,319
Bonds of TL 4,800 million	2018	7.5-11.9%	4,495,626
Bonds of EUR 595 million	2027	0.5-5.2%	1,875,214
Bonds of AUD 175 million	2018	5.6%	370,913
Bonds of RON 450 million	2019	5.5-6.3%	313,252
Bonds of JPY 4,700 million	2017	0.8-1.3%	113,768
Bonds of CZK 340 million	2016	2.3%	39,849
Sub-total			15,171,941
Expense accrual on bonds payable			339,656
Total			**15,511,597**

	As of 31 December 2014		
	Latest Maturity	Interest Rates	Carrying Value
			(TL thousands)
Bonds of US$3,198 million	2022	0.3-6.4%	6,846,289
Bonds of TL 5,146 million	2018	6.6-11.6%	4,808,378
Bonds of EUR 594 million	2027	0.5-5.2%	1,648,681
Bonds of AUD 175 million	2018	5.6%	329,043
Bonds of RON 448 million	2019	5.5-6.3%	277,905
Bonds of CHF 36 million	2015	1.1-2.2%	83,520
Bonds of CZK 763 million	2016	1.1-2.5%	76,765
Bonds of JPY 3,600 million	2016	1.1-2.5%	69,206
Sub-total			14,139,787
Expense accrual on bonds payable			298,569
Total			**14,438,356**

The total face value of the bonds and bills issued by the Bank in the domestic market reached TL 4,096 million as of 31 December 2016. Such issuances are authorised by the CMB.

Recent Indebtedness

Since the beginning of 2017, the Group incurred the following material debts:

In January 2017, the Bank entered into new €62.5 million and €90 million DPR transactions, each maturing in 2021.

The Bank issues, and may issue in the future, from time to time, additional Series of Notes under the Programme, which (as permitted by the Programme) are, and in the future may be, in any currency, with any tenor and with any interest rate, which issuances may be listed or unlisted.

Subordinated Liabilities

The following tables set out a description of the Group's subordinated liabilities excluding expense accruals as of the indicated dates.

	As of 31 December 2015		
	Latest Maturity	Interest Rates	Carrying Value
	(TL thousands, except percentages)		
Subordinated debt of €50 million	2021	EURIBOR+3.50%	158,355

	As of 31 December 2014		
	Latest Maturity	Interest Rates	Carrying Value
	(TL thousands, except percentages)		
Subordinated debt of €50 million	2021	EURIBOR+3.50%	139,444

Non-Cash Loans and Other Contingent Liabilities

The Group enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of its customers. These instruments, which include non-cash loans (letters of guarantee, acceptance credits, letters of credit and other guarantees and sureties) and other commitments and contingencies, involve varying degrees of credit risk and are not reflected in the Group's balance sheet. The Group's maximum exposure to credit losses for letters of guarantee and acceptance credits and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

The following table sets out certain details of the Group's non-cash loans as of the indicated dates:

	As of 31 December		
	2014	**2015**	**2016**
		(TL thousands)	
Letters of guarantee	27,518,573	32,709,109	38,012,713
Letters of credit and acceptance credits	10,123,922	16,114,407	17,881,701
Other guarantees and sureties	86,702	109,206	191,066
Total	**37,729,197**	**48,932,722**	**56,085,480**

As of 31 December 2016, non-cash loans of the Group increased by 14.6% to TL 56,085,480 thousand from TL 48,932,722 thousand as of 31 December 2015 (itself, an increase of 29.7% from TL 37,729,197 thousand as of 31 December 2014). The Group issues letters of guarantee, letters of credit, acceptance credits and other payment commitments arising in a wide variety of transactions.

As of 31 December 2016, the Group's commitments for unused credit limits and promotions of credit cards, checks and loans to customers, and commitments for loan granting and other revocable and irrevocable commitments amounted to TL 45,790,059 thousand, an increase of 12.1% compared to TL 40,851,564 thousand as of 31 December 2015 (TL 42,301,547 thousand as of 31 December 2014).

Derivative Transactions

Forward foreign exchange contracts are agreements to purchase or sell a specific quantity of a foreign currency or precious metals at an agreed-upon price with delivery and settlement on a specified future date. Such contracts include only deliverable contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency exchange rates.

The Group's outstanding derivative transactions (*e.g.* spots, forwards, swaps, future rate agreements, options and forward agreements for gold trading) amounted to TL 96,974,214 thousand as of 31 December 2014, TL 132,069,129 thousand as of 31 December 2015 and TL 148,281,594 thousand as of 31 December 2016.

The following table sets out the breakdown of notional amounts of outstanding derivative contracts by type of transaction as of the indicated dates:

	As of 31 December		
	2014	**2015**	**2016**
		(TL thousands)	
Currency/cross currency swaps	**50,427,102**	**51,918,588**	**84,899,426**
Purchases	37,014,971	31,515,308	47,731,917
Sales	13,412,131	20,403,280	37,167,509
Foreign currency options	**23,600,212**	**42,603,408**	**26,281,243**
Purchases	10,966,393	21,130,308	12,801,646
Sales	12,633,819	21,473,100	13,479,597
Forward exchange contracts	**11,147,213**	**16,479,024**	**14,093,160**
Purchases	5,788,555	8,933,585	8,308,944
Sales	5,358,658	7,545,439	5,784,216
Other swap contracts	**4,740,409**	**10,770,659**	**13,543,247**
Purchases	109,098	4,916,745	5,950,319
Sales	4,631,311	5,853,914	7,592,928
Interest rate options	**3,317,396**	**6,260,492**	**5,927,914**
Purchases	1,658,698	3,130,246	2,963,957
Sales	1,658,698	3,130,246	2,963,957
Spot exchange contracts	**2,720,159**	**1,634,258**	**1,969,748**
Purchases	175,533	74,243	294,003
Sales	2,544,626	1,560,015	1,675,745
Interest rate swaps[(1)]	**569,569**	**701,088**	**847,269**
Purchases	231,892	406,449	514,383
Sales	337,677	294,639	332,886
Other forward contracts	**300,506**	**1,324,598**	**334,781**
Purchases	279,663	1,030,785	211,854
Sales	20,843	293,813	122,927
Securities, shares, interest rate and index options	**37,370**	**83,140**	**120,376**
Purchases	25,018	45,544	87,673
Sales	12,352	37,596	32,703
Interest rate and other futures	**92,200**	**-**	**100,121**
Purchases	-	-	-
Sales	92,200	-	100,121
Foreign currency futures	**19,099**	**7,027**	**95,633**
Purchases	19,099	3,462	26,286
Sales	-	3,565	69,347
Other future contracts	**2,979**	**286,847**	**68,676**
Purchases	642	2,450	5,771
Sales	2,337	284,397	62,905
Total	**96,974,214**	**132,069,129**	**148,281,594**

(1) In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.

U.S. TAXATION

This is a general summary of certain U.S. federal tax considerations in connection with an investment in the Notes. This summary does not address all aspects of U.S. federal tax law or the laws of other jurisdictions (including the United Kingdom or any state or local tax law). While this summary is considered to be a correct interpretation of existing laws in force on the date of this Prospectus, there can be no assurance that those laws or the interpretation of those laws will not change. This summary does not discuss all of the tax consequences that might be relevant to an investor in light of such investor's particular circumstances or to investors subject to special rules, such as regulated investment companies, certain financial institutions or insurance companies. **Prospective investors are advised to consult their tax advisers with respect to the tax consequences of the purchase, ownership or disposition of the Notes (or the purchase, ownership or disposition by an owner of beneficial interests therein) as well as any tax consequences that might arise under the laws of any state, municipality or other taxing jurisdiction.**

Certain U.S. Federal Income Tax Consequences

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note by a U.S. Holder (as defined below) whose functional currency is the U.S. dollar that acquires the Note in this offering from the Initial Purchasers at a price equal to the issue price of the Notes and holds it as a capital asset. This summary does not address all aspects of U.S. federal income taxation that may be applicable to particular U.S. Holders subject to special U.S. federal income tax rules, including, among others, tax-exempt organisations, financial institutions, dealers and traders in securities or currencies, U.S. Holders that will hold a Note as part of a "straddle," hedging transaction, "conversion transaction" or other integrated transaction for U.S. federal income tax purposes, U.S. Holders that enter into "constructive sale" transactions with respect to the Notes, U.S. Holders liable for alternative minimum tax and certain U.S. expatriates. In addition, this summary does not address consequences to U.S. Holders of the acquisition, ownership and disposition of a Note under any other U.S. federal tax laws (*e.g.*, estate or gift tax laws) or under the tax laws of any state, locality or other political subdivision of the United States or other countries or jurisdictions.

As used herein, the term "**U.S. Holder**" means an owner of a Note that is for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the U.S., (b) a corporation created or organised in or under the laws of the U.S., any state thereof or the District of Columbia, (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (d) a trust that is subject to U.S. tax on its worldwide income regardless of its source. References herein to a U.S. Holder holding a Note shall also refer to the holding of a beneficial interest in a Global Note.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds a Note, then the U.S. federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Therefore, a partnership holding a Note and its partners should consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note.

The discussion below is based upon the Code, U.S. Treasury regulations promulgated thereunder and judicial and administrative interpretations thereof, all as in effect as of the date of this Prospectus and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. federal income tax consequences different from those discussed below.

The summary of the U.S. federal income tax consequences set out below is for general information only. Investors in the Notes should consult their tax advisers as to the particular tax consequences to them of owning investments in the Notes, including the applicability and effect of state, local, foreign and other tax laws and possible changes in tax law.

Payments of Interest

Payments of interest on the Notes, including additional amounts, if any, generally will be taxable to a U.S. Holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. Holder's usual method of accounting for U.S. federal income tax purposes. Interest paid on a Note generally will constitute foreign source income for U.S. federal income tax purposes and generally will be considered “passive” income, which is treated separately from other types of income in computing the foreign tax credit that may be allowable to U.S. Holders under U.S. federal income tax laws. Subject to applicable restrictions and limitations, a U.S. Holder may be entitled to claim a U.S. foreign tax credit in respect of any Turkish withholding taxes imposed on interest received on the Notes. A U.S. Holder who does not elect to claim a credit for foreign tax may instead claim a deduction in respect of the tax provided the U.S. Holder elects to deduct rather than claim a credit for all foreign taxes for such taxable year. U.S. Holders that are eligible for benefits under the double tax treaty between the United States and Turkey (the “**Double Tax Treaty**”) or are otherwise entitled to a refund for the taxes withheld under Turkish tax law generally will not be entitled to a foreign tax credit or deduction for the amount of any Turkish taxes withheld in excess of the maximum rate under the Double Tax Treaty or for those taxes that have been otherwise refunded to them under Turkish tax law. The rules relating to foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their own tax advisers regarding the availability and advisability of claiming a foreign tax credit or a deduction with respect to any Turkish taxes withheld from payment.

Sale, Exchange and Redemption of Notes

Upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised (*i.e.*, the amount of cash and the fair market value of any property received on the disposition (except to the extent the cash or property received is attributable to accrued and unpaid interest not previously included in income, which is treated like a payment of interest)) and the U.S. Holder’s tax basis in the Note. A U.S. Holder’s tax basis in a Note generally will equal the amount paid for the Note. Gain or loss recognised by a U.S. Holder on the sale, exchange or other disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. The deductibility of capital losses is subject to significant limitations. U.S. Holders should consult their own advisers about the availability of U.S. foreign tax credits or deductions with respect to any Turkish taxes imposed upon a disposition of Notes.

Information Reporting and Backup Withholding

Information returns may be filed with the U.S. Internal Revenue Service (the “**IRS**”) (unless the U.S. Holder establishes, if requested to do so, that it is an exempt recipient) in connection with payments on the Notes, and the proceeds from the sale, exchange or other disposition of Notes. If information reports are required to be made, then a U.S. Holder may be subject to U.S. backup withholding if it fails to provide its taxpayer identification number or to establish that it is exempt from backup withholding. The amount of any backup withholding imposed on a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS.

U.S. Holders should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of Notes.

Medicare Tax

Certain U.S. Holders who are individuals, estates or non-exempt trusts must pay an additional 3.8% tax on, among other things, interest on and capital gains from the sale, retirement or other taxable disposition of Notes. U.S. Holders should consult their tax advisers regarding the effect, if any, of this tax on their investment in the Notes.

PLAN OF DISTRIBUTION

The Bank intends to offer the Notes through the Initial Purchasers and their respective broker-dealer affiliates, as applicable. Subject to the terms and conditions stated in a subscription agreement in respect of the Notes expected to be entered into on 19 May 2017 among the Initial Purchasers and the Bank (the "**Subscription Agreement**"), each of the Initial Purchasers has severally (and not jointly nor jointly and severally) agreed to purchase, and the Bank has agreed to sell to each of the Initial Purchasers, the principal amount of the Notes set forth opposite each Initial Purchaser's name below at the issue price of 100.00% of the principal amount of the Notes.

Initial Purchasers	*Principal Amount of Notes*
BBVA Securities Inc.	US$125,000,000
BNP Paribas	US$125,000,000
Commerzbank Aktiengesellschaft	US$125,000,000
HSBC Bank plc	US$125,000,000
Merrill Lynch, Pierce, Fenner& Smith Incorporated	US$125,000,000
Standard Chartered Bank	US$125,000,000
Total	**US$750,000,000**

The Subscription Agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The offering of the Notes by the Initial Purchasers is subject to receipt and acceptance and subject to the Initial Purchasers' right to reject any order in whole or in part.

The Bank has been informed that the Initial Purchasers propose to resell beneficial interests in the Notes at the issue price set forth on the cover page of this Prospectus to persons reasonably believed to be QIBs in reliance upon Rule 144A and to non-U.S. persons in offshore transactions in reliance upon Regulation S (see "*Subscription and Sale and Transfer and Selling Restrictions*" in the Base Prospectus). The prices at which beneficial interests in the Notes are offered may be changed at any time without notice.

Offers and sales of the Notes in the United States will be made by those Initial Purchasers or their respective affiliates that are registered broker-dealers under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or in accordance with Rule 15a-6 thereunder.

The Notes have not been registered under the Securities Act or the securities laws of any State or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act (see "*Subscription and Sale and Transfer and Selling Restrictions*" in the Base Prospectus). Accordingly, until 40 days after the Issue Date (the "**Distribution Compliance Period**"), an offer or sale of Notes (or beneficial interests therein) within the United States or to, or for the account or benefit of, any U.S. person by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Each Initial Purchaser has agreed that it will send to each dealer to which it sells the Regulation S Global Note (or beneficial interests therein) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes (or beneficial interests therein) within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

> "The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons: (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, except, in either case, in accordance with Rule 144A under the Securities Act or in an offshore transaction. Terms used above have the meanings given to them by Regulation S."

While application has been made by the Bank to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Main Securities Market, the Notes constitute a new class of securities of the Bank with a limited trading market. The Bank cannot provide any assurances to investors that the prices at which the Notes (or beneficial interests therein) will sell in the market will not be lower than the initial offering price or that an active trading market for the Notes will develop. The Initial Purchasers have advised the Bank that they currently intend to make a market in the Notes; *however*, they are not obligated to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. No assurance can be given that the application to the Irish Stock Exchange to admit the Notes to listing on the Official List and trading on the Main Securities Market will be accepted.

In connection with the offering, one or more Initial Purchaser(s) might purchase and sell Notes (or beneficial interests therein) in the secondary market. These transactions might include over-allotment, syndicate covering transactions and stabilising transactions. Over-allotment involves the sale of Notes (or beneficial interests therein) in excess of the principal amount of Notes to be purchased by the Initial Purchasers in their initial offering, which creates a short position for the Initial Purchasers. Covering transactions involve the purchase of the Notes (or beneficial interests therein) in the open market after the distribution has been completed in order to cover short positions. Stabilising transactions consist of certain bids or purchases of Notes (or beneficial interests therein) made for the purpose of preventing or retarding a decline in the market price of the Notes (or beneficial interests therein) while the offering is in progress. Any of these activities might have the effect of preventing or retarding a decline in the market price of the Notes (or beneficial interests therein). They might also cause the price of the Notes (or beneficial interests therein) to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Initial Purchasers might conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchasers commence any of these transactions, then they might discontinue them at any time.

The Bank expects that delivery of interests in the Notes will be made against payment therefor on the Issue Date. Under Rule 15c6-l of the Exchange Act, trades in the secondary market through a broker or dealer in the United States generally are required to settle in three New York City business days, unless the parties to any such trade expressly agree otherwise. Accordingly, investors who wish to trade interests in the Notes through a broker or dealer in the United States on the date of this Prospectus or the next New York City business days will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Investors in the Notes who wish to trade interests in the Notes through a broker or dealer in the United States on the date of this Prospectus or the next New York City business days should consult their own adviser.

Banco Bilbao Vizcaya Argentaria, S.A., an affiliate of BBVA Securities Inc., one of the Initial Purchasers, is the controlling shareholder of the Bank as described in the Base Prospectus. The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which might include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers or their respective affiliates might have performed investment banking and advisory services for the Bank and its affiliates from time to time for which they might have received fees, expenses, reimbursements and/or other compensation. The Initial Purchasers or their respective affiliates might, from time to time, engage in transactions with and perform advisory and other services for the Bank and its affiliates in the ordinary course of their business. Certain of the Initial Purchasers and/or their respective affiliates have acted and expect in the future to act as a lender to the Bank and/or other members of the Group and/or otherwise participate in transactions with the Group.

In the ordinary course of their various business activities, the Initial Purchasers and their respective affiliates might make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and might at any time hold long and short positions in such securities and instruments. Such investment and securities activities might involve securities and instruments of the Bank and/or other members of the Group. In addition, certain of the Initial Purchasers and/or their respective affiliates hedge their credit exposure to the Bank and/or other members of the Group pursuant to their customary risk management policies. These hedging activities could have an adverse effect on the future trading prices of the Notes (or beneficial interests therein).

The Initial Purchasers and their respective affiliates might also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and might hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

The Bank will agree in the Subscription Agreement, in connection with the issue and offering of the Notes, to indemnify each Initial Purchaser against certain liabilities, or to contribute to payments that the Initial Purchasers are required to make because of those liabilities.

LEGAL MATTERS

Certain matters relating to the issuance of the Notes will be passed upon for the Bank by Mayer Brown LLP as to matters of United States law and by Verdi Avukatlık Ortaklığı as to matters of Turkish law (other than with respect to tax-related matters). Certain matters of English and United States law will be passed upon for the Initial Purchasers by Allen & Overy LLP, and certain matters of Turkish law will be passed upon for the Initial Purchasers by Gedik & Eraksoy Avukatlık Ortaklığı (which will also pass upon matters of Turkish tax law).

OTHER GENERAL INFORMATION

Authorisation

The issue of the Notes has been duly authorised by a resolution of the Board of the Issuer dated 9 October 2015 and numbered 2342 and the most recent update of the Programme has been duly authorised by a resolution of the Board of the Issuer dated 3 November 2016 and numbered 2365.

Listing of Notes

An application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to listing on the Official List and to trading on the Main Securities Market will be granted on or before the Issue Date, subject only to the issue of the Notes. The Main Securities Market is a regulated market for the purposes of MiFID I. The expenses in connection with the admission of the Notes to the Official List and to trading on the Main Securities Market are expected to amount to approximately €3,290.

Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Bank in connection with the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

Documents Available

For as long as any of the Notes are outstanding, copies of the following documents will (as applicable, when published) be available in physical form for inspection at 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 IFRS Annual Financial Statements,

(c) the BRSA Financial Statements,

(d) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer, in each case in English and together with any audit or review reports prepared in connection therewith; the Issuer currently prepares audited consolidated financial statements in accordance with IFRS on an annual basis, audited consolidated and unconsolidated BRSA financial statements on an annual basis, unaudited consolidated and unconsolidated interim financial statements in accordance with IFRS on a quarterly basis and unaudited consolidated and unconsolidated interim BRSA financial statements on a quarterly basis,

(e) the Agency Agreement, the Deed of Covenant and the Deed Poll and the forms of the Global Notes and the Notes in definitive form, and

(f) a copy of this Prospectus and the Base Prospectus (including the supplements thereto).

With respect to each of the BRSA Financial Statements and IFRS Financial Statements, please see "*Independent Auditors*" below.

In addition, copies of this Prospectus and the documents incorporated by reference herein will also be available in electronic format on the Issuer's website. See "*Documents Incorporated by Reference*" above. Such website does not, and should not be deemed to, constitute a part of, or be incorporated into, this Prospectus.

Clearing Systems

The Rule 144A Global Note(s) has/have been accepted into DTC's book-entry settlement system and the Regulation S Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg (CUSIP: 900148 AE7, ISIN: US900148AE73 and Common Code: 161752479 with respect to the Rule 144A Global Note(s) and ISIN: XS1617531063 and Common Code: 161753106 with respect to the Regulation S Global Note).

Through DTC's accounting and payment procedures, DTC will, in accordance with its customary procedures, credit interest payments received by DTC on any Interest Payment Date based upon DTC participant holdings of the Notes on the close of business on the New York Business Day immediately preceding each such Interest Payment Date. A "*New York Business Day*" is a day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York are authorised or required by law or executive order to close.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

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 2017 and (b) no material adverse change in the financial position or prospects of either the Bank or the Group since 31 December 2016.

Interests of Natural and Legal Persons Involved in the Issue

Except with respect to the fees to be paid to the Initial Purchasers, so far as the Bank is aware, no natural or legal person involved in the issue of the Notes has an interest, including a conflicting interest, material to the issue of the Notes. It should be noted that Banco Bilbao Vizcaya Argentaria, S.A., an affiliate of BBVA Securities Inc., one of the Initial Purchasers, is the controlling shareholder of the Bank as described in the Base Prospectus.

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 Prospectus that may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

Independent Auditors

The: (a) IFRS Annual Financial Statements have been audited by Deloitte in accordance with the International Standards on Auditing, which is a component of the Turkish Auditing Standards published by the Public Oversight, Accounting and Auditing Standards Authority, as stated in Deloitte's respective independent auditors' reports incorporated by reference herein, and (b) BRSA Annual Financial Statements have been audited by Deloitte in accordance with the Regulation on Independent Auditing of Banks, published by the BRSA in the Official Gazette dated 2 April 2015 and No. 29314, and the Independent Standards on Auditing (*Kamu Gözetimi Muhasebe ve Denetim Standartları Kurumu*). Deloitte, independent certified public accountants in Turkey, is an audit firm authorised by the BRSA to conduct independent audits of banks in Turkey. Deloitte is located at Maslak Plaza, Eski Büyükdere Caddesi, Maslak Mahallesi No:1, Maslak, Sarıyer, 34398 İstanbul, Turkey.

The IFRS Interim Financial Statements and the BRSA Interim Financial Statements as of and for the three months ended 31 March 2016 have been reviewed by Deloitte in accordance with: (a) the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity and the Standard on Review Engagements 2410, and (b) Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively.

The IFRS Interim Financial Statements and the BRSA Interim Financial Statements as of and for the three months ended 31 March 2017 have been reviewed by KPMG in accordance with: (a) the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity and the Standard on Review Engagements 2410, and (b) Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively. KPMG, independent certified public accountants in Turkey, is an audit firm authorised by the BRSA to conduct independent audits of banks in Turkey. KPMG is located at Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No:29 Beykoz, 34805 İstanbul, Turkey.

Each of Deloitte and KPMG (as applicable), with respect to such unaudited financial statements, has reported that it applied limited procedures in accordance with professional standards for a review of such information; *however*, its reports state that it did not audit and does not express an opinion on such interim financial information. Accordingly, the degree of reliance upon its report on such information should be restricted in light of the limited nature of the review procedures applied.

Deloitte's audit and review reports and KPMG's review reports included in the IFRS Financial Statements and BRSA Financial Statements contain a qualification (see "*Risk Factors – Risks Relating to the Group and its Business – Audit Qualification*" in the Base Prospectus, as deemed modified hereby for purpose of the Notes, for further information).

THE ISSUER

Türkiye Garanti Bankası A.Ş.
Levent Nispetiye Mahallesi
Aytar Caddesi No: 2
Beşiktaş 34340 Istanbul
Turkey

INITIAL PURCHASERS

BBVA Securities Inc.
1345 Avenue of the Americas
44th Floor
New York, New York 10105
United States

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

Commerzbank Aktiengesellschaft
Kaiserstraße 16 (Kaiserplatz)
60311 Frankfurt am Main
Germany

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

Merrill Lynch, Pierce, Fenner & Smith Incorporated
One Bryant Park
New York, New York 10036
United States

Standard Chartered Bank
One Basinghall Avenue
London EC2V 5DD
United Kingdom

FISCAL AGENT AND PRINCIPAL PAYING AGENT

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL
United Kingdom

REGISTRAR, TRANSFER AGENT AND PAYING AGENT

The Bank of New York Mellon SA/NV, Luxembourg Branch
2-4 rue Eugene Ruppert
2453 Luxembourg

UNITED STATES PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon, New York Branch
101 Barclay Street
New York, New York
USA

LEGAL COUNSEL TO THE ISSUER AS TO ENGLISH AND UNITED STATES LAW

Mayer Brown International LLP
201 Bishopsgate
London EC2M 3AF
United Kingdom

Mayer Brown LLP
71 South Wacker Drive
Chicago, Illinois 60606
USA

LEGAL COUNSEL TO THE ISSUER AS TO TURKISH LAW

Verdi Avukatlık Ortaklığı
Levent Mah. Yeni Sülün Sk. No. 1
Beşiktaş, 34330 Istanbul
Turkey

LEGAL COUNSEL TO THE INITIAL PURCHASERS AS TO ENGLISH AND UNITED STATES LAW

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

Allen & Overy LLP
52 avenue Hoche
75379 Paris – Cedex 08
France

LEGAL COUNSEL TO THE INITIAL PURCHASERS AS TO TURKISH LAW

Gedik & Eraksoy Avukatlık Ortaklığı
River Plaza Floor 17
Büyükdere Caddesi, Bahar Sokak, No. 13 Levent
34394 Istanbul
Turkey

AUDITORS TO THE ISSUER

Deloitte
DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ
Sun Plaza
Maslak Mah. Bilim Sk. No:5
Şişli, Istanbul 34398, Turkey

KPMG
Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No:29
34805 Beykoz-İstanbul
Turkey

LISTING AGENT

Arthur Cox Listing Services Limited
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland