



**TÜRKİYE GARANTİ BANKASI A.Ş.**  
**Issue of US\$500,000,000 5.875% Notes due 2023**  
**under its US\$6,000,000,000 Global Medium Term Note Programme**  
**Issue price: 100.00%**

The US\$500,000,000 5.875% Notes due 2023 (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 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 any U.S. state securities laws 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. 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) 16 March 2017 (the “Issue Date”) to (but excluding) 16 March 2023 (the “Maturity Date”) at a fixed rate of 5.875% *per annum*. Interest will be payable semi-annually in arrear in equal instalments on the 16th day of each March and September in each year (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 7.6), then such payment will be made on the next Payment Business Day but without any further interest or other payment being made in respect of such delay. Principal of the Notes is scheduled to be repaid on the Maturity Date, but may be repaid earlier under certain circumstances described herein and in the Base Prospectus. For a more detailed description of the Notes, see “Terms and Conditions of the Notes” herein.

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 and/or that are to be offered to the public in any member state of the European Economic Area. Application has been made to the Irish Stock Exchange 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 trading on the Main Securities Market.

Application has been made to the Capital Markets Board (the “CMB”) of the Republic of Turkey (“Turkey”), in its capacity as competent authority under Law No. 6362 (the “Capital Markets Law”) of Turkey relating to capital markets, for the issuance and sale of the Notes by the Bank outside of Turkey. The Notes cannot be sold before the 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 the written approval of the CMB relating to the Notes is expected to be obtained from the CMB on or before the Issue Date.

The Notes are expected to be rated at issuance “BBB-” (stable outlook) by Fitch Ratings Ltd. (“Fitch”) and “Ba1” (stable outlook) 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 138 and 139 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., Citigroup Global Markets Limited, Goldman Sachs International, J.P. Morgan Securities plc, MUFG Securities EMEA plc and SMBC Nikko Capital Markets Limited (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**

**Citigroup**

**Goldman Sachs International**

**J.P. Morgan**

**MUFG**

**SMBC Nikko**

The date of this Prospectus is 14 March 2017.

**This Prospectus comprises 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 in, 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 the information 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 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 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 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 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, or incorporated 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 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 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 the offer or sale of Notes (or beneficial interests therein) might be restricted by law or regulation 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, in each case, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Prospectus or any Notes (or beneficial interests therein) may 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 the United States, the European Economic Area (including the United Kingdom), Turkey, 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 Banking Regulation and Supervision Agency (the "**BRS**A"), 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 makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws or regulations. Any investor in the Notes should determine whether it is able to bear the economic risk of an investment in the Notes for an indefinite period of time.

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

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in, or incorporated by reference into, this Prospectus,
- (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 such investment will have on its overall investment portfolio,
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency,
- (d) understands thoroughly the terms of the Notes and is familiar with the 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) the Notes (or beneficial interests therein) can be used by it as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Notes (or beneficial interests therein). Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of investments in the Notes under any applicable risk-based capital or similar 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 and regulations 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 “**Communiqué on Debt Instruments**”), 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, and its related legislation, the Capital Markets Law numbered 6362 and the Communiqué on Debt Instruments or its related regulations.

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 authorised the offering, sale and issue of the Notes on the condition that no transaction that qualifies as a sale or offering of Notes (or beneficial interests therein) by way of public offering or private placement in Turkey may be engaged in. Notwithstanding the foregoing, pursuant to the BRSA decision dated 6 May 2010 No. 3665 and the BRSA decision dated 30 September 2010 No. 3875 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 authorised by the BRSA or licensed brokerage institutions authorised pursuant to CMB regulations and the purchase price is transferred through licensed banks authorised by

the BRSA. As such, Turkish residents should use licensed banks or licensed brokerage institutions while purchasing the Notes (or beneficial interests therein) and transfer the purchase price through such licensed banks.

Monies paid for purchases of Notes (or beneficial interests therein) are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund. The Issuer is required to notify Central Registry İstanbul (*Merkezi Kayıt İstanbul*) within three İstanbul business days from the Issue Date of the amount, the 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.

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), 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 depository (the “**Common Depository**”) for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee of the Common Depository. 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 accountholders in Euroclear and Clearstream, Luxembourg.

In connection with the issue of the Notes, Citigroup Global Markets Limited (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, might 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 and rules.

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.

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, 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 and regulations. 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.

#### ALTERNATIVE PERFORMANCE MEASURES

To supplement the Bank’s consolidated and unconsolidated financial statements presented in accordance with IFRS or the BRSA Accounting and Reporting Regulation (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) include (without limitation) the following (such terms being used in this Prospectus as defined below):

*average spread:* For a particular period, this is: (a) the weighted average interest rate of the Group’s average interest-earning assets during such period *minus* (b) average interest-bearing liabilities.

*cost-to-income ratio:* For a particular period, this is: (a) the Group’s costs for such period, which are calculated as the total operating expenses excluding impairment losses, net, reserve for employee severance indemnities and foreign exchange and trading losses for such period, *divided by* (b) the Group’s income, which is the operating income for such period *minus* foreign exchange and trading losses and impairment losses, net, except for provisions made on a portfolio basis to cover any inherent risk of loss for cash loans and non-cash loans for such period.

*loan-to-deposit ratio:* As of a particular date, this is: (a) the total cash loans as of such date *divided by* (b) the total deposits as of such date.

*net interest income:* For a particular period, this is total interest earned during such period *minus* total interest expensed during such period.

*net interest margin:* For a particular period, this is net interest income during such period *as a percentage of* total average assets during such period.

*net yield:* For a particular period, this is net interest income during such period *as a percentage of* average interest-earning assets during such period.

*non-performing loans to total cash loans and non-cash loans:* As of a particular date, this is: (a) the total non-performing loans (“**NPLs**”) as of such date *divided by* (b) the sum of total cash loans and non-cash loans as of such date.

*non-performing loans to total gross cash loans:* As of a particular date, this is: (a) the total NPLs as of such date *divided by* (b) the total cash loans as of such date.

*operating expenses to total average assets:* For a particular period, this is: (a) total operating expenses for such period excluding impairment losses, net, depreciation and amortisation expenses, reserve for employee severance indemnities and foreign exchange and trading losses for such period *as a percentage of* (b) total average assets calculated as the average of the opening, quarter-end and closing balances for the applicable period.

The following are definitions of certain terms that are used in the calculations of the APMs listed above (such terms as so defined above having the same meaning when used elsewhere in this Prospectus):

*average interest-earning assets:* For a particular period, this is the average of the amount of interest-earning assets as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any year, December 31 of the previous year) and each intervening quarter-end date during such period.

*average interest-bearing liabilities:* For a particular period, this is the average of the amount of interest-earning liabilities as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any year, December 31 of the previous year) and each intervening quarter-end date during such period.

*total average assets:* For a particular period, this is the average of the amount of total assets as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any year, December 31 of the previous year) and each intervening quarter-end date during such period.

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## 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 45 (inclusive) of the Base Prospectus (as supplemented through the date hereof) (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, 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 second paragraph of the risk factor titled “*Risks Relating to Turkey – Global Financial Crisis and Eurozone Crisis*” on page 14 of the Base Prospectus of the Bank dated 24 March 2016 (the “**Original Base Prospectus**”) is hereby deleted in its entirety and replaced by the following:

The global financial crisis and related economic slowdown also significantly impacted the Turkish economy and the principal external markets for Turkish goods and services. During the global financial crisis, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which led to an increase in unemployment. Since the implementation of fiscal and monetary measures in 2009, Turkey’s GDP has been growing, albeit at low levels in recent years (source: Turkstat). While unemployment levels have also improved since the depth of the financial crisis, they remain elevated. There can be no assurance that the unemployment rate will not increase in the future. Continuing high levels of unemployment might affect the Group’s retail customers and business confidence, which could impair its business strategies and have a material adverse effect on its business, financial condition and/or results of operations.

In October 2016, the government announced a three year medium-term economic programme from 2017 to 2019. Under this programme, the government set growth targets of 4.4% for 2017 and 5.0% for each of 2018 and 2019, as well as a gradual decrease in the current account deficit-to-GDP ratio, according to the Ministry of Development. There can be no assurance that these targets will be reached, that the Turkish government will continue to implement its current and proposed economic and fiscal policies successfully or that the economic growth achieved in recent years will continue considering external and internal circumstances, including the Central Bank’s efforts to curtail inflation and simplify monetary policy, the current account deficit and macroeconomic and political factors, such as changes in oil prices, uncertainty related with conflicts in Iraq and Syria (See “*-Terrorism and Conflicts*”) and the political developments in Turkey, including the failed coup attempt on 15 July 2016 and its aftermath and the uncertainty resulting from the referendum that will be held on 16 April 2017 to expand the powers of the president (see “*-Political Developments*”). 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. Pursuant to the calculations made using the new method, the GDP contracted by 1.8% in the third quarter of 2016. The GDP

growth for the first quarter and second quarter of 2016 were each revised to 4.5% from 4.7% and 3.1%, respectively, and the GDP growth in 2015 was revised to 6.0% from 4.1%.

Any of these developments might cause Turkey's economy to experience macro-economic imbalances, which might impair the Group's business strategies and/or have a material adverse effect on the Group's business, financial condition and/or results of operations.

- (b) The second paragraph of the risk factor titled "*Risks Relating to Turkey – Current Account Deficit*" on page 15 of the Original Base Prospectus is hereby amended by the addition of the following at the end thereof:

In 2016, Turkey's current account deficit remained almost flat at US\$32.6 billion (US\$32.1 billion in 2015) due to a decline in the cost of energy imports, which offset the deterioration in tourism revenues. Various events, including geopolitical risks (see "*-Terrorism and Conflicts*") and political circumstances following the attempted coup in Turkey (see "*-Political Developments*"), might result in an increase in the current account deficit, including due to the possible adverse impact on Turkey's foreign trade and tourism revenues. See "*-Emerging Market Risks*."

- (c) The fifth paragraph of the risk factor titled "*Risks Relating to Turkey – Current Account Deficit*" on pages 15 and 16 of the Original Base Prospectus is hereby deemed to be deleted in its entirety and replaced by the following:

Turkey is an energy import-dependent country and recorded US\$24.9 of net energy imports in 2016, which declined from US\$34.1 billion in 2015 and US\$49.9 billion in 2014 due largely to the decline in the price of oil (source: *Turkstat, CBRT*). In 2015 and 2016, Turkey's current account deficit benefited from the recent declines in the price of oil, which was partially offset by the weak performance of exports; *however*, this might be reversed. Although the government has been heavily promoting new domestic energy projects, these have not yet significantly decreased the need for imported energy and thus any geopolitical development concerning energy security could have a material impact on Turkey's current account balance. Even though the relatively low levels of oil prices have supported the current account balance, the agreement among the members of the Organisation of the Petroleum Exporting Countries (*OPEC*) to cut output (effective as of 1 January 2017) or any geopolitical development concerning energy security and prices could have a material impact on Turkey's current account balance.

- (d) The paragraph under the risk factor titled "*Risk Factors – Risks Related to Turkey – Inflation Risk*" on page 17 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Turkish economy has experienced significant inflationary pressures in the past with year-over-year consumer price inflation rates over 100% during the 1990s; *however*, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year consumer price index to decrease to 6.5% at the end of 2009 and to 4.0% in March 2011, which was the lowest level in many years. Consumer price inflation was 7.4%, 8.2%, 8.8% and 8.5% in 2013, 2014, 2015 and 2016, respectively, with domestic producer price inflation during those years of 7.0%, 6.4%, 5.7% and 9.9%, respectively. The volatility of global prices of major commodities such as oil, cotton, corn and wheat might increase supply-side inflation pressures throughout the world and might result in an increase in inflation in Turkey. As of February 2017, annual consumer price inflation reached 10.1% due to base effects on food, higher energy prices and the depreciation of the Turkish Lira, while annual producer price inflation increased to 15.4% due to the sharp increase in commodity prices in Turkish Lira. The consumer price inflation exceeded the Central Bank's inflation target of 5.0% in 2016 and the Central Bank announced that its inflation expectation for 2017 is 8.0%. Recent measures taken by the government to increase domestic demand, such as promoting new loan facilities and adjusting tax rates, might have an adverse effect on inflation by creating upward risks. If the level of inflation in Turkey were to continue to fluctuate or increase significantly, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

- (e) The second sentence of the first paragraph of the risk factor titled “*Risks Relating to Turkey – Risks Related to Turkey – Government Default*” on page 19 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

As of 31 December 2016, 78.0% of the Group’s total securities portfolio (12.2% of its total assets and equal to 103.1% of its shareholders’ equity) was invested in securities issued by the Turkish government.

- (f) The second paragraph of the risk factor titled “*Risks Relating to the Group’s Business – Counterparty Credit Risk*” on page 20 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

As of 31 December 2016, 8.1% and 10.1% of the Group’s performing cash loans excluding financial leases and factoring receivables were credit card and general purpose consumer loans, respectively, which historically have had among the highest rate of payment default and are uncollateralised. The percentage of NPLs 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. Changes in NPL ratios can occur for various reasons, including changes in the levels of new NPLs, collection performance and the amount and nature of the Group’s cash loans. For example, the level of NPLs might rise due to the challenging political and economic operating environment in Turkey, including as a result of foreign exchange volatility, and the Group’s focus on the lending growth toward higher-yielding consumer and SME loans. While the Bank’s management does not expect a material change in the NPL ratio in 2017, such will depend upon numerous factors. For instance, due to adverse market conditions and challenges in the shipping industry, the Group classified some of its Group II loans in a sub-segment of the shipping industry as NPLs and consequently reassigned certain general provisions to specific provisions for these NPLs (TL 120,000 thousand in 2015 and TL 130,000 thousand in 2016). The Bank also has increased its general reserves as a result of potential NPLs in the shipping sector. In addition, the Group granted loans amounting to US\$951.4 million and €7.7 million to a shareholder of a strategically important company operating in the telecommunications sector and, even though the borrower defaulted in its payment, such loans were classified as performing loans in line with the BRSA Accounting and Reporting Regulation and the International Accounting Standards and recorded as such in the BRSA Financial Statements and the IFRS Financial Statements, each as of and for the year ended 31 December 2016; *however*, the Bank might decide to re-classify such loan as an NPL in the future in line with the applicable laws and regulations. Additionally, the Group’s exposures to certain borrowers (particularly for loans for infrastructure and energy projects) are large and the Group is likely to continue making such large loans where such an investment is determined by the Group to be a credit-worthy transaction. The Group’s exposure to credit risk could lead to a material adverse effect on the Group’s business, financial condition and/or results of operations.

In 2014, 2015 and 2016, the Group periodically sold portions of its NPL portfolio when market conditions were attractive to do so. In 2016, NPLs amounting to TL 1,310,763 thousand were sold for a consideration of TL 129,836 thousand (TL 180,791 thousand and TL 34,443 thousand, respectively, in 2015 and TL 292,490 thousand and TL 57,105 thousand, respectively, in 2014). If the Group had not sold part of its NPL portfolio during these years, then the Bank’s NPL ratios as of 31 December 2014, 2015 and 2016 would have been higher.

On a Bank-only basis, SMEs accounted for 24.7%, 24.1% and 21.7% of total NPLs as of 31 December 2014, 2015 and 2016, respectively. The Bank’s NPL ratios for SME loans were 3.81%, 4.47% and 4.34%, respectively, as of such dates. A negative impact on the financial condition of the Group’s SME customers or the inability of the Group to sell a part or all of its NPL portfolio might have a material adverse effect on the Group’s business, financial condition and/or results of operations.

- (g) The first paragraph of the risk factor titled “*Risks Relating to the Group’s Business – Competition in the Turkish Banking Sector*” on page 21 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Group faces significant and continuing competition from other participants in the Turkish banking sector, including both state-controlled and private banks in Turkey as well as many subsidiaries and branches of foreign banks and joint ventures between Turkish and foreign shareholders. A small number of these banks dominate the banking industry in Turkey. According to the BRSA sector data, as of 31 December 2016, there was a total of 50 banks (including domestic and foreign banks, including participation banks, but excluding the Central Bank)

licensed to operate in Turkey, with the top seven banking groups (including the Group), three of which were state-controlled, holding approximately 72% of the banking sector's total loan portfolio in Turkey (including participation banks and development and investment banks), 70% of the total bank assets (including participation banks and development and investment banks) in Turkey and approximately 75% of the total customer deposits in Turkey. State-controlled banks in Turkey have historically had access to very inexpensive funding in the form of significant Turkish government deposits, which has provided them a competitive advantage over private banks. This competitive advantage has often resulted in such banks adopting aggressive pricing strategies on both deposit and loan products.

- (h) The eight paragraph of the risk factor titled "*Risks Relating to the Group's Business – Banking Regulatory Matters*" on page 23 of the Original Base Prospectus is hereby amended by the addition of the following at the end thereof:

In June 2016, the BRSA published a regulation (which is amended from time to time) that will replace the Regulation on Provisions and Classification of Loans and Receivables as of 1 January 2018 in order to ensure compliance (by 1 January 2018) with the requirements of IFRS and the Financial Sector Assessment Programme, which is a joint programme of the International Monetary Fund and the World Bank. This regulation requires banks to adopt IFRS 9 principles (unless an exemption is granted by the BRSA) related to the assessment of credit risk by the end of 2017 and to set aside general provisions in line with such principles.

- (i) The fourth sentence of the first paragraph of the risk factor titled "*Risks Relating to the Group's Business – Foreign Exchange and Currency Risk*" on page 25 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

As of 31 December 2016, 48% of the Group's total loans and advances to customers and banks, of which 55% was in U.S. dollars and 41% was in euro, as well as a significant portion of its off-balance sheet commitments such as letters of credit, were foreign currency-risk-bearing.

- (j) The third sentence of the second paragraph of the risk factor titled "*Risks Relating to the Group's Business – Liquidity Risk*" on page 26 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

The rate of growth of loans and advances (including leasing and factoring receivables) to the Group's customers has in recent years outpaced the rate of growth of deposits from the Group's customers, leading to a trend of increases in the Group's loan-to-deposit ratio, which was 111.0%, 112.5% and 115.3% as of 31 December 2014, 2015 and 2016, respectively.

- (k) The fourth sentence of the first paragraph of the risk factor titled "*Risks Relating to the Group's Business – Foreign Currency Borrowing and Refinancing Risk*" on page 28 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

As of 31 December 2016, the Group's total foreign currency-denominated loans and advances from banks and subordinated liabilities with maturities of one year or more constituted 8% of its consolidated liabilities and equalled 15% of its foreign currency-denominated assets with maturities of one year or more (8% and 15%, respectively, as of 31 December 2015), and approximately 27% of the Group's foreign currency-denominated borrowing (including subordinated liabilities) was sourced from international banks, multilateral institutions and "future flow" transactions (25% as of 31 December 2015).

- (l) The first sentence of the first paragraph of the risk factor titled "*Risks Relating to the Group's Business – Reduction in Earnings on Securities Portfolio*" on page 28 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Group has historically generated a portion of its interest and similar income from its securities portfolio, with interest and similar income derived from the Group's securities portfolio in 2014, 2015 and 2016 accounting for 23.1%, 19.1% and 16.3%, respectively, of its total interest income (and 17.4%, 14.9% and 12.9%,

respectively, of its gross operating income, including trading gains on securities, before deducting interest expense and fee and commission expense).

- (m) The first paragraph of the risk factor titled “*Risks Relating to the Group’s Business – Audit Qualification*” on page 34 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Group’s audit reports for the years ended 31 December 2014, 2015 and 2016 were qualified with respect to general provisions that were allocated by the Group. In 2009, the Group’s management elected to take an additional TL 330,000 thousand general provision in order to act conservatively in the context of the uncertainty created by the global financial crisis. The Bank’s management decided to maintain this general provision in 2010 and 2011, and elected to take a further TL 90,000 thousand provision in 2011. This general provision remained outstanding in the Group’s financial statements during 2012; *however*, in 2013 the Bank’s management 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, resulting in general provisions being TL 342,000 thousand as of the end of 2015. In 2016, the Bank’s management again decided that certain related risks had diminished and reversed a further TL 42,000 thousand of these provisions, leaving the remaining provisions at TL 300,000 thousand as of 31 December 2016.

## 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 in, and form part of, this Prospectus:

- (a) the sections of the Original Base Prospectus as supplemented on 12 May 2016, 29 July 2016, 31 August 2016, 26 October 2016 and 8 March 2017 (the “**Base Prospectus**”), relating to the Programme, titled as set out in the table below (*it being understood* that each 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 supplements):

	<b>Page references (inclusive)</b>
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- (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 auditor’s report thereon, the “**IFRS Financial Statements**”); and

- (c) 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 auditor’s report thereon, the “**BRSA Financial Statements**”).

**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).

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/2016BaseProspectus/48/473/0> (with respect to the Original Base Prospectus);
- (b) <https://www.garantiinvestorrelations.com/en/debt-information/detay/2016Supplements/48/473/0> (with respect to the first supplement dated 12 May 2016 to the Base Prospectus);
- (c) <https://www.garantiinvestorrelations.com/en/debt-information/detay/2016Supplements/48/473/0> (with respect to the second supplement dated 29 July 2016 to the Base Prospectus);
- (d) <https://www.garantiinvestorrelations.com/en/debt-information/detay/2016Supplements/48/473/0> (with respect to the third supplement dated 31 August 2016 to the Base Prospectus);
- (e) <https://www.garantiinvestorrelations.com/en/debt-information/detay/2016Supplements/48/473/0> (with respect to the fourth supplement dated 26 October 2016 to the Base Prospectus);
- (f) <https://www.garantiinvestorrelations.com/en/debt-information/detay/2016Supplements/48/473/0> (with respect to the fifth supplement dated 8 March 2017 to the Base Prospectus);
- (g) <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);
- (h) <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
- (i) <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 referenced in this Prospectus do not form part of (and are not incorporated into) this Prospectus.

## OVERVIEW OF THE OFFERING

*The following 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, does not purport to be complete 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 on pages 79 to 112 of the Original Base Prospectus.*

Issue:	US\$500,000,000 5.875% Notes due 2023 issued under the US\$6,000,000,000 Global Medium Term Note Programme of the Bank.
Interest and Interest Payment Dates:	The Notes will bear interest from and including the Issue Date ( <i>i.e.</i> , 16 March 2017) at the rate of 5.875% <i>per annum</i> , payable semi-annually in equal instalments in arrear on each Interest Payment Date ( <i>i.e.</i> , 16 March and 16 September in each year); <i>provided</i> that, as described in Condition 7.6, if any such date is not a Payment Business Day, then such payment will be made on the next Payment Business Day but without any further interest or other payment being made in respect of such delay. The first interest payment (representing a full six months of interest) will be made on the first Interest Payment 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 principal amount on the Maturity Date ( <i>i.e.</i> , 16 March 2023).
Use of Proceeds:	The net proceeds of the offering of the Notes will be used by the Bank for general corporate purposes.
Status:	The Notes will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Bank and (subject as provided above) will rank <i>pari passu</i> without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Bank, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.
Negative Pledge:	Subject to certain exceptions set out in Condition 4, so long as any of the Notes remains outstanding, the Bank will not create or have outstanding any Security Interest (as defined in Condition 4) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness unless the Bank, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that: (a) all amounts payable by it under the Notes are secured by the Security Interest equally and rateably with the Relevant Indebtedness, (b) such Security Interest is terminated, (c) such other arrangement (whether or not it includes the giving



of a Security Interest) is provided for the benefit of the Noteholders as is approved by an Extraordinary Resolution of the Noteholders or (d) such Security Interest is provided as is approved by an Extraordinary Resolution of the Noteholders.

See “*Terms and Conditions of the Notes – Condition 4*” in the Base Prospectus.

Certain Covenants:

The Bank will agree to certain covenants, including covenants limiting transactions with affiliates. See “*Terms and Conditions of the Notes – Condition 5*” in the Base Prospectus for the details of such covenants and the exceptions to them.

Taxation (Payment of Additional Amounts):

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

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

Optional Redemption for Tax Reasons:

The Notes may be redeemed at the option of the Bank in whole, but not in part, at any time at their Early Redemption Amount (as such is specified in the Final Terms) together with interest accrued and unpaid to (but excluding) the date of redemption if:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 10 March 2017, on the next Interest Payment Date, the Bank would be required to:
  - (i) pay additional amounts as provided or referred to in Condition 9, and

(ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on 10 March 2017, and

(b) such requirement cannot be avoided by the Bank taking reasonable measures available to it.

Events of Default:

The Notes will, subject to customary grace periods and exceptions be subject to certain events of default, including (among others) non-payment, breach of obligations, cross-acceleration and certain bankruptcy and insolvency events. The holder of any Note may give notice to the Bank that such Note is, and it shall accordingly forthwith become, immediately due and repayable at its Early Redemption Amount, together with interest accrued and unpaid to (but excluding) the date of repayment, if any Event of Default shall have occurred and be continuing. See “*Terms and Conditions of the Notes – Condition 11*” in the Base Prospectus.

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, without interest coupons attached, which will be deposited with the Common Depositary and registered in the name of a nominee of the Common Depositary. Notes offered and sold in reliance upon Rule 144A will be represented by beneficial interests in the Rule 144A Global Note(s), each 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 Global Notes will be subject to certain restrictions on transfer. See “*Subscription and Sale and Transfer and Selling Restrictions*” in the Base Prospectus. Interests in the Regulation S Global Note 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 account holders, as applicable). Interests in the Rule 144A Global Note(s) will be represented in, and transfers thereof will be effected only through, records maintained by DTC (or its direct or indirect participants, as applicable).

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

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, the Agency Agreement, the Deed Poll and the Deed of Covenant and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement, the Deed Poll and the Deed of Covenant are (or will be, as applicable) governed by, and construed in accordance with, English 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 “*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 any U.S. state securities laws 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) is also subject to restrictions in the European Economic Area (including the United Kingdom), Japan, Switzerland, 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 and include risks relating to the Group and its business, the Group’s relationship with the Issuer’s principal shareholders, Turkey and the Turkish banking industry. In addition, there are certain 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:	5.875% <i>per annum</i> .
Regulation S Global Note Security Codes:	ISIN: XS1576037284 Common Code: 157603728
Rule 144A Global Note(s) Security Codes:	CUSIP: 90014QAB3 ISIN: US90014QAB32 Common Code: 157820486
Representation of Noteholders:	There will be no trustee.
Expected Ratings:	“BBB-” (stable outlook) by Fitch and Ba1” (stable outlook) 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 (Luxembourg) S.A.
United States Paying Agent and Transfer Agent:	The Bank of New York Mellon, New York Branch

## 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 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.

#### *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
GDP (real) <sup>(1)(2)</sup> .....	4.8%	8.5%	5.2%	6.1%	2.2% <sup>(3)</sup>
Consumer price index <sup>(1)</sup> .....	6.2%	7.4%	8.2%	8.2%	8.5%
Producer price index <sup>(1)</sup> .....	2.5%	7.0%	6.4%	5.6%	9.9%
Period-end Central Bank overnight TL rate <sup>(4)</sup> .....	5.00%	7.75%	11.09%	10.75%	8.50%
Daily average TL/\$ exchange rate <sup>(5)</sup> .....	1.78	1.88	2.16	2.70	3.02
Daily average TL/€ exchange rate <sup>(6)</sup> .....	2.28	2.50	2.87	2.99	3.34

(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) Reflects the real GDP growth in the first nine months of 2016 compared to the same period of 2015.

(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.

The Central Bank held an interim meeting on 28 January 2014 and announced a significant rate increase in order to balance the risks associated with the increased volatility in capital flows observed at the end of 2013 due to domestic political concerns. As a result of this tight monetary policy and other measures taken by the BRSA to dampen consumer lending, domestic demand weakened and a significant improvement was observed in the current account deficit in 2014 of US\$43.6 billion compared to US\$63.6 billion for 2013. Along with a decline in uncertainties and the improvement in risk premium indicators in early 2014, market interest rates fell across all maturities. In 2014, the Group's loan portfolio grew by 12.8%. This growth was driven by an increase in business banking loans and more profitable retail products in Turkish Lira such as mortgages and general purpose loans.

In 2015, in nominal terms, the Turkish Lira depreciated against the U.S. dollar by 25.4%; *however*, on a real basis, based upon the CPI-based real effective exchange rate, there was only a 7.1% real depreciation compared to year-end 2014. In particular, the value of the Turkish Lira depreciated against major currencies in 2015 largely due to the increased risk perception in global markets regarding the market's expectation of U.S. Federal Reserve's increase of the U.S. federal funds rate and the uncertainty resulting from the general elections in Turkey and other political events described under "*Risk Factors – Risks Relating to Turkey – Political Developments*." Against these developments, the Central Bank prepared a roadmap to react to a possible rate increase by the U.S. Federal Reserve. In December 2015, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25%. Instead of responding to the U.S. Federal Reserve's actions by changing the interest rates and implementing the roadmap, the Central Bank tightened further the liquidity of the Turkish Lira. This initial step by the U.S. Federal Reserve towards normalisation reduced some volatility, permitting the Turkish Lira and certain other emerging market currencies to appreciate in the short-term.

The Turkish Lira depreciated against the U.S. dollar by 20.6% in 2016 in nominal terms, reaching its then-lowest level against the U.S. dollar, mainly due to uncertainty resulting from domestic political developments (see "*Risk Factors – Risks Relating to Turkey – Political Developments*"), the result of the presidential election in the United States and the expectation of a rate increase by the U.S. Federal Reserve. The Central Bank's average funding rate increased to 9.1% in February 2016, but then decreased to 8.3% as of 30 December 2016 as a result of the measured steps towards normalisation according to the roadmap published in August 2015. On 24 March 2016, the Central Bank took its first step towards normalisation and reduced its upper limit of the interest rate corridor by 25 basis points to 10.50% due to the reduction in the need for a wide interest rate corridor in line with the easing of global volatility and gradually reduced the upper limit of its interest rate corridor further to 8.25% as of 22 September 2016. On 24 November 2016, the Central Bank started to increase the upper limit of its interest rate corridor (lending rate), increasing such rate by 25 basis points and, on 24 January 2017, increasing it further by 75 basis points to 9.25%, due to the depreciation of the Turkish Lira. On 24 November 2016, the Central Bank increased its one-week repo rate by 50 basis points to 8.00%, while holding its overnight borrowing rate unchanged at 7.25%. In January 2017, the Central Bank increased its overnight lending rate by 75 basis points to 9.25% and its late liquidity window by 100 basis points to 11.00%. Accordingly, the Central Bank increased its average funding rate to 10.50% by allocating a higher share from the late liquidity window.

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.

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 Credit Guarantee Fund (*Kredi Garanti Fonu*), 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.

### *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 (46.7% of total assets and 59.4% of total liabilities as of 31 December 2016). 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 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\$152 million as of 31 December 2016, while it had a long foreign currency position of 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:

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
			<i>(millions)</i>
U.S. dollars .....	\$(941)	\$133	\$(70)
euro .....	€(591)	€84	€79
Other currencies <sup>(1)</sup> .....	\$457	\$177	\$140
<b>Total net foreign exchange position<sup>(1)(2)</sup></b> .....	<b>\$(1,199)</b>	<b>\$401</b>	<b>\$152</b>

(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, 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 and net foreign exchange losses of TL 235,417 thousand in 2016. 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. See also “*Operating Income - Other Operating Income*” and “*Operating Expenses*” in “*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. Due principally to historical inflation expectations in Turkey, as of 31 December 2016, 37.6% of the Bank's Turkish Lira-denominated cash loan portfolio had a maturity of one year or less and 20.1% of such portfolio carried a floating rate of interest (35.5% and 17.5% and 38.9% and 18.0% as of 31 December 2014 and 2015, 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, 6.16%, 61.3% and 62.5% of the Bank's interest-earning assets were fixed-rate as of 31 December 2014, 2015 and 2016, respectively); *however*, 35.8% of the Group's securities portfolio consisted of consumer price index-linked securities as of 31 December 2016 (34.3% and 36.1% as of 31 December 2014 and 2015, 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:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Net interest margin</b> .....	4.12%	4.71%	4.90%
Turkish Lira assets.....	5.44%	6.35%	6.83%
Foreign currency assets .....	1.80%	2.02%	1.88%
<b>Average spread</b>			
Turkish Lira assets/liabilities .....	3.48%	3.73%	4.59%
Foreign currency assets/liabilities .....	2.47%	2.27%	2.25%

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.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net interest margin .....	3.4%	3.5%	3.8%
Average spread .....	2.0%	3.5%	4.2%

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 and 2016, accounting for 23.1%, 19.1% and 16.3%, respectively, of its total interest income (and 17.4%, 16.9% and 14.1%, respectively, of its gross operating income before deducting interest expense and fee and commission expense when trading gains on sale of securities are also considered). The Group also has obtained large realised gains from the 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).



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% and 15.3%, respectively, of the Group's total assets as of 31 December 2014, 2015 and 2016. 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 and 2016; *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 a permanent impairment of available-for-sale securities) or shareholders' equity (for the available-for-sale portfolio) as appropriate. In case of permanent 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 1,564,359 thousand in 2014 to TL 1,806,973 thousand (a 15.5% increase) in 2015, and further increased to TL 2,390,090 thousand (a 32.3% increase) in 2016. 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. For instance, due to adverse market conditions and challenges in the shipping industry, the Group classified some of its Group II loans in a sub-segment of the shipping industry as NPLs and consequently reassigned certain general provisions to specific provisions for these NPLs (TL 120,000 thousand in 2015 and TL 130,000 thousand in 2016).

In addition to the provisions that the Group is required to take for non-performing loans 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. 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. 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. As a result, as of 31 December 2016, the Group's general reserves amounted to TL 300,000 thousand. Deloitte has qualified its audit reports 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 a "non-performing loan." 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 and 52.0% as of 31 December 2016) are recorded at fair value, with changes in fair value being recorded in income (for the trading portfolio and where there is a permanent 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 permanent 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:

	<b>31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
		<i>(TL thousands)</i>	
Financial assets at fair value through profit or loss .....	1,086,670	660,193	1,086,299
Investment securities available-for-sale .....	<u>23,530,111</u>	<u>24,755,577</u>	<u>23,983,255</u>
<b>Total</b> .....	<b><u>24,616,781</u></b>	<b><u>25,415,770</u></b>	<b><u>25,069,554</u></b>

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 December 2016, 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).

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 equity 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 and 20.3% in 2016. 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.

#### *Restatements and Accounting Policy Changes*

Due to the aforementioned accounting policy changes, the Group’s financial statements for 2014 were restated as per IAS 8. See “*Presentation of Financial and Other Information - Accounting Policy Changes*” in the Base Prospectus for further information.

Since 31 December 2015, the existing commitment contracts for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments are reviewed as per the requirements of IAS 37 (“*Provisions, Contingent Liabilities and Contingent Assets*”) and certain contracts are excluded.

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 are reclassified from “trading gains/(losses), net” to “interest on borrowings, obligations under repurchase agreements and money market fundings.”

Due to the aforementioned accounting policy changes, the Group’s financial statements for 2015 were restated as per IAS 8. The table below sets out the effects of the adjustments to certain financial information of the Group for 2015:

<b>As of 31 December 2015</b>	<b>Reported</b>	<b>Adjustments</b>	<b>Restated</b>
		<i>(TL thousands)</i>	
Interest on Borrowings, Obligations Under Repurchase Agreements and Money Market and Swap Fundings .....	(1,926,483)	(1,151,569)	(3,078,052)
Trading Losses, net.....	(1,732,842)	1,151,569	(581,273)
Other Operating Income .....	281,581	(60,843)	220,738
Salaries and wages.....	(2,128,603)	247,387	(1,881,216)
Employee benefits .....	(516,343)	(247,387)	(763,730)
Depreciation and amortisation.....	(346,837)	60,843	(285,994)
Commitments for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments.....	45,969,931	(5,118,367)	40,851,564

### **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		
	2014 <sup>(10)</sup>	2015	2016
Net interest margin .....	3.4%	3.5%	3.8%
Adjusted net interest margin <sup>(1)</sup> .....	2.7%	2.8%	3.0%
Net yield .....	4.3%	4.5%	5.1%
Adjusted net interest income as a percentage of average interest-earning assets <sup>(2)</sup> .....	4.0%	4.0%	3.9%
Net fee and commission income to total operating income .....	26.5%	23.4%	23.2%
Cost-to-income ratio <sup>(3)</sup> .....	50.6%	53.4%	45.4%
Operating expenses to total average assets .....	2.2%	2.3%	2.2%
Non-performing loans to total gross cash loans.....	3.1%	3.3%	3.2%
Free capital ratio <sup>(4)</sup> .....	10.3%	9.6%	9.3%
Group's capital adequacy ratios <sup>(5)</sup>			
Tier I capital adequacy ratio <sup>(6)</sup> .....	12.77%	12.82%	13.59%
Total capital adequacy ratio <sup>(6)</sup> .....	13.86%	13.53%	14.67%
Allowance for probable loan losses to non-performing loans <sup>(7)</sup> .....	96.3%	89.6%	75.4%
Return on average total assets <sup>(8)</sup> .....	1.7%	1.5%	1.8%
Return on average shareholders' equity <sup>(9)</sup> .....	15.1%	13.1%	14.8%
Loan-to-deposit ratio .....	111.0%	112.5%	115.3%
Loan loss provisions/gross loans .....	1.0%	1.0%	1.1%

(1) Net interest income reduced by provision for loan losses, as a percentage of total average assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period).

(2) Adjusted net interest income is net interest income plus/minus net foreign exchange gains/losses minus provision for probable loan losses.

(3) If "income" were calculated without subtracting impairment losses, net, then the ratios would be 55.2%, 58.5% and 49.2% for 2014, 2015 and 2016, respectively.

(4) Total shareholders' equity minus goodwill, tangible assets, assets held for resale, investment property, investments in equity participations and net non-performing loans excluding allowance made on a portfolio basis to cover any inherent risk of loss, as a percentage of total assets.

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

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

(7) Excluding allowances made on a portfolio basis to cover any inherent risk of loss.

(8) Net income for the period as a percentage of average total assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period).

(9) Net income for the period as a percentage of average shareholders' equity (calculated as the average of the opening, quarter-end and closing balances for the applicable period).

(10) 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 - Accounting Policy Changes*" in the Base Prospectus and "*Significant Accounting Policies – Restatements and Accounting Policy Changes*" of this Prospectus.

## 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 Financial Statements. This information should be read in conjunction with the IFRS Financial Statements incorporated by reference into this 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:

	<u>2014<sup>(2)</sup></u>	<u>2015<sup>(2)</sup></u>	<u>2016</u>
	<i>(TL thousands)</i>		
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
<b>Total operating income.....</b>	<b><u>12,334,028</u></b>	<b><u>13,440,098</u></b>	<b><u>16,055,773</u></b>
Impairment losses, net <sup>(1)</sup> .....	(1,718,787)	(1,860,682)	(2,671,981)
Other operating expenses .....	(5,747,902)	(6,818,087)	(7,044,557)
<b>Total operating expenses .....</b>	<b><u>(7,466,689)</u></b>	<b><u>(8,678,769)</u></b>	<b><u>(9,716,538)</u></b>
<b>Income before tax .....</b>	<b><u>4,867,339</u></b>	<b><u>4,761,329</u></b>	<b><u>6,339,235</u></b>
Taxation charge .....	(1,026,740)	(953,909)	(1,287,509)
<b>Net income for the year .....</b>	<b><u>3,840,599</u></b>	<b><u>3,807,420</u></b>	<b><u>5,051,726</u></b>
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 - Accounting Policy Changes" in the Base Prospectus and "Significant Accounting Policies – Restatements and Accounting Policy Changes" in the 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:

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

(1) 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. 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.

After adjusting for these exceptional events, the increase in net income was 19.4% in 2016 as compared to 2015 and almost at the same level in 2015 as compared to 2014. In 2016, the increase in net income 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:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
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%
<b>Total operating income.....</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

## 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 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.* Interest income is the interest (including the amortisation of interest-earning assets purchased at a discount and the interest component of lease receivables) 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 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:



	<u>2014</u>	<u>2015</u>	<u>2016</u>
		<i>(TL thousands)</i>	
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
<b>Total interest income.....</b>	<b><u>16,519,493</u></b>	<b><u>18,944,036</u></b>	<b><u>22,611,719</u></b>

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."

	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Total average yield for the Bank.....</b>	<b>8.94%</b>	<b>8.92%</b>	<b>9.41%</b>
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%
<b>Total average yield for the Group.....</b>	<b>8.35%</b>	<b>8.29%</b>	<b>8.87%</b>

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.* 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 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:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
		<i>(TL thousands)</i>	
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)
<b>Total interest expense.....</b>	<b><u>(8,794,622)</u></b>	<b><u>(9,865,600)</u></b>	<b><u>(11,531,830)</u></b>

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:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Total interest rates for the Bank</b> .....	<b>5.14%</b>	<b>4.81%</b>	<b>5.15%</b>
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%
<b>Total interest rates for the Group</b> .....	<b>4.68%</b>	<b>4.55%</b>	<b>4.84%</b>

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 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; *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. As of 31 December 2016, the Group served approximately 14.6 million customers.

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:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
	<i>(TL thousands)</i>		
<b>Fee and Commission Income</b>			
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
<b>Total fee and commission income.....</b>	<b>3,655,937</b>	<b>3,653,823</b>	<b>4,211,091</b>
<b>Fee and Commission Expense</b>			
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
<b>Total fee and commission expense.....</b>	<b>803,705</b>	<b>935,333</b>	<b>1,047,762</b>
<b>Net fee and commission income .....</b>	<b>2,852,232</b>	<b>2,718,490</b>	<b>3,163,329</b>

#### *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 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:

	<u>2014<sup>(2)</sup></u>	<u>2015<sup>(2)</sup></u>	<u>2016</u>
	<i>(TL thousands)</i>		
Trading gains, fixed/floating securities.....	-	-	390,833
Trading gains/(losses), derivative transactions .....	-	-	215,606
<b>Trading gains/losses, net<sup>(1)(3)</sup> .....</b>	<b>-</b>	<b>-</b>	<b>606,439</b>
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
<b>Total other operating income .....</b>	<b>1,756,925</b>	<b>1,643,172</b>	<b>1,812,555</b>

(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 - Accounting Policy Changes" in the Base Prospectus" and "Significant Accounting Policies - Restatements and Accounting Policy Changes" in this 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. 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 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***

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.

As noted above, as a banking institution, the Group's management focuses closely on the Group's efficiency and (within the context of maintaining the quality of its services) seeks to decrease its cost/income ratio. The Group's 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 operating expenses to total average 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 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 <sup>(3)</sup>	2015 <sup>(3)</sup>	2016
		<i>(TL thousands)</i>	
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 <sup>(1)</sup> .....	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 <sup>(2)</sup> .....	1,437,802	1,754,422	1,765,776
<b>Total operating expenses<sup>(2)</sup>.....</b>	<b>7,466,689</b>	<b>8,678,769</b>	<b>9,716,538</b>

(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 - Accounting Policy Changes" and "Significant Accounting Policies - Restatements and Accounting Policy Changes" of this 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.* 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 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 non-performing loans. 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 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:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
		<i>(TL thousands)</i>	
<b>Balance at the beginning of the year</b> .....	<b>4,669,097</b>	<b>5,657,900</b>	<b>7,216,509</b>
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
<b>Balance at the end of the year</b> .....	<b><u>5,657,900</u></b>	<b><u>7,216,509</u></b>	<b><u>8,246,992</u></b>

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% in 2014 to 3.3% in 2015 and then decreased to 3.2% in 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 the non-performing loan 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**

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 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 financial statements.

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

(1) Includes "Goodwill, net."

(2) Includes deferred tax liabilities.

(3) As of 31 December 2015 and 2016 as noted in earlier footnote, 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 - Accounting Policy Changes" and "Significant Accounting Policies – Restatements and Accounting Policy Changes" of this 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 December 2016, the Group's total assets amounted to TL 308,318,527 thousand, a 12.2% increase from TL 274,837,997 thousand as of 31 December 2015, which was a 15.5% increase from TL 237,914,132 thousand as of 31 December 2014. Cash and balances with central banks represented 3.8%, 2.5% and 2.8% of the Group's total assets as

of 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 82.1% of the Group's total assets 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 66.8%, 63.9% and 62.2% of the Group's total assets as of each of 31 December 2016, 2015 and 2014, respectively. The Group's loans and advances to customers amounted to TL 205,988,793 thousand as of 31 December 2016, a 17.3% increase from TL 175,681,692 thousand as of 31 December 2015, which 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					
	2014	% of Total	2015	% of Total	2016	% of Total
	<i>(TL thousands, except for percentages)</i>					
Consumer loans.....	48,038,219	32.4	54,080,094	30.8	60,932,999	29.6
Mortgage loans.....	15,907,643	10.7	19,341,743	11.0	22,544,347	10.9
Credit card receivables.....	13,424,359	9.1	14,981,373	8.5	16,125,229	7.8
Auto loans.....	1,356,310	0.9	1,553,478	0.9	2,176,872	1.1
General purpose and other consumer loans.....	17,349,907	11.7	18,203,500	10.4	20,086,551	9.8
Energy.....	16,237,323	11.0	18,866,417	10.7	23,686,229	11.5
Service sector.....	10,638,343	7.2	14,005,954	8.0	16,221,852	7.9
Construction.....	6,495,423	4.4	9,008,359	5.1	10,319,625	5.0
Transportation and logistics.....	4,826,086	3.3	5,616,571	3.2	9,217,292	4.5
Financial institutions.....	5,954,668	4.0	7,886,038	4.5	8,534,641	4.1
Food.....	5,696,340	3.8	7,137,335	4.1	8,409,563	4.1
Textile.....	5,829,731	3.9	6,433,026	3.7	8,122,466	3.9
Metals and metal products.....	5,657,688	3.8	5,442,433	3.1	6,283,548	3.1
Transportation vehicles and sub-industry.....	4,792,766	3.2	7,212,974	4.1	6,227,605	3.0
Tourism.....	4,229,025	2.9	4,919,498	2.8	5,451,790	2.6
Data processing.....	3,532,173	2.4	4,168,324	2.4	4,948,330	2.4
Agriculture and stockbreeding.....	2,279,105	1.5	2,177,618	1.2	2,557,898	1.2
Other.....	16,022,696	10.8	19,927,498	11.2	25,179,927	12.2
<b>Total performing loans.....</b>	<b>140,229,586</b>	<b>94.6</b>	<b>166,882,139</b>	<b>94.9</b>	<b>196,093,765</b>	<b>95.1</b>
Financial lease receivables, net of unearned income.....	3,979,924	2.7	4,857,333	2.8	5,339,815	2.6
Factoring receivables.....	2,929,216	2.0	2,823,833	1.6	2,806,998	1.4
Income accrual on loans, factoring and lease receivables.....	1,851,447	1.3	2,244,728	1.3	3,084,374	1.5
<b>Total performing loans and advances to customers.....</b>	<b>148,990,173</b>	<b>100.6</b>	<b>176,808,033</b>	<b>100.6</b>	<b>207,324,952</b>	<b>100.6</b>
Non-performing loans, factoring and lease receivables.....	4,749,142	3.2	6,090,168	3.5	6,910,833	3.4
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)
<b>Loans and advances to customers, net.....</b>	<b>148,081,415</b>	<b>100.0</b>	<b>175,681,692</b>	<b>100.0</b>	<b>205,988,793</b>	<b>100.0</b>

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 2016, the Group's non-performing loans increased by 13.5% to TL 6,910,833 thousand from TL 6,090,168 thousand as of 31 December 2015, which 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 3.2% 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. The ratio of the Group's non-performing loans to total gross cash loans and non-cash loans was 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 non-performing loans and related provisions, see Note 7 to the IFRS Financial Statements as of and for the year ended 31 December 2016 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, investment securities represented 18.6%, 16.8% and 15.3%, respectively, of the Group's total assets. 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 in 2016 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 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					
	2014	% of Total	2015	% of Total	2016	% of Total
<i>(TL thousands, except for percentages)</i>						
<b>Securities available-for-sale</b>						
Turkish government bonds indexed to consumer price index.....	5,258,773	11.9	6,883,939	14.9	7,755,182	16.5
Turkish government bonds and treasury bills in TL.....	3,231,567	7.3	5,499,427	11.9	6,292,374	13.4
Turkish government bonds at floating rate.....	6,052,824	13.7	6,074,069	13.2	3,486,266	7.4
Bonds issued by financial institutions.....	3,185,196	7.2	3,235,670	7.0	3,002,066	6.4
Bonds issued by foreign governments.....	1,129,157	2.6	1,246,837	2.7	1,425,545	3.0
Bonds issued by corporations.....	745,523	1.7	812,449	1.8	945,009	2.0
Eurobonds (Turkish government).....	871,296	2.0	526,266	1.1	722,603	1.5
Discounted Turkish government bonds in TL.....	2,957,358	6.7	128,360	0.3	135,588	0.3
Other.....	98,417	0.1	348,560	0.8	218,622	0.4
<b>Total securities available-for-sale</b> .....	<b>23,530,111</b>	<b>53.2</b>	<b>24,755,577</b>	<b>53.7</b>	<b>23,983,255</b>	<b>50.9</b>
<b>Securities held-to-maturity</b>						
Turkish government bonds indexed to consumer price index.....	9,106,525	20.6	7,298,498	15.8	7,298,497	15.5
Eurobonds (Turkish government).....	4,557,883	10.3	5,739,860	12.5	6,909,117	14.7
Bonds issued by financial institutions.....	2,516,479	5.7	3,299,190	7.2	3,617,908	7.7
Turkish government bonds in TL.....	2,998,590	6.8	2,998,498	6.5	2,521,608	5.4
Discounted Turkish government bonds in TL.....	14,354	-	-	-	-	-
Other.....	116,317	0.3	189,013	0.4	336,593	0.7
<b>Sub-total</b> .....	<b>19,310,148</b>	<b>43.7</b>	<b>19,525,059</b>	<b>42.4</b>	<b>20,683,723</b>	<b>44.0</b>
Income accrual on held-to-maturity.....	1,356,894	3.1	1,792,187	3.9	2,425,973	5.1
<b>Total securities held-to-maturity</b> .....	<b>20,667,042</b>	<b>46.8</b>	<b>21,317,246</b>	<b>46.3</b>	<b>23,109,696</b>	<b>49.1</b>
<b>Total investment securities</b> .....	<b>44,197,153</b>	<b>100.0</b>	<b>46,072,823</b>	<b>100.0</b>	<b>47,092,951</b>	<b>100.0</b>

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

The most significant change in the Group's investment portfolio in 2014, 2015 and 2016 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 and then to 16.2% as of 31 December 2016. 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% as of 31 December 2014 to 46.3% as of 31 December 2015 as a result of redemptions and then increased to 49.1% of the Group's total investment securities portfolio as of 31 December 2016.

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 and TL 8,109,910 thousand as of 31 December 2016, comprising 29.1%, 35.8% and 17.2%, respectively, of the Group's total 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 year ended 31 December 2016 and "*Selected Statistical and Other Information – Securities Portfolio.*"

### **Liabilities**

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

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 174,155,645 thousand as of 31 December 2016, a 16.8% increase from TL 149,154,274 thousand as of 31 December 2015, which 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 increased to 56.5% as of 31 December 2016 from 54.3% as of 31 December 2015, itself increased from 53.1% as of 31 December 2014. Foreign currency deposits (principally U.S. dollars and euro) represented 53.6%, 57.6% and 57.5% of the Group's total deposits as of 31 December 2014, 2015 and 2016, 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 year ended 31 December 2016 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, comprising 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 comprised 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 comprised 5.1% 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 year ended 31 December 2016.

*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 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 December 2016, 52.1% of loans and advances from banks and other institutions had a remaining term-to-maturity of one year or less as compared to 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 year ended 31 December 2016 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 December 2016 amounted to TL 36,437,956 thousand, 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		
	2014 <sup>(1)</sup>	2015	2016
		<i>(TL thousands)</i>	
Share capital.....	5,146,371	5,146,371	5,146,371
Share premium.....	11,880	11,880	11,880
Unrealised (losses)/gains on available-for-sale assets .....	88,631	(283,792)	(543,775)
Hedging reserve .....	(191,244)	(241,097)	(426,418)
Actuarial gain/(loss) .....	(53,170)	(76,718)	(104,510)
Revaluation surplus on tangible assets.....	-	1,590,481	1,511,483
Translation reserve .....	367,064	696,557	1,149,369
Legal reserves .....	1,182,824	1,229,498	1,275,230
Retained earnings.....	20,543,485	23,705,893	28,150,518
Non-controlling interests.....	193,733	226,617	267,808
<b>Total shareholders' equity and non-controlling interests...</b>	<b>27,289,574</b>	<b>32,005,690</b>	<b>36,437,956</b>

(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 - Accounting Policy Changes" in the Base Prospectus and "Significant Accounting Policies – Restatements and Accounting Policy Changes" of this 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. For additional information on the Group's shareholders' equity and non-controlling interests, see Notes 10 and 22 in the IFRS Financial Statements as of and for the year ended 31 December 2016. 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 24 and 25 to the IFRS Financial Statements as of and for the year ended 31 December 2016.

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 December 2016, the Group had issued (or confirmed) 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 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:

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
		<i>(TL thousands)</i>	
Letters of guarantee .....	27,518,573	32,709,109	38,012,713
Letters of credit.....	9,308,035	14,576,338	15,754,367
Acceptance credits .....	815,887	1,538,069	2,127,334
Others.....	86,702	109,206	191,066
<b>Total commitments and contingencies.....</b>	<b>37,729,197</b>	<b>48,932,722</b>	<b>56,085,480</b>

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 December 2016, the Group's notional amounts of outstanding derivative contracts arising from various derivatives amounted to TL 148,281,594 thousand, a 12.3% increase from TL 132,069,129 thousand as of 31 December 2015, which was a 36.2% increase from TL 96,974,214 thousand as of 31 December 2014. The increases 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 25 to the IFRS Financial Statements as of and for the year ended 31 December 2016 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 45,790,059 thousand as of 31 December 2016, a 12.1% increase from TL 40,851,564 thousand as of 31 December 2015, which 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 (“**2013 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 2013 Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e.*, Tier I capital), which is composed of core capital (*i.e.*, Common Equity Tier I capital) and additional principal capital (*i.e.*, additional Tier I capital), and (b) supplementary capital (*i.e.*, Tier II capital) *minus* capital deductions. Pursuant to the 2012 Capital Adequacy Regulation (as so amended): (i) both the unconsolidated and consolidated minimum common equity Tier I capital adequacy ratio are 4.5% and (ii) both unconsolidated and consolidated minimum Tier I 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 16.21% as of 31 December 2016 compared to 15.03% as of 31 December 2015 and 15.23% as of 31 December 2014. The Bank’s Tier I capital adequacy ratio (calculated pursuant to the BRSA Financial Statements) was 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:

	<b>As of December 31,</b>		
	<b>2014<sup>(1)</sup></b>	<b>2015<sup>(1)</sup></b>	<b>2016<sup>(1)</sup></b>
	<i>(TL thousands, except percentages)</i>		
Paid-in capital .....	4,200,000	4,200,000	4,200,000
Paid-in capital inflation adjustments.....	772,554	772,554	772,554
Reserves.....	17,253,772	20,601,493	23,704,951
Profit .....	3,508,591	3,584,869	5,114,182
Tier 1 Capital (I).....	25,882,218	30,968,875	35,120,258
Tier 2 Capital (II).....	2,401,373	2,817,785	2,889,903
Deductions (III) .....	187,314	1,120,150	93,350
Own Funds (I+II-III).....	28,096,277	32,666,510	37,916,811
Risk Weighted Assets (including market and operational risk).....	202,673,112	241,514,617	258,425,540
<b>Capital Ratios:</b>			
Tier 1 Ratio .....	12.77%	12.82%	13.59%
Own Funds/Risk Weighted Assets .....	13.86%	13.53%	14.67%

(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, capital was calculated within the scope of 2015 Capital Adequacy Regulation. See “*Capital Adequacy*” above.

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, the Group's cash loan to total deposit ratio was 111.0%, 112.5% and 115.3%, 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, 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."* Since 31 December 2016, the Bank has issued certain small Series of Notes under the Programme and completed "diversified payment rights" transactions for €152,500,000 million with a maturity of 4.5 years.

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 1 January 2016 to 31 December 2016, 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 are shown below:

	<u>Turkish Lira + Foreign Currency</u>	<u>Foreign Currency</u>
31 October 2014 .....	120.90%	108.93%
30 November 2014 .....	151.97%	134.94%
31 December 2014 .....	143.29%	129.55%

	<u>Turkish Lira + Foreign Currency</u>	<u>Foreign Currency</u>
31 October 2015 .....	104.50%	108.78%
30 November 2015 .....	123.34%	115.35%
31 December 2015 .....	120.27%	130.13%

	<u>Turkish Lira + Foreign Currency</u>	<u>Foreign Currency</u>
31 October 2016 .....	109.44%	83.64%
30 November 2016 .....	112.29%	95.90%
31 December 2016 .....	105.17%	80.63%

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

	<u>2014</u>		<u>2015</u>		<u>2016</u>	
	<u>TL + FC</u>	<u>Foreign Currency</u>	<u>TL + FC</u>	<u>Foreign Currency</u>	<u>TL + FC</u>	<u>Foreign Currency</u>
	<i>(TL thousands, except percentages)</i>					
<b><u>High-Quality Liquid Assets</u></b>						
Total high-quality liquid assets (HQLA) .....	37,431,171	23,064,659	37,833,270	27,033,637	42,314,112	19,669,159
<b>Cash Outflows</b>						
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
Stable deposits .....	1,387,330	457,821	1,569,869	550,195	1,240,007	10,546
Less stable deposits .....	5,835,048	2,769,452	6,988,707	3,733,010	9,595,872	5,841,441
Unsecured wholesale funding, of which .....	27,941,057	11,450,092	26,882,595	14,904,038	30,946,515	19,099,273
Non-operational deposits .....	15,912,118	10,298,251	17,034,681	11,444,962	16,870,900	11,558,547
Unsecured funding .....	12,028,939	1,151,841	9,847,914	3,459,076	14,075,615	7,540,726
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
<i>Outflows related to derivative exposures and other collateral     requirements</i> .....	3,765,825	3,402,782	6,487,923	6,139,283	9,244,636	10,174,330
<i>Payment commitments and other off-balance sheet     commitments granted for debts to financial markets</i> .....	2,543,379	512,939	3,203,504	1,115,311	2,930,983	680,073
Other revocable off-balance sheet commitments and contractual obligations .....	1,856,575	1,245,710	24,626	17,807	263,505	256,526
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
<b>Total Cash Outflows</b> .....	<b>45,204,398</b>	<b>22,241,271</b>	<b>47,987,398</b>	<b>28,546,910</b>	<b>57,155,058</b>	<b>38,139,022</b>
<b>Cash Inflows</b>						
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
Other cash inflows .....	1,071,605	211,480	905,083	337,217	1,636,238	6,576,831
<b>Total Cash Inflows</b> .....	<b>19,082,414</b>	<b>4,437,246</b>	<b>16,530,886</b>	<b>7,772,274</b>	<b>16,922,283</b>	<b>13,745,241</b>
<b>Total High-Quality Liquid Assets (HQLA)</b> .....	<b>37,431,171</b>	<b>23,064,659</b>	<b>37,833,270</b>	<b>27,033,637</b>	<b>42,314,112</b>	<b>19,669,159</b>
<b>Total Net Cash Outflows</b> .....	<b>26,121,984</b>	<b>17,804,025</b>	<b>31,456,512</b>	<b>20,774,636</b>	<b>40,232,775</b>	<b>24,393,781</b>
<b>Liquidity Coverage Ratio</b> .....	<b>143.29%</b>	<b>129.55%</b>	<b>120.27%</b>	<b>130.13%</b>	<b>105.17%</b>	<b>80.63%</b>

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 year ended 31 December 2016.

## 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 fiscal years:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
		<i>(TL thousands)</i>	
Land and buildings .....	26,266	27,211	21,406
Furniture, fixture, equipment and motor vehicles.....	468,364	585,048	934,476
Leasehold improvements and software.....	107,277	124,289	207,394
Construction in progress .....	89,328	148,251	175,615
<b>Total capital expenditures .....</b>	<b><u>691,235</u></b>	<b><u>884,799</u></b>	<b><u>1,338,891</u></b>



## 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
	<i>(TL thousands, except percentages)</i>								
<b>ASSETS</b>									
<b>Average Interest-Earning Assets</b>									
Deposits with banks <sup>(1)</sup> .....	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
<b>Total for Average</b>									
<b>Interest-Earning Assets...</b>	<b>168,660,746</b>	<b>8.94%</b>	<b>15,085,537</b>	<b>194,212,633</b>	<b>8.97%</b>	<b>17,420,007</b>	<b>218,551,386</b>	<b>9.57%</b>	<b>20,915,218</b>
<b>Turkish Lira.....</b>	<b>105,725,123</b>	<b>11.47%</b>	<b>12,123,799</b>	<b>116,756,078</b>	<b>11.89%</b>	<b>13,877,088</b>	<b>128,815,821</b>	<b>12.90%</b>	<b>16,617,260</b>
<b>Foreign currency.....</b>	<b>62,935,623</b>	<b>4.71%</b>	<b>2,961,738</b>	<b>77,456,555</b>	<b>4.57%</b>	<b>3,542,918</b>	<b>89,735,565</b>	<b>4.79%</b>	<b>4,297,958</b>
<b>Average Non-Interest-Earning Assets</b>									
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		
<b>Total Average Non- Interest -Earning Assets..</b>	<b>35,517,081</b>			<b>41,438,677</b>			<b>47,774,741</b>		
<b>Total Average Assets.....</b>	<b>204,177,827</b>			<b>235,651,310</b>			<b>266,326,127</b>		

(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
<i>(TL thousands, except percentages)</i>									
<b>LIABILITIES</b>									
<b>Average Interest-Bearing Liabilities</b>									
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 <sup>(1)</sup> .....	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
<b>Total for Average Interest-Bearing Liabilities .....</b>	<b>148,804,940</b>	<b>5.14%</b>	<b>7,642,849</b>	<b>170,105,818</b>	<b>4.81%</b>	<b>8,178,674</b>	<b>190,474,512</b>	<b>5.15%</b>	<b>9,818,275</b>
Turkish Lira .....	<b>68,281,253</b>	<b>8.56%</b>	<b>5,845,701</b>	<b>70,141,736</b>	<b>8.59%</b>	<b>6,025,868</b>	<b>81,768,787</b>	<b>8.93%</b>	<b>7,301,478</b>
Foreign currency .....	<b>80,533,687</b>	<b>2.23%</b>	<b>1,797,151</b>	<b>99,964,082</b>	<b>2.15%</b>	<b>2,152,807</b>	<b>108,705,725</b>	<b>2.32%</b>	<b>2,516,796</b>
<b>Average Non-Interest-Bearing Liabilities and Equity</b>									
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		
<b>Total Average Non-Interest-Bearing Liabilities and Equity .....</b>	<b>55,372,889</b>			<b>65,545,494</b>			<b>75,851,615</b>		
<b>Total Average Liabilities and Equity .....</b>	<b>204,177,829</b>			<b>235,651,312</b>			<b>266,326,127</b>		

(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
<i>(TL thousands, except percentages)</i>									
<b>ASSETS</b>									
<b>Average Interest-Earning Assets</b>									
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
<b>Total for Average Interest-Earning Assets .....</b>	<b>186,413,262</b>	<b>8.86%</b>	<b>16,519,493</b>	<b>213,651,303</b>	<b>8.87%</b>	<b>18,944,036</b>	<b>238,096,760</b>	<b>9.50%</b>	<b>22,611,719</b>
Average Non-Interest-Earning Assets .....	44,310,567			46,043,396			50,213,079		
<b>Total Average Assets .....</b>	<b>230,723,829</b>			<b>259,694,699</b>			<b>288,309,839</b>		

	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
	<i>(TL thousands, except percentages)</i>								
<b>LIABILITIES</b>									
<b>Average Interest-Bearing Liabilities</b>									
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
<b>Total for Average Interest-Bearing Liabilities .....</b>	<b>157,241,830</b>	<b>5.62%</b>	<b>8,794,622</b>	<b>179,640,879</b>	<b>5.49%</b>	<b>9,865,600</b>	<b>195,664,030</b>	<b>5.89%</b>	<b>11,531,830</b>
Average Non-Interest-Bearing Liabilities and Equity .....	73,481,999			80,053,820			92,645,811		
<b>Total Average Liabilities and Equity ...</b>	<b>230,723,829</b>			<b>259,694,699</b>			<b>288,309,841</b>		

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
	<i>(TL thousands, except percentages)</i>		
<b>Net Interest Income</b>			
Turkish Lira.....	6,278,098	7,851,220	9,315,780
Foreign currency .....	1,164,588	1,390,112	1,781,163
<b>Total .....</b>	<b>7,442,686</b>	<b>9,241,332</b>	<b>11,096,943</b>
<b>Net Yield</b>			
Turkish Lira.....	5.94%	6.66%	7.03%
Foreign currency .....	1.85%	1.79%	1.98%
<b>Total .....</b>	<b>4.41%</b>	<b>4.73%</b>	<b>4.99%</b>

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
	<i>(TL thousands, except percentages)</i>		
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, non-performing loans have been treated as non-interest earning assets.

	<b>For the year ended 31 December</b>		
	<b>2016/2015</b>		
	<b>Increase (decrease) due to changes in</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Net Change</b>
	<i>(TL thousands)</i>		
<b>Interest Income</b>			
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
<b>Total interest income .....</b>	<b>2,277,558</b>	<b>1,217,651</b>	<b>3,495,209</b>
<b>Interest Expense</b>			
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)
<b>Total interest expense .....</b>	<b>896,932</b>	<b>742,668</b>	<b>1,639,600</b>
<b>Net change in net interest income .....</b>	<b>1,380,626</b>	<b>474,983</b>	<b>1,855,609</b>

	<b>For the year ended 31 December</b>		
	<b>2015/2014</b>		
	<b>Increase (decrease) due to changes in</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Net Change</b>
	<i>(TL thousands)</i>		
<b>Interest Income</b>			
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
<b>Total interest income.....</b>	<b>2,234,733</b>	<b>99,737</b>	<b>2,334,470</b>
<b>Interest Expense</b>			
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)
<b>Total interest expense.....</b>	<b>463,184</b>	<b>72,642</b>	<b>535,826</b>
<b>Net change in net interest income .....</b>	<b>1,771,549</b>	<b>27,095</b>	<b>1,798,644</b>

## 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:

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
<b>Trading Securities</b> .....	<b>1,086,670</b>	<b>660,193</b>	<b>1,086,299</b>
TL-denominated .....	360,045	360,722	157,641
Foreign currency-denominated and indexed .....	726,625	299,471	928,658
<i>Investment Securities</i>			
<b>Available-for-Sale</b> .....	<b>23,530,111</b>	<b>24,755,577</b>	<b>23,983,255</b>
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
<b>Held-to-Maturity</b> .....	<b>20,667,042</b>	<b>21,317,246</b>	<b>23,109,696</b>
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
<b>Total</b> .....	<b>45,283,823</b>	<b>46,733,016</b>	<b>48,179,250</b>

### *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:

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

(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:

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

(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:

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
Turkish government bonds and treasury bills <sup>(1)</sup> .....	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 <sup>(2)</sup> .....	871,296	526,266	722,603
Others .....	98,417	348,560	218,622
<b>Total available-for-sale portfolio</b> .....	<b><u>23,530,111</u></b>	<b><u>24,755,577</u></b>	<b><u>23,983,255</u></b>

(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	
<i>(TL thousands)</i>					
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
<b>Total .....</b>	<b>143,697</b>	<b>1,599,763</b>	<b>3,972,760</b>	<b>6,961,299</b>	<b>12,677,520</b>

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%
<b>Total .....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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	
<i>(TL thousands)</i>					
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
<b>Total .....</b>	<b>38,221</b>	<b>5,048,401</b>	<b>21,949,034</b>	<b>-</b>	<b>27,035,656</b>



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%
<b>Total.....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>	<b>100.0%</b>

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
	<i>(TL thousands)</i>		
<b>Financial assets at fair value through profit or loss .....</b>	<b>360,046</b>	<b>360,722</b>	<b>157,641</b>
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
<b>Investment securities.....</b>	<b>32,664,354</b>	<b>31,291,519</b>	<b>30,636,211</b>
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
<b>Total Turkish Lira-denominated securities.....</b>	<b>33,024,400</b>	<b>31,652,241</b>	<b>30,793,852</b>

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
	<i>(TL thousands)</i>		
<b>Financial assets at fair value through profit or loss.....</b>	<b>726,624</b>	<b>299,471</b>	<b>928,658</b>
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
<b>Investment securities.....</b>	<b>11,532,799</b>	<b>14,781,304</b>	<b>16,456,740</b>
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
<b>Total foreign currency and foreign currency indexed securities ..</b>	<b>12,259,423</b>	<b>15,080,775</b>	<b>17,385,398</b>

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
	<i>(TL thousands)</i>		
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
<b>Total securities</b> .....	<b>45,283,823</b>	<b>46,733,016</b>	<b>48,179,250</b>

### 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
<b>Total</b> .....		<b>26,228,787</b>		<b>25,786,028</b>		<b>21,261,209</b>

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	
	<i>(TL thousands, except percentages)</i>					
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%
<b>Total .....</b>	<b>140,229,586</b>	<b>100.0%</b>	<b>166,882,139</b>	<b>100.0%</b>	<b>196,093,765</b>	<b>100.0%</b>

#### 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			Total
	1 year or less <sup>(1)</sup>	After 1 year through 5 years	After 5 years	
		(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%
<b>Total.....</b>	<b>148,081,412</b>	<b>100.0%</b>	<b>175,681,689</b>	<b>100.0%</b>	<b>205,988,793</b>	<b>100.0%</b>

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 non-performing loans, 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
<b>Total.....</b>	<b>10,856,240</b>	<b>17,318,971</b>	<b>25,044,635</b>

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 non-performing loans 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 non-performing loan, 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 non-performing loans 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 non-performing loans 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 cash loans and to total cash loans and non-cash loans 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 non-performing loans (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:

	<b>2016</b>			
	<b>Corporate/ Commercial Loans</b>	<b>Consumer Loans</b>	<b>Credit Cards</b>	<b>Total</b>
	<i>(TL thousands)</i>			
<b>Balances at beginning of period</b> .....	<b>3,037,652</b>	<b>2,494,441</b>	<b>1,684,416</b>	<b>7,216,509</b>
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
<b>Balances at end of period</b> .....	<b>4,454,844</b>	<b>2,471,626</b>	<b>1,320,522</b>	<b>8,246,992</b>

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

**2014**

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

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:

	<b>As of 31 December</b>					
	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<i>(TL thousands, except percentages)</i>					
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%	-	-
<b>Total</b> .....	<b>198,225,638</b>	<b>100.0%</b>	<b>228,313,574</b>	<b>100.0%</b>	<b>255,048,068</b>	<b>100.0%</b>

#### *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
	<i>(TL thousands)</i>		
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
<b>Total .....</b>	<b>125,756,387</b>	<b>148,580,165</b>	<b>173,518,348</b>

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
	<i>(TL thousands, except percentages)</i>					
<b>Demand deposits<sup>(1)</sup> .....</b>	<b>22,725,483</b>	0.01%	<b>28,116,319</b>	0.01%	<b>32,110,711</b>	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%
<b>Savings deposits .....</b>	<b>34,019,646</b>	8.32%	<b>37,520,976</b>	0.00%	<b>41,116,611</b>	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%
<b>Time Deposits .....</b>	<b>67,444,092</b>	3.37%	<b>83,308,803</b>	3.00%	<b>93,727,780</b>	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%
<b>Total .....</b>	<b>124,189,221</b>	<b>4.11%</b>	<b>148,946,098</b>	<b>3.82%</b>	<b>166,955,102</b>	<b>4.15%</b>

(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:



	<b>As of 31 December 2016</b>			
	<b>3 months or less</b>	<b>Over 3 months through 6 months</b>	<b>Over 6 months through 12 months</b>	<b>Over 12 months</b>
	<i>(TL thousands)</i>			
<b>Deposits over U.S. \$100,000</b>				
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:

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

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:

	<b>As of 31 December</b>					
	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	<i>(TL thousands, except percentages)</i>					
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%
<b>Total</b> .....	<b>133,407,310</b>	<b>100.0%</b>	<b>156,114,455</b>	<b>100.0%</b>	<b>178,643,591</b>	<b>100.0%</b>

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:

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(TL thousands)</i>		
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
<b>Total</b> .....	<b>133,407,310</b>	<b>156,114,455</b>	<b>178,643,591</b>

## 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
	<i>(TL thousands, except percentages)</i>		
Average total assets <sup>(1)</sup> .....	228,126,218	259,694,698	288,309,840
Average shareholders' equity <sup>(1)</sup> .....	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 <sup>(2)</sup> .....	1.7%	1.5%	1.8%
Return on average shareholders' equity <sup>(3)</sup> .....	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
	<i>(TL thousands)</i>		
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
<b>Total</b> .....	<b>37,668,346</b>	<b>39,732,456</b>	<b>47,043,276</b>

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	
	<i>(TL thousands, except percentages)</i>					
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%
<b>Total</b> .....	<b>38,218,041</b>	<b>100.0%</b>	<b>39,959,934</b>	<b>100.0%</b>	<b>47,327,944</b>	<b>100.0%</b>

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
<i>(TL thousands)</i>						
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
<b>Total .....</b>	<b>39,620,463</b>	<b>46,688,395</b>	<b>47,425,190</b>	<b>50,698,666</b>	<b>54,720,521</b>	<b>54,722,818</b>

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
<i>(TL thousands, except percentages)</i>						
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%
<b>Total .....</b>	<b>34,819,730</b>	<b>5.12%</b>	<b>38,867,767</b>	<b>4.61%</b>	<b>45,125,019</b>	<b>4.20%</b>

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

As of 31 December 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
<b>Total .....</b>				<b>7,462,893</b>	<b>22,623,249</b>

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
<b>Total.....</b>				<b>4,879,261</b>	<b>21,205,296</b>

**As of 31 December 2014**

	<b>Interest rate</b>	<b>Latest maturity</b>	<b>Amount in original currency</b>	<b>Short-term portion</b>	<b>Medium and long-term portion</b>
			<i>(millions)</i>	<i>(TL thousands)</i>	
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
<b>Total.....</b>				<b>7,080,489</b>	<b>17,668,279</b>

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% and EURIBOR + 0.90% *per annum*, respectively, and (b) US\$318,750,000 and €785,000,000 with rates of LIBOR + 0.90% 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% and EURIBOR + 0.80% *per annum*, respectively, and (b) US\$266,550,000 and €939,500,000 with rates of LIBOR + 0.75% 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% and EURIBOR + 0.75% *per annum*, respectively, and (b) US\$626,000,000 and €615,500,000 with the rates of LIBOR + 1.10% and EURIBOR + 1.00% *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 I.I.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.

<b>As of 31 December 2016</b>			
	<b>Latest Maturity</b>	<b>Interest Rates</b>	<b>Carrying Value</b>
			<i>(TL thousands)</i>
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
<b>Sub-total</b> .....			<b>17,490,176</b>
Expense accrual on bonds payable ...			356,164
<b>Total</b> .....			<b>17,846,340</b>

<b>As of 31 December 2015</b>			
	<b>Latest Maturity</b>	<b>Interest Rates</b>	<b>Carrying Value</b>
			<i>(TL thousands)</i>
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
<b>Sub-total</b> .....			<b>15,171,941</b>
Expense accrual on bonds payable ...			339,656
<b>Total</b> .....			<b>15,511,597</b>

**As of 31 December 2014**

	<b>Latest Maturity</b>	<b>Interest Rates</b>	<b>Carrying Value</b> <i>(TL thousands)</i>
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
<b>Sub-total</b> .....			<b>14,139,787</b>
Expense accrual on bonds payable.....			298,569
<b>Total</b> .....			<b>14,438,356</b>

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.

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

	<b>As of 31 December 2014</b>		
	<b>Latest Maturity</b>	<b>Interest Rates</b>	<b>Carrying Value</b>
		<i>(TL thousands, except percentages)</i>	
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:

	<b>As of 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
		<i>(TL thousands)</i>	
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
<b>Total.....</b>	<b>37,729,197</b>	<b>48,932,722</b>	<b>56,085,480</b>

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

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

## TERMS AND CONDITIONS OF THE NOTES

The terms and conditions of the Notes shall consist of the terms and conditions set out in the Base Prospectus (the “Base Conditions”) as amended or supplemented by the issue-specific terms set out below in this section. References in the Base Conditions to Final Terms shall be deemed to refer to the issue-specific terms of the Notes substantially in the form set out below.

14 March 2017

### TÜRKİYE GARANTİ BANKASI A.Ş.

#### Issue of US\$500,000,000 5.875% Notes due 2023 (the Notes) under the US\$6,000,000,000 Global Medium Term Note Programme

#### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the Base Prospectus dated 24 March 2016 (as supplemented on 12 May 2016, 29 July 2016, 31 August 2016, 26 October 2016 and 8 March 2017) and the Prospectus dated 14 March 2017, which, together in the manner described in such Prospectus, constitute a prospectus (the “**Prospectus**”) for the purposes of Article 5.4 the Prospectus Directive. This document constitutes the issue-specific terms of the Notes and must be read in conjunction with the Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these issue-specific terms and the Prospectus. The Prospectus has been published on the Issuer’s website (<https://www.garantiinvestorrelations.com/en/debt-information/GMTN/GMTN/48/2723/0>).

1. Issuer: Türkiye Garanti Bankası A.Ş.
2. (a) Series Number: 2017-2  
(b) Tranche Number: 1  
(c) Date on which the Notes will be consolidated and form a single Series: Not Applicable
3. Specified Currency: U.S. dollars or US\$
4. Aggregate Nominal Amount:
  - (a) Series: US\$500,000,000
  - (b) Tranche: US\$500,000,000
5. Issue Price: 100.00 *per cent.* of the Aggregate Nominal Amount of the Tranche
6. (a) Specified Denomination(s): US\$200,000 and integral multiples of US\$1,000 in excess thereof  
(b) Calculation Amount: US\$1,000
7. (a) Issue Date: 16 March 2017  
(b) Interest Commencement Date: Issue Date

- |     |   |   |
|-----|---|---|
| 8.  | Maturity Date:  | 16 March 2023   |
| 9.  | Interest Basis:   | 5.875 <i>per cent.</i> Fixed Rate<br><br>(see paragraph 14 below)   |
| 10. | Redemption Basis:                                       | Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 <i>per cent.</i> of their nominal amount |
| 11. | Change of Interest Basis:                               | Not Applicable  |
| 12. | Put/Call Options:                                       | Not Applicable  |
| 13. | (a) Status of the Notes:                                | Senior  |
|     | (b) Date Board approval for issuance of Notes obtained: | Not Applicable  |

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

- |     |                                |  |
|-----|--------------------------------|--|
| 14. | Fixed Rate Note Provisions:    | Applicable   |
|     | (a) Rate(s) of Interest:       | 5.875 <i>per cent. per annum</i> payable in arrear on each Interest Payment Date |
|     | (b) Interest Payment Date(s):  | 16 March and 16 September in each year up to and including the Maturity Date     |
|     | (c) Fixed Coupon Amount(s):    | Not Applicable   |
|     | (d) Broken Amount(s):          | Not Applicable   |
|     | (e) Day Count Fraction:        | 30/360   |
|     | (f) Determination Date(s):     | Not Applicable   |
|     | (g) Modified Fixed Rate Notes: | Not Applicable   |
| 15. | Floating Rate Note Provisions: | Not Applicable   |
| 16. | Zero Coupon Note Provisions:   | Not Applicable   |

**PROVISIONS RELATING TO REDEMPTION**

- |     |                                   |  |
|-----|-----------------------------------|--|
| 17. | Notice periods for Condition 8.2: | Minimum period: 30 days<br><br>Maximum period: 60 days |
| 18. | Issuer Call:                      | Not Applicable   |
| 19. | Investor Put:                     | Not Applicable   |
| 20. | Final Redemption Amount:          | US\$1,000 per Calculation Amount                       |

21. Early Redemption Amount payable on US\$1,000 per Calculation Amount redemption for taxation reasons or on event of default:

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

22. Form of Notes:

(a) Form:

Registered Notes:

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

Rule 144A Global Note(s) registered in the name of a nominee for DTC exchangeable for Definitive Registered Notes only upon the occurrence of an Exchange Event

(b) New Global Note:

No

23. Specified Financial Centre(s):

Not Applicable

24. Talons for future Coupons to be attached to Definitive Notes: No

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

By: .....

By:.....

*Duly authorised*

*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (a) Listing and Admission to trading: Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the Official List and admitted to trading on the Main Securities Market of the Irish Stock Exchange with effect from 16 March 2017.
- (b) Estimate of total expenses related to admission to trading: €3,290

### 2. RATINGS

Ratings: The Notes to be issued are expected to be rated:

“BBB-” (stable outlook) by Fitch Ratings Ltd. (“**Fitch**”) and “Bal” (stable outlook) by Moody’s Investors Service Limited (“**Moody’s**”).

Each of Fitch and Moody’s is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).

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

Save for any fees payable to the Initial Purchasers of the Notes (the “*Managers*”), so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer of the Notes. The Managers and/or their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. Banco Bilbao Vizcaya Argentaria, S.A., an affiliate of BBVA Securities Inc., one of the Managers, jointly controls the Issuer and (as described in the Base Prospectus) is expected to become the controlling shareholder of the Issuer.

### 4. YIELD

Indication of yield: *5.875 per cent. per annum*

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

### 5. OPERATIONAL INFORMATION

- (a) ISIN: US90014QAB32 for Rule 144A Global Note(s)  
XS1576037284 for Regulation S Global Note
- (b) Common Code: 157820486 for Rule 144A Global Note(s)  
157603728 for Regulation S Global Note
- (c) CUSIP: 90014QAB3 for Rule 144A Global Note(s)
- (d) Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg: Not Applicable

and the relevant identification number(s):

- |     |  |   |
|-----|--|---|
| (e) | Delivery:  | Delivery against payment  |
| (f) | Names and addresses of additional Paying Agent(s) (if any):                  | Not Applicable  |
| (g) | Deemed delivery of clearing system notices for the purposes of Condition 15: | Any notice delivered to Noteholders through a clearing system will be deemed to have been given on the business day after the day on which it was given to the relevant clearing system.  |
| (h) | Intended to be held in a manner which would allow Eurosystem eligibility:    | No. Whilst the designation is specified as “no” at the date of these issue specific terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them, the Notes may then be deposited with one of the ICSDs as common safekeeper and registered in the name of a nominee of one of the ICSD acting as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met. |

## 6. DISTRIBUTION

- |     |   |   |
|-----|---|---|
| (a) | Method of distribution:                     | Syndicated  |
| (b) | If syndicated, names of Managers:           | BBVA Securities Inc.<br>Citigroup Global Markets Limited<br>Goldman Sachs International<br>J.P. Morgan Securities plc<br>MUFG Securities EMEA plc<br>SMBC Nikko Capital Markets Limited |
| (c) | Stabilisation Manager(s) (if any):          | Citigroup Global Markets Limited  |
| (d) | If non-syndicated, name of relevant Dealer: | Not Applicable  |
| (e) | U.S. Selling Restrictions:                  | Reg. S Compliance Category 2 and Rule 144A  |

## 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 a beneficial 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.

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. Prospective purchasers should consult their tax advisers as to the particular tax consequences to them of owning 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 10 March 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.

<i>Initial Purchasers</i>	<i>Principal Amount of Notes</i>
BBVA Securities Inc.	US\$83,334,000
Citigroup Global Markets Limited	US\$83,334,000
Goldman Sachs International	US\$83,333,000
J.P. Morgan Securities plc	US\$83,333,000
MUFG Securities EMEA plc	US\$83,333,000
SMBC Nikko Capital Markets Limited	US\$83,333,000
<b>Total</b>	<b>US\$500,000,000</b>

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 any U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (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 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 may 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 15c6-1 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, jointly controls the Issuer, and (as described in the Base Prospectus) is expected to become the controlling shareholder of the Bank. 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.

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 as to English and United States law will be passed upon for the Initial Purchasers by Allen & Overy LLP, and certain matters as to 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 most recent update of the Programme and the further issue of notes thereunder have been duly authorised by a resolution of the Board of Directors 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 the Markets in Financial Instruments Directive (Directive 2004/39/EC) (*MiFID*). 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 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;
- (c) the independent auditors' audit reports and audited unconsolidated BRSA Financial Statements of the Bank for each of the years ended 31 December 2014, 2015, and 2016;
- (d) when published, the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer, in each case in English and together with any audit or review reports prepared in connection therewith; the Issuer currently 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 noted in clauses (b) and (c) above, please see "*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: 90014QAB3, ISIN: US90014QAB32 and Common Code: 157820486, with respect to the Rule 144A Global Note(s) and ISIN: XS1576037284 and Common Code: 157603728, 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 December 2016 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, jointly controls the Issuer, and (as described in the Base Prospectus) is expected to become the controlling shareholder of the Bank.

### **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.

### **Auditors**

The: (a) IFRS Financial Statements have been audited in accordance with International Standards on Auditing by Deloitte located at Maslak Plaza, Eski Büyükdere Caddesi, Maslak Mahallesi No:1, Maslak, Sarıyer, 34398 and (b) BRSA 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, which is a component of the Turkish Auditing Standards published by the Public Oversight, Accounting and Auditing Standards Authority (*Kamu Gözetimi Muhasebe ve Denetim Standartları Kurumu*). Deloitte, independent certified public accountants in Turkey, is an audit firm authorised by the BRSA to conduct independent audits of banks in Turkey. Deloitte's audit 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 amended hereby, for further information).

**THE ISSUER**

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