SIXTH SUPPLEMENT dated 28 February 2014 to the Base Prospectus dated 19 April 2013

TÜRKİYE GARANTİ BANKASI A.Ş.
U.S.$2,500,000,000
Global Medium Term Note Programme

This supplement (this "*Supplement*") is supplemental to, and must be read in conjunction with, the Base Prospectus dated 19 April 2013 (the "*Original Base Prospectus*" and, as supplemented on 13 May 2013, 16 August 2013, 12 September 2013, 25 October 2013 and 12 November 2013, the "*Base Prospectus*") prepared by Türkiye Garanti Bankası A.Ş. (the "*Issuer*") under the Issuer's global medium term note programme. Capitalised terms used but not otherwise defined herein shall have the meaning ascribed thereto in the Base Prospectus.

This Supplement 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 Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. This document constitutes a supplement for the purposes of Article 16 of the Prospectus Directive and has been prepared and published for the purposes of incorporating into the Base Prospectus recent events in connection with the Issuer. As a result, certain modifications to the Base Prospectus are hereby being made.

A copy of each of: (a) the consolidated IFRS financial statements of the Group as of and for the year ended 31 December 2013 (including any notes thereto, the "*Group's New IFRS Financial Statements*") and (b) the unconsolidated BRSA financial statements of the Issuer as of and for the year ended 31 December 2013 (including any notes thereto, the "*Issuer's New BRSA Financial Statements*" and, with the Group's New IFRS Financial Statements, the "*New Financial Statements*"), have been filed with the Central Bank of Ireland and, by means of this Supplement, are incorporated by reference into, and form part of, the Base Prospectus. Copies of the New Financial Statements can be obtained without charge from the registered office of the Issuer and from the Issuer's website: (i) with respect to the Group's New IFRS Financial Statements, at http://www.garanti.com.tr/en/our_company/investor_relations/financials_and_presentations/annual_and_interim_reports/annual_and_interim_reports_ifrs.page, and (ii) with respect to the Issuer's New BRSA Financial Statements, http://www.garanti.com.tr/en/our_company/investor_relations/financials_and_presentations/annual_and_interim_reports/annual_and_interim_reports_brsa.page (such website is not, and should not be deemed to constitute, a part of, or be incorporated into, this Supplement or the Base Prospectus). The Issuer's New BRSA Financial Statements, which are in English, were prepared as convenience translations of the corresponding Turkish language financial statements (which translations the Issuer confirms were direct and accurate). The New Financial Statements were not prepared for the purpose of their incorporation by reference into the Base Prospectus. The New Financial Statements were audited by Deloitte.

In addition, this Supplement provides for amendments to certain sections of the Base Prospectus. Statements contained in this Supplement shall, to the extent applicable and whether expressly, by implication or otherwise, be deemed to modify or supersede statements set out in, or previously incorporated by reference into, the Base Prospectus. Where there is any inconsistency between the information contained in, or incorporated by reference into, the Base Prospectus and this Supplement, the information incorporated by reference into this Supplement shall prevail.

Except as disclosed herein (including in the New Financial Statements incorporated by reference into the Base Prospectus by means of this Supplement), there has been no: (a) significant new factor, material mistake or inaccuracy relating to the information included in the Base Prospectus since the publication of the Base Prospectus and (b) significant change in the financial or trading position of either the Group or the Issuer since 31 December 2013.

The Issuer accepts responsibility for the information contained herein. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained herein is in accordance with the facts and contains no omission likely to affect the import of such information.

None of the Dealers or the Arranger make any representation, express or implied, or accept any responsibility, for the contents hereof or any information incorporated by reference into this Supplement.

AMENDMENTS

The following amendments are made to the Base Prospectus:

RISK FACTORS

The risk factor entitled "*Political, Economic and Legal Risks relating to Turkey – High Current Account Deficit*" on page 15 of the Original Base Prospectus (as amended by previous supplements to the Original Base Prospectus) is hereby deleted in its entirety and replaced by the following:

High Current Account Deficit – Turkey's high current account deficit may result in government policies that negatively affect the Group's business

In 2010, Turkey's current account deficit was US$45.4 billion, which increased to US$75.1 billion in 2011 before decreasing to US$48.5 billion in 2012, according to the Central Bank. The decline in the current account deficit in 2012 was largely the result of coordinated measures initiated by the Central Bank, the BRSA and the Turkish Ministry of Finance to lengthen the maturity of deposits, reduce short-term capital inflows and curb domestic demand. The main aim of these measures has been to slow growth in the current account deficit by controlling the rate of loan growth. Unless there is a decline in credit growth, government authorities have stated that bank-specific actions might be implemented.

The decline in the current account deficit experienced in 2012 came to an end in early 2013, with the current account deficit increasing to US$65.0 billion in 2013 due principally to a recovery in domestic demand. The Bank's management expects this to be followed by a period of gradual decreases in the current account deficit in parallel with measures taken by the BRSA to limit domestic demand, the Central Bank's tight monetary policy, the recent increases of taxes, improvements in economic conditions in Turkey's primary export customers and the depreciation of the Turkish Lira, which can also have an impact on imports and domestic demand. Moreover, due to the increasing depreciation of the Turkish Lira, exports might improve, which could lead to a reduction of the current account deficit.

If the value of the Turkish Lira relative to the US Dollar and other relevant trading currencies changes, then the cost of importing oil and other goods and services and the value of exports might both change in a corresponding fashion, resulting in potential increases or decreases in the current account deficit. As an increase in the current account deficit might erode financial stability in Turkey, the Central Bank has taken certain actions to maintain price and financial stability. For example, in meetings in July and August 2013, the Central Bank increased the upper band of the interest rate corridor (the lending rate) from 6.5% to 7.25% and then 7.75% and also announced that there will be no funding to banks via the primary dealer repo facility on additional monetary tightening days. Moreover, in its November 2013 and December 2013 meetings, the Central Bank announced that one month repo auctions were terminated, that the maximum amount of funding via one-week repo was reduced from TL 10 billion to TL 6 billion and that the total amount of funding offered to primary dealer banks was reduced to approximately TL 6.5 billion. In addition to increasing the liquidity of the Turkish Lira, the Central Bank announced, as part of its monetary and exchange rate policy for 2014, that it will increase the funding needs of the financial system via foreign exchange auctions, through changes in reserve option mechanisms and by shortening the maturity of funding. The Central Bank also intends to limit the growth of consumer loans as it believes that the excessive growth in consumer loans is one of the leading factors of the current account deficit in Turkey. 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% from 3.5%, its one-week repo rate to 10% from 4.5% and its overnight lending rate to 12% from 7.75%. Such actions by the Central Bank and similar or other actions that it might take in the future might not be successful in reducing the current account deficit. If the current account deficit widens more than anticipated, financial stability in Turkey might deteriorate. Financing the high current account deficit might be difficult in the event of a global liquidity crisis and/or declining interest or confidence of foreign investors in Turkey, and a failure to reduce the current account deficit could have a negative impact on Turkey's sovereign credit ratings. Any such difficulties may lead the Turkish government to seek to raise additional revenue to finance the current account deficit or to seek to stabilise the Turkish financial system, and any such measures might adversely affect the Group's business, financial condition and/or results of operations.

Although Turkey's economic growth dynamics depend to some extent upon domestic demand, Turkey is also dependent upon trade with Europe. A significant decline in the economic growth of any of Turkey's major trading partners, such as the EU, could have an adverse impact on Turkey's balance of trade and adversely affect Turkey's economic growth. While diversification in the export markets towards Middle East and other regional countries partially offsets the negative impacts of external demand-related risks on domestic economic activity, the EU remains Turkey's largest export market. A decline in demand for imports from the EU could have a material adverse effect on Turkish exports and Turkey's economic growth and result in an increase in Turkey's current account deficit.

Turkey is an energy dependent country and recorded US$57.2 billion of energy imports in 2013. It should be noted that in that period Turkey's current account deficit reached US$65.0 billion and, as such, energy imports represented approximately 88% of the country's current account deficit during the period. As a result, any geopolitical development concerning the energy security could have a material impact on Turkey's current account balance. With regard to this, the efforts in northern Iraq to export its oil reserves via Turkish territory might improve Turkey's energy bill; *however*, in order to export its oil reserves, the regional government in northern Iraq will need to reach an agreement with Iraq's central government. Turkey might also be able to diversify its energy suppliers and lower its energy cost as a result of the interim arrangement between the P5+1 countries and Iran. Nonetheless, both of these approaches are subject to significant political and other risks and might not result in reduced energy costs to Turkey – in fact, increased tensions with Iran could result in an increase in global energy prices and thus have a negative impact on Turkey's current account deficit.

In early 2011, the Turkish government declared its intention to take additional measures to decrease the current account deficit, and in this regard it identified the high growth rate of loans as one of the target areas. To that end, the BRSA from time to time introduces regulations to control loan growth, including measures that will, among other things: (a) increase Turkish banks' general provision requirements in certain circumstances and (b) increase the risk-weighting for certain consumer loans in calculating capital adequacy ratios. See "*Turkish Regulatory Environment*." These regulations could have a material adverse effect on the Group's business, financial condition and/or results of operations.

The risk factor entitled "*Political, Economic and Legal Risks relating to Turkey – Political Developments*" on page 16 of the Original Base Prospectus (as amended by previous supplements to the Original Base Prospectus) is hereby deleted in its entirety and replaced by the following:

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

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

In May 2013, protests started in Istanbul and soon spread to Ankara and other major cities in Turkey against plans to replace Gezi Park, an urban park in İstanbul's central Taksim Square, with a commercial development. These protests resulted in confrontations among protestors and security forces and contributed to increased volatility in Turkish financial markets. While the Bank's management does not believe that these conflicts will have a material long-term negative impact on Turkey's economy or the Group's business, financial condition or results of operation, it is possible that these (or other) protests and related circumstances could have such an impact and/or a negative impact on investors' perception of Turkey, the strength of the Turkish economy and/or the value of the Notes.

Beginning in late 2013, Turkish politics have been particularly volatile, commencing with a series of arrests of prominent businessmen and family members of some cabinet ministers (who have since resigned) on suspicions of corruption. While the causes of these events are uncertain, there is speculation that it reflects a division among important elements of the Turkish government, police and judiciary. The government's responses to these events have included the removal of certain prosecutors and police from their offices and proposals to change the manner in which the police and judicial authorities are supervised by the national government, which has led to concerns about the separation of powers. These events have contributed to significant declines in the value of the Turkish stock market and the Turkish Lira. The occurrence of these events, and when and in what manner they are resolved, have had and may continue to have: (a) a material negative impact on the Group's business, financial condition and/or results of operation and (b) a negative impact on investors' perception of Turkey, the strength of the Turkish economy and/or the value of the Notes.

These events are particularly noteworthy as Presidential and municipal elections are scheduled to be held in Turkey in 2014 and the events surrounding such elections and/or the results of the elections could contribute to the volatility of Turkish financial markets and/or have an adverse effect on investors' perception of Turkey. Actual or perceived political instability in Turkey could have a material adverse effect on the Group's business, financial condition and/or results of operations and on the value of the Notes.

The risk factor entitled "*Political, Economic and Legal Risks relating to Turkey – Combating the Financing of Terrorism*" on page 18 of the Original Base Prospectus (as amended by previous supplements to the Original Base Prospectus) is hereby deleted in its entirety and replaced by the following:

Combating the Financing of Terrorism – The Financial Action Task Force may call upon its members to take measures against Turkey

Although Turkey has a high-level political commitment to work with the Financial Action Task Force (the **FATF**) to seek to address Turkey's deficiencies in combating the financing of terrorism, the FATF requested that Turkey make progress in implementing its action plan. In particular, Turkey: (a) is required to make sufficient progress in adequately criminalizing terrorist financing and (b) was required, before 23 February 2013, to implement an adequate legal framework for identifying and freezing terrorist assets. If sufficient progress is not realised, the FATF has advised that it might call upon its members to apply countermeasures proportionate to the risks associated with Turkey (for example, the FATF may require banks in member states to apply extra procedures on any transactions with banks in Turkey).

In an effort to ensure compliance with the FATF requirements, new measures against financing terrorist activities in Turkey were introduced with the entry into force of the Law No. 6415 on the Prevention of the Financing of Terrorism on 16 February 2013 (the **CFT Law**). In order to address shortcomings identified by the FATF and with a view to achieving compatibility with international standards as outlined under the International Convention for the Suppression of the Financing of Terrorism and annexes thereto, the CFT Law introduces an expanded scope to the financing of terrorism offense (as currently defined under Turkish anti-terrorism laws). The CFT Law also presents new principles and mechanisms for identifying and freezing terrorist assets and facilitates the implementation of United Nations Security Council decisions, in particular those relating to entities and/or individuals placed on sanction lists. On 31 May 2013, the Regulation on Procedures and Principles Regarding the Application of the Law on the Prevention of the Financing of Terrorism became effective, which regulation provides the procedures and principles for the decision-making, execution and termination of the freezing of assets as well as the management and supervision of frozen assets. In addition, the Council of Ministers' Decree dated 30 September 2013 implementing United Nations Security Council Resolutions (**UNSCR**) 1267, 1988 and 1989 and recent court decisions have further improved Turkey's CFT regime and compliance with the FATF standard on criminalisation of terrorist financing; *however*, certain concerns remain regarding Turkey's framework for identifying and freezing terrorist assets under UNSCRs 1267 and 1373, and the FATF has encouraged Turkey to address these remaining strategic deficiencies and continue the process of implementing its action plan. In the event that the FATF finds Turkey's efforts to be insufficient, then FATF measures as described above may be imposed on Turkey and this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

The risk factor entitled "*Risks Relating to the Turkish Banking Industry – Banking Regulatory Matters*" beginning on page 19 of the Original Base Prospectus (as amended by previous supplements to the Original Base Prospectus) is hereby deleted in its entirety and replaced by the following:

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

The Group is subject to a number of banking, consumer protection, competition, antitrust and other laws and regulations designed to maintain the safety and financial soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. These laws and regulations include Turkish laws and regulations (and in particular those of the BRSA), as well as laws and regulations of certain other countries in which the Group operates. Basel II regulations have been in effect in Turkey for standardised approaches since 1 July 2012.

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

In addition: (a) the Regulation on the Capital Maintenance and Cyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, and (b) the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), were published in the Official Gazette dated 5 November 2013 and numbered 28812 and entered into effect on 1 January 2014 (with the exception of certain provisions of the Regulation on the Measurement and Evaluation of Leverage Levels of Banks that enters into effect on 1 January 2015). Lastly, in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, the BRSA has published a draft regulation on liquidity coverage ratios. If the Bank and/or the Group is unable to maintain its capital adequacy or leverage ratios above the minimum levels required by the BRSA or other regulators (whether due to the inability to obtain additional capital on acceptable economic terms, if at all, sell assets (including subsidiaries) at commercially reasonable prices, or at all, or for any other reason), then this could have a material adverse effect on the Group's business, financial condition and/or results of operations. See "*Turkish Regulatory Environment*" below for a further discussion on Basel III.

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

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

As applicable to all other enterprises in Turkey, the Bank is also subject to competition and antitrust laws. In November 2011, the Turkish Competition Board initiated an investigation against the Bank and 11 other banks operating in Turkey with respect to allegations of acting in concert regarding interest rates and fees on deposits, loans and credit card services. On 8 March 2013, the Competition Board ruled that the economic group comprised of the Bank and two of its subsidiaries (*i.e.*, Garanti Payment Systems and Garanti Mortgage) was to be fined TL 213 million in connection with this investigation, and on 16 August 2013 the Bank paid three quarters of this administrative penalty (*i.e.*, TL 160.04 million), in accordance with the provisions of law permitting a 25% reduction if paid within 30 days after the Bank's receipt of the final decision (which was received on 17 July 2013). The Bank has objected to this decision through proceedings in the administrative courts, which proceedings are still pending as of 28 February 2014. So far, there are two legal proceedings initiated against 12 banks (including the Bank) in this respect. The first lawsuit was dismissed by the court for lack of jurisdiction and the second lawsuit, which was filed on 7 January 2014, is still pending as of 28 February 2014. There is no precedent Turkish court decision approving the legal validity of any such claims by customers and there are not any resolved cases opened by any customers against the Bank in this respect, under articles 57 and 58 of the Law on the Protection of Competition customers may be able to bring claims against the Bank seeking damages. See also "*Business of the Group – Legal Proceedings*."

The second paragraph of risk factor entitled "*Risks Relating to the Group and its Business – Counterparty Credit Risk*" on pages 21 and 22 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following.

As of 31 December 2013, 11.1% and 11.9% of the Group's performing cash loans excluding financial leases and factoring receivables were credit card and general purpose consumer loans, respectively, which historically have had among the highest rate of payment default and are uncollateralised. The percentage of non-performing loans (**NPLs**) increased to 2.8% as of 31 December 2012 from 2.3% as of 31 December 2011, and then slightly increased further to 2.9% as of 31 December 2013. Changes in NPL ratios can occur for various reasons, including changes in the levels of new NPLs, collection performance and the amount and nature of the Group's cash loans. For example, the level of NPLs might rise as the Group focuses its lending growth toward higher-yielding consumer and SME loans. Furthermore, the Group's exposures to certain borrowers (particularly for loans for infrastructure and energy projects) are large and the Group is likely to continue making such large loans where such an investment is determined by the Group to be a credit-worthy transaction. The Group's exposure to credit risk could lead to a material adverse effect on the Group's business, financial condition and/or results of operations

The risk factor entitled "*Risks Relating to the Group and its Business – Corporate Governance*" on page 31 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following.

Independent Directors – A majority of the directors may not be independent of the Bank's management

As almost all of the members of the Bank's Board of Directors are associated with the Doğuş Group and Banco Bilbao Vizcaya Argentaria, S.A. (**BBVA**), the opinions held by the Bank's directors may be the same as the views of the Bank's management and thus the Bank's board might not present an independent voice to balance against the views of the Bank's management. See "*Management*."

The risk factor entitled "*Risks Relating to the Group and its Business – Audit Qualification*" on page 32 of the Original Base Prospectus (as amended by previous supplements to the Original Base Prospectus) is hereby deleted in its entirety and replaced by the following:

Audit Qualification – The audit and review reports in relation to the Group's financial statements include a qualification

The Group's audit reports for the years ended 31 December 2011, 2012 and 2013 were qualified with respect to general provisions that were allocated by the Group, and the Group may have similar qualifications in the future. In 2009, the Group's management elected to take a TL 330,000 thousand general provision in order to act conservatively in the context of the uncertainty created by the global financial crisis. The Bank's management decided to maintain this general provision in 2010 and 2011, and elected to take a further TL 90,000 thousand provision in 2011. This general provision remained outstanding in the Group's financial statements during 2012; *however*, in 2013 the Bank's management determined that certain related risks had diminished and reversed TL 115,000 thousand of these provisions.

Deloitte has qualified its audit reports in respect of the years ended 31 December 2011, 2012 and 2013 as general provisions are not permitted under IFRS (see Deloitte's opinion included in each IFRS Financial Statement incorporated by reference herein). Although these provisions do not impact the Group's level of tax or capitalisation ratios, the Group's net income might otherwise be higher in the periods in which such provisions are established and lower in the periods in which such provisions are reversed. Such provisions might be increased or reversed by the Group in future periods, which may cause the Group's net income to be higher or lower in future periods than it otherwise would be. The auditor's statements on such qualification can be found in its opinion included in each of the applicable IFRS Financial Statements and BRSA Financial Statements incorporated by reference herein.

THE GROUP AND ITS BUSINESS

The section entitled "*The Group and its Business – Credit Ratings*" on page 125 and 126 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

Credit Ratings

Each of the Bank's credit ratings from S&P, Moody's, Fitch and JCR Eurasia as of the date of this Base Prospectus are set out below. Each of these rating agencies is established in the European Union and is registered under Regulation (EU) No. 1060/2009, as amended. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Standard & Poor's (11 February 2014)	
Outlook	Negative
Long Term Foreign Currency Issuer Credit Rating:	BB+
Long Term Turkish Lira Issuer Credit Rating:	BB+
Stand-alone Credit Profile:	bbb-
Moody's (26 November 2013)	
Long Term Foreign Currency Deposit Outlook:	Stable
Long Term Foreign Currency Deposit:	Baa3
Long Term Turkish Lira Deposit:	Baa2
Short Term Turkish Lira Deposit:	Prime-2
Short Term Foreign Currency Deposit:	Prime-3
Financial Strength Rating (FSR):	D+
Financial Strength Rating Outlook:	Stable
Long Term National:	Aa2.tr
Short Term National:	TR-1
Fitch (31 October 2013)	
Outlook:	Stable
Long Term Foreign Currency:	BBB
Short Term Foreign Currency:	F3
Long Term Turkish Lira:	BBB
Short Term Turkish Lira:	F3
Viability Rating:	bbb
Support:	3
National:	AAA (tur)
JCR EURASIA (20 June 2013)	
Outlook -FC/LC:	Stable
Long Term International FC:	BBB
Long Term International TL:	BBB+
Long Term National Local Rating:	AAA(TrK)
Short Term International FC:	A-3
Short Term International TL:	A-2
Short Term National Local Rating:	A-1+(TrK)
Sponsored Support:	1
Stand-Alone:	A

The "*Interest Rates Investigation*" description in the section entitled "*The Group and its Business – Litigation and Administrative Proceedings*" on pages 126 and 127 of the Original Base Prospectus (as replaced pursuant to the Third Supplement to the Base Prospectus dated 12 September 2013) is hereby deleted in its entirety and replaced by the following:

> In a decision dated 2 November 2011, the Turkish Competition Board resolved to initiate an investigation against 12 banks operating in Turkey to determine whether they have acted in concert and violated Turkish competition laws in respect of interest rates and fees applicable to deposits, loans and credit card services that they offer. As part of this investigation, the Competition Board investigated the Bank and two of its subsidiaries, Garanti Payment Systems and Garanti Mortgage. The Competition Board announced its fines on 8 March 2013, with the Bank and such subsidiaries being fined TL 213 million, and on 16 August 2013 the Bank paid three quarters of this administrative penalty (*i.e.*, TL 160.04 million), in accordance with the provisions of law permitting a 25% reduction if paid within 30 days after the Bank's receipt of the final decision (which was received on 17 July 2013). The Bank has objected to this decision through proceedings in the administrative courts, which proceedings are still pending as of the date of this Base Prospectus. In addition to the monetary fines imposed by the Competition Board, the Bank, pursuant to articles 57 and 58 of the Law on the Protection of Competition, may face claims from individual customers on the grounds that such customers have suffered damages and could sue the Bank. So far, there are two legal proceedings initiated against 12 banks (including the Bank) in this respect. The first lawsuit was dismissed by the court for lack of jurisdiction and the second lawsuit, which was filed on 7 January 2014, is still pending as of 28 February 2014. There is no precedent Turkish court decision approving the legal validity of any such claims by customers and there are no resolved cases opened by any customers against the Bank. While the burden of proof lies with the customers and the Bank's management is of the view that no real damage was caused, there can be no guarantee that the Turkish courts would agree with such analysis and the number of such claims may increase. The Bank's management has indicated that the amount of the fine imposed by the Competition Board (and any related damages successfully proven by a customer) will be sufficiently covered by the Bank's existing general provisions.

The section entitled "*The Group and its Business – Litigation and Administrative Proceedings*" beginning on page 126 of the Original Base Prospectus is hereby amended by adding the following as a new section at the end thereof:

> *Consumer Transactions Inspection*
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> In September 2013, the Custom and Trade Ministry ("**Custom Ministry**") initiated an audit in the Bank regarding its consumer transactions. Specifically, the Custom Ministry officials are reviewing the content of the Bank's standard loan agreements executed with the consumers (*e.g.*, housing loans, auto loans, overdraft loans, general purpose loans and credit card agreements), all kinds of fees and commissions which are charged to the consumers under the consumer transactions and all kinds of advertisements and announcements of the Bank addressing to the consumers and which are published in the media.
>
> The audit is still ongoing and so far there is no report served on the Bank. In the event the Custom Ministry determines that there is a breach of Consumer Protection Law as a result of its audit, it may impose an administrative fine on the Bank.

RECENT DEVELOPMENTS

The section entitled "*Recent Developments – New Credit Card and Provisioning Regulations*" inserted immediately following the section entitled "The Group of its Business" pursuant to the Third Supplement to the Original Base Prospectus, dated 12 September 2013, is hereby replaced in its entirety by the following:

RECENT DEVELOPMENTS

Increased Issuance Approvals

It was announced that, in its meeting held on 16 January 2014, the Bank's Board of Directors authorised the Bank's head office to take the necessary actions, subject to market conditions, to arrange and sign agreements and other documents related to the issuance of bonds or other borrowing instruments up to US$6,000,000,000 in total or its equivalent. This debt is authorised to be issued with different currencies, maturities and interest rates to be determined at the time of issuance in accordance with market conditions, may be issued outside Turkey in one or more issuances and may be listed on foreign stock exchanges. The application process related to the transaction was initiated with the CMB and other competent authorities; and it was announced in the CMB's weekly bulletin numbered 2014/3 and notified to the Bank in the CMB's letter to the Bank dated 10 February 2014 and numbered 28933736-105.03-286-1374 that such application has been approved by the CMB (which approval also included an exemption to the requirement to register Notes issued under the Programme with the Central Registry Agency (*Merkezi Kayıt Kuruluşu*)). As a result, the Issuer anticipates increasing the size of the Programme to US$6,000,000,000 in the near future.

MANAGEMENT

The section entitled "*Management – Corporate Governance*" beginning on page 138 of the Original Base Prospectus is hereby amended by adding the following as a new section at the end thereof:

CMB Corporate Governance Principles

On 3 January 2014, the CMB issued the Communiqué No. II-17.1 on Corporate Governance (as amended, the **Corporate Governance Communiqué**) replacing the Communiqué on the Determination and Implementation of Corporate Governance Principles Series IV, No. 56 dated 30 December 2011. The Corporate Governance Communiqué provides certain mandatory and non-mandatory corporate governance principles as well as rules regarding related-party transactions and a company's investor relations department. Some provisions of the Corporate Governance Communiqué are applicable to all companies incorporated in Turkey and listed on the Borsa İstanbul, whereas some others are applicable solely to companies whose shares are traded in certain markets of the Borsa İstanbul. The Corporate Governance Communiqué provides specific exemptions and/or rules applicable to banks that are traded on the Borsa İstanbul. The Bank is also subject to the corporate governance principles stated in the banking regulations and the regulations for capital markets that are applicable to banks. The Bank is required to state in its annual activity report whether it is in compliance with the principles applicable to it under the Corporate Governance Communiqué. In case of any non-compliance, explanations regarding such non-compliance are also to be included in such report. Should the Bank fail to comply with any mandatory obligations, then it may be subject to sanctions from the CMB. As of the date of this Base Prospectus, the Bank complies with the mandatory principles under the Corporate Governance Communiqué.

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

The Capital Markets Law authorises the CMB to require listed companies to comply with the corporate governance principles in whole or in part and to take certain measures with a view to ensure compliance with the new principles, which include requesting injunctions from the court or filing lawsuits to determine or to revoke any unlawful transactions or actions that contradict these principles.

TURKISH REGULATORY ENVIRONMENT

The section entitled "*Turkish Regulatory Environment*" beginning on page 155 of the Original Base Prospectus (as amended by previous supplements to the Original Base Prospectus) is hereby deleted in its entirety and replaced by the following:

TURKISH REGULATORY ENVIRONMENT

Turkish banks and branches of foreign banks in Turkey are primarily governed by two regulatory authorities in Turkey, the BRSA and the Central Bank.

The Role of the BRSA

In June 1999, the Banks Act No. 4389 established the BRSA, which is responsible for ensuring that banks observe banking legislation, supervising the application of banking legislation and monitoring the banking system. The BRSA has administrative and financial autonomy.

Articles 82 and 93 of the Banking Law state that the BRSA, having the status of a public legal entity with administrative and financial autonomy, is established in order to ensure application of the Banking Law and other relevant acts, to ensure that savings are protected and to carry out other activities as necessary by issuing regulations within the limits of the authority granted to it by the Banking Law. The BRSA is obliged and authorised to take and implement any decisions and measures in order to prevent any transaction or action that could jeopardise the rights of depositors and the regular and secure operation of banks and/or could lead to substantial damages to the national economy, as well as to ensure efficient functioning of the credit system.

The BRSA has responsibility for all banks operating in Turkey, including foreign banks and participation banks. The BRSA sets various mandatory ratios such as reserve levels, capital adequacy and liquidity ratios. In addition, all banks must provide the BRSA, on a regular and timely basis, information adequate to permit off-site analysis by the BRSA of such bank's financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis, depending upon the nature of the information to be reported.

The BRSA conducts both on-site and off-site audits and supervises implementation of the provisions of the Banking Law and other related legislation, examination of all banking operations and analysis of the relationship between assets, liabilities, net worth, profit and loss accounts and all other factors affecting a bank's financial structure.

Pursuant to the Regulation regarding the Internal Systems of Banks, as issued by the BRSA and published in the Official Gazette dated 28 June 2012 and numbered 28337 (the **Internal Systems Regulation**), banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit and risk management systems commensurate with the scope and structure of their activities, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal control personnel cannot also be appointed to work in a role conflicting with their internal control duties.

The Role of the Central Bank

The Central Bank was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, implementation of the government's fiscal and monetary policies, maintenance of price stability and continuity, regulation of the money supply, management of official gold and foreign exchange reserves, supervision of the banking system and advising the government on financial matters. The Central Bank exercises its powers independently of the government. The Central Bank is empowered to determine the inflation target together with the government, and to adopt a monetary policy in compliance with such target. The Central Bank is the only authorised and responsible institution for the implementation of such monetary policy.

The Central Bank has responsibility for all banks operating in Turkey, including foreign banks. The Central Bank sets mandatory reserve levels and liquidity ratios. In addition, each bank must provide the Central Bank, on a current basis, information adequate to permit off-site evaluation of its financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis depending upon the nature of the information to be reported.

The Banks Association of Turkey

The Banks Association of Turkey is an organisation that provides limited supervision of and coordination among banks (excluding the participation banks) operating in Turkey. All banks (excluding the participation banks) in Turkey are obligated to become members of this association. As the representative body of the banking sector, the association aims to examine, protect and promote its members' professional interests; however, despite its supervisory and disciplinary functions, it does not possess any powers to regulate banking.

Shareholdings

The direct or indirect acquisition by a person of shares that represent 10% or more of the share capital of any bank or the direct or indirect acquisition or disposition of such shares by a person if the total number of shares held by such person increases above or falls below 10%, 20%, 33% or 50% of the share capital of a bank, requires the permission of the BRSA in order to preserve full voting and other shareholders' rights associated with such shares. In addition, irrespective of the thresholds above, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee (or the issuance of new shares with such privileges) is also subject to the authorization of the BRSA. In the absence of such authorization, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders' rights with respect to the shares but not of the right to collect dividends declared on such shares. Additionally, the direct and indirect acquisition or the transfer of the shares of a legal entity owning more than 10% of a bank is also subject to BRSA approval if such transfer directly or indirectly results in the total number of the shares held by a shareholder increasing above or falling below 10%, 20%, 33% or 50% of the share capital of such legal entity. If such approval is not sought, then the relevant shares would merely entitle its owner to the dividend rights. In such case, the voting and other shareholder rights are exercised by the SDIF.

The board of directors of a bank is responsible for taking necessary measures to ascertain that shareholders attending general assemblies have obtained the applicable authorizations from the BRSA. If the BRSA determines that a shareholder has exercised voting or other shareholders' rights (other than the right to collect dividends) without due authorization as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to start the procedure to cancel such applicable general assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the Banking Law if such procedure has not been started yet). If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without BRSA authorisation. In the case that the procedure to cancel such general assembly resolutions is not yet started, or such transfer of shares is not deemed appropriate by the BRSA even though the procedure to cancel such general assembly resolutions is started, then, upon the notification of the BRSA, the SDIF has the authority to exercise such voting and other shareholders' rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

Lending Limits

Turkish law sets out certain lending limits for banks and other financial institutions designed to protect those institutions from excessive exposure to any one counterparty (or group of related counterparties). In particular:

- Credits extended to a natural person, a legal entity or a risk group (as defined under Article 49 of the Banking Law) in the amounts of 10% or more of a bank's shareholders' equity are classified as large credits and the total of such credits cannot be more than eight times the bank's shareholders' equity. In this context, "credits" include cash credits and non-cash credits such as letters of guarantee, counter-guarantees, sureties, avals, endorsements and acceptances extended by a bank, bonds and similar capital market instruments purchased by it, loans (whether deposits or other), receivables arising from the future sales of assets, overdue cash credits, accrued but not collected interest, amounts of non-cash credits converted into cash and futures and options and other similar contracts, partnership interests, shareholding interests and transactions recognised as loans by the BRSA. Avals, guarantees and sureties accepted from, a real person or legal entity in a risk group for the guarantee of loans extended to that risk group are not taken into account in calculating loan limits.

- The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or a risk group directly or indirectly to 25% of its equity capital. In calculating such limit, a credit extended to a partnership is deemed to be extended to the partners in proportion to their liabilities. A risk group is defined as an individual, his or her spouse and children and partnerships in which any one of such persons is a director or general manager, as well as partnerships that are directly or indirectly controlled by any one of such persons, either individually or jointly with third parties, or in which any one of such persons participate with unlimited liability. Furthermore, a bank, its shareholders holding 10% or more of the bank's voting rights or the right to nominate board members, its board members, its general manager and partnerships directly or indirectly, individually or jointly, controlled by any of these persons or a partnership in which these persons participate with unlimited liability or in which these persons act as directors or general managers constitute a risk group, for which the lending limits are reduced to 20% of a bank's equity capital, subject to the BRSA's discretion to increase such lending limits up to 25% or to lower it to the legal limit. Real and legal persons having surety, guarantee or similar relationships where the insolvency of one is likely to lead to the insolvency of the other are included in the applicable risk groups.

- Loans made available to a bank's shareholders (irrespective of whether they are controlling shareholders or they own qualified shares) registered with the share ledger of the bank holding more than 1% of the share capital of the bank and their risk groups may not exceed 50% of the bank's capital equity.

The BRSA determines the permissible ratio of non-cash loans, futures and options, other similar transactions, avals, acceptances, guarantees and sureties, and bills of exchange, bonds and other similar capital markets instruments issued or guaranteed by, and credit and other financial instruments and other contracts entered into with, governments, central banks and banks of the countries accredited with the BRSA for the purpose of calculation of loan limits.

Pursuant to Article 55 of the Banking Law, the following transactions are exempt from the above-mentioned lending limits:

- transactions against cash, cash-like assets and accounts and precious metals,
- transactions carried out with the Undersecretariat of Treasury, the Central Bank, the Privatization Administration and the Housing Development Administration of Turkey, as well as transactions carried out against bills, bonds and similar securities issued or guaranteed by these institutions,
- transactions carried out in the Central Bank markets or other legally-organised money markets,
- in case of new credit allocations, valuations prompted by the changes in currency rates in credits denominated or indexed to foreign currencies, and interests, profit shares and other such issues accrued on overdue credits,
- bonus shares (scrip issues) received as a result of capital increases, and any increase in the value of shares not requiring any fund outflow,
- interbank operations within the framework of the principles set out by the BRSA,
- shares acquired within the framework of underwriting services for public offering activities, provided that such shares are disposed of in the time and manner determined by the BRSA,
- transactions considered as “deductibles” in the shareholders’ equity account, and
- other transactions to be determined by the BRSA.

Loan Loss Reserves

Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables and to reserve an adequate level of provisions against impairment in the value of other assets, for qualification and classification of assets, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring loans, follow-up procedures and the repayment of overdue loans. Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans and other receivables in accordance with this article are considered as expenditures deductible from the corporate tax base in the year they are set aside.

Procedures relating to loan loss reserves for non-performing loans are set out in Article 53 of the Banking Law and in regulations issued by the BRSA. Pursuant to the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside published in the Official Gazette No. 26333 on 1 November 2006 and amended from time to time thereafter (the **Regulation on Provisions and Classification of Loans and Receivables**), banks are required to classify their loans and receivables into one of the following groups:

(a) *Group I: Standard Loans and Other Receivables*: This group involves loans and other receivables:

  (i) that have been disbursed to natural persons and legal entities with financial creditworthiness,

  (ii) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor,

  (iii) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and that can be fully collected, and

  (iv) for which no weakening of the creditworthiness of the applicable debtor has been found.

The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; however, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, general loan provisions, not being less than the sum of five times 1% of the total cash loan portfolio and five times 0.2% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) (except for: (a) cash and non-cash export loans, for which the general loan loss reserve is calculated at five times 0%, and (b) cash and non-cash SME loans, for which the general loan loss reserve is calculated at five times 0.5% and 0.1% respectively) are required to be set aside, and such modifications are required to be disclosed under the financial reports to be disclosed to the public. This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below) for amended consumer loan agreements (other than vehicle and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short-term loan and the interest payments thereof are made in a timely manner; provided that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

(b) *Group II: Closely Monitored Loans and Other Receivables*: This group involves loans and other receivables:

(i) that have been disbursed to natural persons and legal entities with financial creditworthiness and for the principal and interest payments of which there is no problem at present, but which need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable materialization of the latter or significant financial risk carried by the person utilizing the loan,

(ii) whose principal and interest payments according to the conditions of the loan agreement are not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might result in partial or full non-reimbursement risk,

(iii) that are very likely to be repaid but the principal and interest due dates are delayed for more than 30 days for justifiable reasons but not falling within the scope of "Loans and other Receivables with Limited Recovery" set forth under Group III below, or

(iv) although the standing of the debtor has not weakened, there is a high likelihood of weakening due to the debtor's irregular and unmanageable cash flow.

If a bank has made several loans to a customer and any of these loans is included in this Group II and others are classified in Group I, then all of the bank's loans to such customer are required to be classified in Group II. The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *however*, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, general loan provisions, not being less than the sum of 2.5 times 2% of the total cash loan portfolio and 2.5 times 0.4% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) are required to be disclosed under the financial reports to be disclosed to the public. This ratio is required to be at least 1.25 times the Consumer Loans Provisions for amended consumer loan agreements (other than vehicle and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner; *provided* that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

(c) *Group III: Loans and Other Receivables with Limited Collection Ability*: This group involves loans and other receivables:

(i) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and where if the problems observed are not eliminated, they are likely to give rise to loss,

(ii) the credibility of whose debtor has weakened and where the loan is deemed to have weakened,

(iii) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date, or

(iv) in connection with which the bank is of the opinion that collection by the bank of the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.

(d) *Group IV: Loans and Other Receivables with Remote Collection Ability*: This group involves loans and other receivables:

(i) that seem unlikely to be repaid or liquidated under existing conditions,

(ii) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement,

(iii) whose debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss due to such factors as a merger, the possibility of finding new financing or a capital increase, or

(iv) there is a delay of more than 180 days but not more than one year from the due date in the collection of the principal or interest or both.

(e) *Group V: Loans and Other Receivables Considered as Losses*: This group involves loans and other receivables:

(i) that are deemed to be uncollectible,

(ii) collection of whose principal or interest or both has been delayed by one year or more from the due date, or

(iii) for which, although sharing the characteristics stated in Groups III and IV, the bank is of the opinion that they have become weakened and that the debtor has lost his creditworthiness due to the strong possibility that it will not be possible to fully collect the amounts that have become due and payable within a period of over one year.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks are required to reserve adequate provisions for loans and other receivables until the end of the month in which the payment of such loans and receivables has been delayed. This regulation also requires Turkish banks to provide a general reserve calculated at 1% of the total cash loan portfolio and 0.2% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) (except for: (a) cash and non-cash export loans, for which the general loan loss reserve is calculated at 0%, and (b) cash and non-cash SME loans, for which the general loan loss reserve is calculated at 0.5% and 0.1% respectively) for standard loans defined in Group I above; and a general reserve calculated at 2% of the total cash loan portfolio and 0.4% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) for closely-monitored loans defined in Group II above.

In addition to the general provisions that must be set aside for Group I and Group II receivables as described above, 25% of such rates will be applied for each check that remains uncollected for a period of five years after issuance. Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, at least 40% of the general reserve amount calculated according to the above mentioned ratios had to be reserved by 31 December 2012, at least 60% had to be reserved by 31 December 2013, at least 80% shall be reserved by 31 December 2014 and 100% shall be reserved by 31 December 2015.

Banks with consumer loan ratios greater than 25% of their total loans and banks with non-performing consumer loan (classified as frozen receivables (excluding housing loans)) ratios greater than 8% of their total consumer loans (excluding housing loans) (pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) are required to set aside a 4% general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group I, and an 8% general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group II (the **Consumer Loans Provisions**).

If the sum of the letters of guarantee, acceptance credits, letters of credit undertakings, endorsements, purchase guarantees in security issuances, factoring guarantees or other guarantees and sureties and pre-financing loans without letters of guarantee of a bank is higher than ten times its equity calculated pursuant to the 2013 Equity Regulation, a 0.3% general provision ratio is required to be applied by such bank for all of its standard non-cash loans. Notwithstanding the above ratio and by taking into consideration the standard capital adequacy ratio, the BRSA may apply the same ratio or a higher ratio as the general reserve requirement ratio.

Turkish banks are also required to set aside general provisions for the amounts monitored under the accounts of "Receivables from Derivative Financial Instruments" on the basis of the sums to be computed by multiplying them by the rates of conversion into credit indicated in Article 12 of the "Regulation on Loan Transactions of Banks" (published in the Official Gazette No. 26333 on 1 November 2006) by applying the general provision rate applicable for cash loans. In addition to the general provisions, special provisions must be set aside for the loans and receivables in Groups III, IV and V at least in the amounts of 20%, 50% and 100%, respectively. An amount equal to 25% special provisions is set aside for each check slip of customers who have loans under Groups III, IV and V, which checks were delivered by the Bank at least five years previously; however, if a bank sets aside specific provisions at a rate of 100% for non-performing loans, then it does not need to set aside specific provisions for check slips that were delivered by such bank at least two years previously; *provided* that a registered letter has been sent to the relevant customer requiring it to return the check slips to the bank in no later than 15 days.

Pursuant to these regulations, all loans and receivables in Groups III, IV and V above, irrespective of whether any interest or other similar obligations of the debtor are applicable on the principal or whether the loans or receivables have been refinanced, are defined as "frozen receivables." If several loans have been extended to a loan customer by the same bank and if any of these loans is considered as a frozen receivable, then all outstanding risks of such loan customer are classified in the same group as the frozen receivable even if such loans would not otherwise fall under the same group as such frozen receivable. If a frozen receivable is repaid in full, then the other loans of the loan customer may be re-classified into the applicable group as if there were no related frozen receivable.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, the BRSA is entitled to increase these provision rates taking into account the sector and country risk status of the borrower.

Banks must also monitor the following types of security based upon their classification:

> *Category I Collateral*: (a) cash, deposits, profit sharing funds and gold deposit accounts that are secured by pledge or assignment agreements, promissory notes, debenture bonds and similar securities issued directly or guaranteed by the Central Bank, the Treasury, the Housing Development Administration of Turkey or the Privatization Administration and funds gained from repo transactions over similar securities and B-type investment profit sharing funds, member firm receivables arising out of credit cards and gold reserved within the applicable bank, (b) securities issued directly or guaranteed by the central governments or central banks of countries that are members of the Organization for Economic Co-operation and Development (the **OECD**), (c) securities issued directly or guaranteed by the European Central Bank, (d) transactions executed with the Treasury, the Central Bank, the Housing Development Administration of Turkey or the Privatization Administration and transactions made against promissory notes, debenture bonds, lease certificates and similar securities issued directly or guaranteed by such institutions, (e) guarantees and sureties given by banks operating in OECD member countries, (f) sureties, letters of guarantee, avals and acceptance and endorsement of non-cash loans issued by banks operating in Turkey in compliance with their maximum lending limits and (g) bonds, debentures and covered bonds issued, or lease certificates the underlying assets of which are originated, by banks operating in Turkey.
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> *Category II Collateral*: (a) precious metals other than gold, (b) shares quoted on a stock exchange and A-type investment profit sharing funds, (c) asset-backed securities and private sector bonds except ones issued by the borrower, (d) credit derivatives providing protection against credit risk, (e) the assignment or pledge of accrued entitlements of real and legal persons from public agencies, (f) liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at market value, (g) mortgages on real property registered with the land registry and mortgages on real property built on allocated real estate, provided that their appraised value is sufficient, (h) export documents appurtenant to bill of lading or carrier's receipt, or insured within the scope of an exportation loan insurance policy, and (i) negotiable instruments obtained from real or legal persons based upon actual commercial relationships.
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> *Category III Collateral*: (a) commercial enterprise pledges, (b) other export documents, (c) vehicle pledges, (d) mortgages on aircraft or ships, (e) sureteyships of creditworthy natural persons or legal entities and (f) other promissory notes of natural persons and legal entities.
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> *Category IV Collateral*: any other security not otherwise included in Category I, II or III.

Assets owned by banks and leased to third parties under financial lease agreements must also be classified in accordance with the above-mentioned categories.

While calculating the special provision requirements for non-performing loans, the value of collateral received from the applicable borrower is deducted from such borrower's loans and receivables in Groups III, IV and V above in the following proportions in order to determine the amount that will be subject to special provisioning:

Category	Discount Rate
Category I collateral	100%
Category II collateral	75%
Category III collateral	50%
Category IV collateral	25%

In case the value of the collateral exceeds the amount of the NPL, the above-mentioned rates of consideration are applied only to the portion of the collateral that is equal to the amount of the NPL.

According to Article 11 of the Regulation on Provisions and Classification of Loans and Receivables, in the event of a borrower's failure to repay loans or any other receivables due to a temporary lack of liquidity that the borrower is facing, a bank is allowed to refinance the borrower with additional funding in order to strengthen the borrower's liquidity position or to structure a new repayment plan. Despite such refinancing or new repayment plan, such loans and other receivables are required to be monitored in their current loan groups (whether Group III, IV or V) for at least the following six-month period and to be provided against in line with the relevant loan group provisioning level. After this six-month period, if total collections reach at least 15% of the total receivables for restructured loans, then the remaining receivables are reclassified to the "Refinanced/Restructured Loans and Receivables Account." The bank may refinance the borrower for a second time if the borrower fails to repay the refinanced loan; provided that at least 20% of the principal and other receivables are collected on a yearly basis.

In addition to the general provisioning rules, the BRSA has from time to time enacted provisional rules relating to exposures to debtors in certain industries or countries (such as current rules that are in place for the maritime industry and for real persons or legal entities residing in or engaged in activities relating to Libya and Syria).

Capital Adequacy

Article 45 of the Banking Law defines "Capital Adequacy" as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, perpetuate and report their capital adequacy ratio, which, within the framework of the BRSA's regulations, cannot be less than 8%.

The BRSA is authorised to increase the minimum capital adequacy ratio and the minimum consolidated capital adequacy ratio, to set different ratios for each bank and to revise the calculation and notification periods, but must consider each bank's internal systems as well as its asset and financial structures. Both the minimum total capital adequacy ratio and the minimum consolidated capital adequacy ratio for the Group as required by the BRSA is currently 8%. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio of 8%.

In order to implement the rules of the report entitled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee on Banking Supervision (the **Basel Committee**) in December 2010 and revised in June 2011 (*i.e.*, Basel III) into Turkish law, the 2013 Equity Regulation and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks were published in the Official Gazette dated 5 September 2013 and numbered 28756 and entered into force on 1 January 2014. The 2013 Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e.*, Tier I capital), which is composed of core capital and additional principal capital (*i.e.*, additional Tier I capital) and (b) supplementary capital (*i.e.*, Tier II capital) *minus* capital deductions. Pursuant to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (as so amended): (i) both the minimum core capital adequacy ratio and the minimum consolidated core capital adequacy ratio are 4.5% and (ii) both the minimum Tier I capital adequacy ratio and the minimum consolidated Tier I capital ratio are 6.0%.

In addition, the Regulation on the Capital Maintenance and Cyclical Capital Buffer and the Regulation on the Measurement and Evaluation of Leverage Levels of Banks were published in the Official Gazette dated 5 November 2013 and numbered 28812, which regulations entered into force on 1 January 2014 (with the exception of certain provisions of the latter regulation that will enter into effect on 1 January 2015). The Regulation on the Capital Maintenance and Cyclical

Capital Buffer provides additional core capital requirements both on a consolidated and bank-only basis. Pursuant to this regulation, the additional core capital requirements are to be calculated by the multiplication of the amount of risk-weighted assets by the sum of a capital maintenance buffer ratio and bank-specific countercyclical buffer ratio. The Regulation on the Measurement and Evaluation of the Leverage Level of Banks seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and bank-only basis against leverage risks.

Under the 2013 Equity Regulation, debt instruments and their issuance premia can be included either in additional Tier I capital or in Tier II capital subject to certain conditions; *however*, such amount is required to be reduced by the amount of any cash credit extended to creditors holding 10% or more of such debt instruments of a bank (or to any person within such creditors' risk group).

See also a discussion of the implementation of Basel III in "-Basel Committee - Basel III" below.

Tier II Rules under Turkish Law

According to the 2013 Equity Regulation, which came into force on 1 January 2014, Tier II capital shall be calculated by subtracting capital deductions from general provisions, issuance premiums and the debt instruments that are not to be included in Tier I capital and have been approved by the BRSA upon the application of board of directors of the applicable bank along with a written statement confirming compliance of the debt instruments with conditions set forth below (the **Tier II Conditions**):

(a) the debt instrument shall have been issued by the bank and registered with the CMB and shall have been fully collected in cash,

(b) in the event of dissolution of the bank, the debt instrument shall have priority over debt instruments that are included in additional Tier I capital and shall be subordinated with respect to rights of deposit holders and all other creditors,

(c) the debt instrument shall not be related to any derivative operation or contract violating the condition stated in clause (b) nor shall it be tied to any guarantee or security, in one way or another, directly or indirectly,

(d) the debt instrument must have an initial maturity of at least five years and shall not include any provision that may incentivise prepayment, such as dividends and increase of interest rate,

(e) if the debt instrument includes a prepayment option, such option shall be exercisable no earlier than five years after issuance and only with the approval of the BRSA; approval of the BRSA is subject to the following conditions:

    (i) the bank should not create any market expectation that the option will be exercised by the bank,

    (ii) the debt instrument shall be replaced by another debt instrument either of the same quality or higher quality, and such replacement shall not have a restrictive effect on the bank's ability to sustain its operations, or

    (iii) following the exercise of the option, the equity of the bank shall exceed the higher of: (A) the capital adequacy requirement that is to be calculated pursuant to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks along with the procedures and principles on capital buffers that are to be set by the BRSA, (B) the capital requirement derived as a result of an internal capital adequacy evaluation process of the bank and (C) the higher capital requirement set by the BRSA (if any);

    however, if tax legislation or other regulations are materially amended, a prepayment option may be exercised; *provided* that the above conditions in this clause (e) are met and the BRSA approves,

(f) the debt instrument shall not provide investors with the right to demand early amortization except for during a bankruptcy or dissolution process relating to the issuer,

(g) the debt instrument's dividend or interest payments shall not be linked to the creditworthiness of the issuer,

(h) the debt instrument shall not be: (i) purchased by the issuer or by corporations controlled by the issuer or significantly under the influence of the issuer or (ii) assigned to such entities, and its purchase shall not be directly or indirectly financed by the issuer itself,

(i) if there is a possibility that the bank's operating license would be cancelled or the probability of transfer of management of the bank to the SDIF arises pursuant to Article 71 of the Banking Law, temporary or permanent removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates would be possible if the BRSA so decides, and

(j) in the event that the debt instrument has not been issued by the bank itself or one of its consolidated entities, the amounts obtained from the issuance shall be immediately transferred without any restriction to the bank or its consolidated entity (as the case may be) in accordance with the rules listed above.

Loans (as opposed to securities) that have been approved by the BRSA upon the application of the board of directors of the applicable bank accompanied by a written statement confirming that all of the Tier II Conditions (except the issuance and registration with the CMB) are met also can be included in Tier II capital calculations.

In addition to the conditions that need to be met before including debt instruments and loans in the calculation of Tier II capital, the 2013 Equity Regulation also provides a limit for inclusion of general provisions in Tier II capital such that the portion of the general provisions that exceeds 125 parts per 10,000 of the amount used as a basis for credit risk is not taken into consideration in calculating the Tier II capital.

Furthermore, in addition to the Tier II Conditions stated above, the BRSA may require new conditions for each debt instrument.

Applications to include debt instruments or loans into Tier II capital shall be accompanied with the original copy or a notarised copy of the applicable agreement(s) or, if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original or a notarised copy to the BRSA within five business days of the signing of such agreement). If the interest rate is not explicitly indicated in the loan agreement or the prospectus of the debt instrument (*borçlanma aracı izahnamesi*), or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorise the inclusion of the loan or debt instrument in the calculation of Tier II capital.

Debt instruments and loans that are approved by the BRSA are included in accounts of Tier II capital as of the date of transfer to the relevant accounts in the applicable bank's records. Loan agreements and debt instruments that have been included in Tier II capital calculations, and that have less than five years to maturity, shall be included in Tier II capital calculations after being reduced by 20% each year.

Basel Committee

<u>Basel II</u>. The most significant difference between the capital adequacy regulations in place before 1 July 2012 and the new Basel II regulations is the calculation of risk-weighted assets related to credit risk. The new regulations seek to align more closely the minimum capital requirement of a bank with its borrowers' credit risk profile. The impact of the new regulations on capital adequacy levels of Turkish banks will largely stem from exposures to the Turkish government, principally through the holding of Turkish government bonds. While the previous rules provided a 0% risk weight for exposures to the Turkish sovereign and the Central Bank, the rules of Basel II require that claims on sovereign entities and their central banks be risk-weighted according to their credit assessment, which currently results in a 50% risk weighting for Turkey; *however*, the Turkish rules implementing the Basel principles in Turkey (*i.e.*, the "Turkish National Discretion") revises this general rule by providing that all Turkish Lira-denominated claims on sovereign entities in Turkey and all foreign currency-denominated claims on the Central Bank will have a 0% risk weight. As a result of these implementation rules, the impact of the new regulations has been fairly limited when compared to the previous regime. The BRSA has announced that the migration from the previous regime to Basel II regulations has had an effect of an approximately 0.20% decline in the capital adequacy levels of the Turkish banking system as of 31 July 2012. This figure is consistent with the Bank's own experience (with its capital adequacy actually increasing slightly due to its diversified portfolio of retail loans, which benefit from certain preferential capital treatments) and thus no additional capital needs are projected for the Bank in the short term due to this change in the regulatory capital adequacy framework.

<u>Basel III</u>. In the future, Turkish banks' capital adequacy requirements may be further affected by Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are

expected to be implemented between 2014 and 2019. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the 2013 Equity Regulation and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, both of which entered into effect on 1 January 2014. The 2013 Equity Regulation introduces core Tier I capital and additional Tier I capital as components of Tier I capital, whereas the amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks: (a) introduced a minimum core capital adequacy standard ratio (4.5%) and a minimum Tier I capital adequacy standard ratio (6.0%) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0%) and (b) change the risk weights of certain items that are categorised under "other assets." The 2013 Equity Regulation has also introduced new Tier II rules and determined new criteria for debt instruments to be included in the Tier II capital.

In addition to these implementations: (a) the Regulation on the Capital Maintenance and Cyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, and (b) the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which regulation the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), were published in the Official Gazette dated 5 November 2013 and numbered 28812 and entered into effect on 1 January 2014 with the exception of certain provisions of the Regulation on the Measurement and Evaluation of Leverage Levels of Banks that will enter into effect on 1 January 2015. Lastly, in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, the BRSA has published a draft regulation on a liquidity coverage ratio. Turkish banks' capital adequacy requirement will be further affected by the 1 January 2014 commencement of certain Basel III requirements regarding regulatory capital, liquidity adequacy, leverage ratio and counterparty credit risk measurements. If the Bank and/or the Group is unable to maintain its capital adequacy or leverage ratios above the minimum levels required by the BRSA or other regulators (whether due to the inability to obtain additional capital on acceptable economic terms, if at all, sell assets (including subsidiaries) at commercially reasonable prices, or at all, or for any other reason), then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Liquidity and Reserve Requirements

Article 46 of the Banking Law requires banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures set out by the BRSA. Within this framework, a comprehensive liquidity arrangement has been put into force by the BRSA, following the consent of the Central Bank.

As of 28 February 2014, the reserve requirements regarding foreign currency liabilities vary by category, as set forth below:

Category of Foreign Currency Liabilities	Required Reserve Ratio
Demand deposits, notice deposits, private current accounts, deposit/participation funds up to 1-month, 3-month, 6-month and 1-year maturities	13%
Deposit/participation funds with maturities of 1-year and longer	9%
Other liabilities up to 1-year maturity (including 1-year)	13%
Other liabilities up to 3-year maturity (including 3-year)	11%
Other liabilities longer than 3-year maturity	6%

As of 28 February 2014, the reserve requirements regarding Turkish Lira liabilities vary by category, as set forth below:

Category of Turkish Lira Liabilities	Required Reserve Ratio
Demand deposits, notice deposits and private current accounts	11.5%
Deposits/participation funds up to 1-month maturity (including 1-month)	11.5%
Deposits/participation funds up to 3-month maturity (including 3-month)	11.5%
Deposits/participation funds up to 6-month maturity (including 6-month)	8.5%
Deposits/participation funds up to 1-year maturity	6.5%
Deposits/participation funds with maturities of 1-year and longer	5%
Other liabilities up to 1-year maturity (including 1-year)	11.5%
Other liabilities up to 3-years maturity (including 3-years)	8%
Other liabilities longer than 3-year maturity	5%

The reserve requirements also apply to gold deposit accounts. Furthermore, banks are permitted to maintain: (a) a portion of the Turkish Lira reserve requirements in US Dollars and/or Euro and another portion of the Turkish Lira reserve requirements in standard gold and (b) a portion or all of the reserve requirements applicable to precious metal deposit accounts in standard gold, which portions are revised from time to time by the Central Bank. In addition, banks are required to maintain their required reserves against their US Dollar-denominated liabilities in US Dollars only.

Furthermore, pursuant to the Communiqué Regarding Reserve Requirements entered into force on 17 January 2014, a bank must establish additional mandatory reserves if its financial leverage ratio falls within certain intervals. The financial leverage ratio is calculated according to the division of a bank's capital into the sum of the following items:

(a) its total liabilities,

(b) its total non-cash loans and obligations,

(c) its revocable commitments *multiplied by* 0.1,

(d) the total sum of each of its derivatives commitments multiplied by its respective loan conversion rate, and

(e) its irrevocable commitments.

This additional mandatory reserve amount is calculated quarterly according to the arithmetic mean of the monthly leverage ratio.

A bank also must maintain mandatory reserves for six mandatory reserve periods beginning with the fourth calendar month following an accounting period and additional mandatory reserves for liabilities in Turkish Lira and foreign currency, as set forth below:

Calculation Period for the Leverage Ratio	Leverage Ratio	Additional Reserve Requirement
From the 4th quarter of 2013 through the 3rd quarter of 2014	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.25%	1.5%
	From 3.25% (inclusive) to 3.5%	1.0%
From the 4th quarter of 2014 through the 3rd quarter of 2015	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.50%	1.5%
	From 3.50% (inclusive) to 4.0%	1.0%
Following the 4th quarter of 2015 (inclusive)	Below 3.0%	2.0%
	From 3.0% (inclusive) to 4.0%	1.5%
	From 4.0% (inclusive) to 5.0%	1.0%

Starting in mid-October 2010, reserve accounts kept in Turkish Lira became non-interest-bearing (reserve accounts in foreign currencies have not been interest-bearing since the end of 2008).

According to the Regulation on the Measurement and Evaluation of the Liquidity Adequacy of Banks issued by the BRSA and announced in the Official Gazette dated 1 November 2006 and numbered 26333, the liquidity adequacy ratio of a bank is the ratio of liquid reserves to liabilities of the bank. On a weekly basis, a bank must maintain: (a) a 100% liquidity adequacy ratio for the first maturity period (assets and liabilities maturing within seven days are taken into account in calculations on a weekly average as defined by the regulation) and the second maturity period (assets and liabilities maturing within 31 days of the last working day are taken into account) on an aggregate basis and (b) a 80% liquidity adequacy ratio on a foreign currency-only basis.

Foreign Exchange Requirements

According to the Regulation on Foreign Exchange Net Position/Capital Base issued by the BRSA and published in the Official Gazette dated 1 November 2006 and numbered 26333, for both the bank-only and consolidated financial statements, the ratio of a bank's foreign exchange net position to its capital base should not exceed (+/-) 20%, which calculation is required to be made on a weekly basis. The net foreign exchange position is the difference between the Turkish Lira equivalent of a bank's foreign exchange assets and its foreign exchange liabilities. For the purpose of computing the net foreign exchange position, foreign exchange assets include all active foreign exchange accounts held by a bank (including its foreign branches), its foreign exchange-indexed assets and its subscribed forward foreign exchange purchases; for purposes of computing the net foreign exchange position, foreign exchange liabilities include all passive foreign exchange accounts held by a bank (including its foreign branches), its subscribed foreign exchange-indexed liabilities and its subscribed forward foreign exchange sales. If the ratio of a bank's net foreign exchange position to its capital base exceeds (+/-) 20%, then the bank is required to take steps to move back into compliance within two weeks following the bank's calculation period. Banks are permitted to exceed the legal net foreign exchange position to capital base ratio up to six times per calendar year.

Audit of Banks

According to Article 24 of the Banking Law, banks' boards of directors are required to establish audit committees for the execution of the audit and monitoring functions of the board of directors. Audit committees shall consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include the supervision of the efficiency and adequacy of the bank's internal control, risk management and internal audit systems, functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation, and integrity of the information produced; conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors; regularly monitoring the activities of independent audit firms selected by the board of directors; and, in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the Regulation on Authorization and Activities of Institutions to Perform External Audit in Banks, published in the Official Gazette on 1 November 2006 and numbered 26333. Independent auditors are held liable for damages and losses to third parties and are subject to stricter reporting obligations. Professional liability insurance is required for: (a) independent auditors and (b) evaluators, rating agencies and certain other support services (if requested by the service-acquiring bank or required by the BRSA). Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms. With the Internal Systems Regulation, new standards as to principles of internal audit and risk management systems were established in order to bring such standards into compliance with Basel II requirements.

All banks (public and private) also undergo annual audits and interim audits by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities and foreign exchange transactions. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The Central Bank has the right to monitor compliance by banks with the Central Bank's regulations through on-site and off-site examinations.

The SDIF

Article 111 of the Banking Law relates to the SDIF. The SDIF has been established to develop trust and stability in the banking sector by strengthening the financial structures of Turkish banks, restructuring Turkish banks as needed and insuring the savings deposits of Turkish banks. The SDIF is a public legal entity set up to insure savings deposits held with banks and (along with all other Turkish banks) the Bank is subject to its regulations. The SDIF is responsible for and authorised to take measures for restructuring, transfers to third parties and strengthening the financial structures of banks, the shares of which and/or the management and control of which have been transferred to the SDIF in accordance with Article 71 of the Banking Law, as well as other duties imposed on it.

(a) *Insurance of Deposits*

Pursuant to Article 63 of the Banking Law, savings deposits held with banks are insured by the SDIF. The scope and amount of savings deposits subject to the insurance are determined by the SDIF upon the approval of the Central

Bank, Banking Regulation and Supervision Board and the Treasury. The tariff of the insurance premium, the time and method of collection of this premium, and other relevant matters are determined by the SDIF upon the approval of the Banking Regulation and Supervision Board.

(b) *Borrowings of the SDIF*

The SDIF: (i) may incur indebtedness with authorization from the Undersecretariat of the Treasury or (ii) the Undersecretariat of the Treasury may issue government securities with the proceeds to be provided to the SDIF as a loan, as necessary. Principles and procedures regarding the borrowing of government debt securities, including their interest rates and terms and conditions of repayment to the Treasury, are to be determined together by the Treasury and the SDIF.

(c) *Power to require Advances from Banks*

Provided that BRSA consent is received, the banks may be required by the SDIF to make advances of up to the total insurance premiums paid by them in the previous year to be set-off against their future premium obligations. The decision regarding such advances shall also indicate the interest rate applicable thereto.

(d) *Contribution of the Central Bank*

If the SDIF's resources prove insufficient due to extraordinary circumstances, then the Central Bank will, on request, provide the SDIF with an advance. The terms, amounts, repayment conditions, interest rates and other conditions of the advance will be determined by the Central Bank upon consultation with the SDIF.

(e) *Savings Deposits that are not subject to Insurance*

Deposits, participation funds and other accounts held in a bank by controlling shareholders, the chairman and members of the board of directors or board of managers, general manager and assistant general managers and by the parents, spouses and children under custody of the above, and deposits, participation funds and other accounts within the scope of criminally-related assets generated through the offenses set forth in Article 282 of the Turkish Criminal Code and other deposits, participation funds and accounts as determined by the board of the BRSA are not covered by the SDIF's insurance.

(f) *Premiums as an Expense Item*

Premiums paid by a bank into the SDIF are to be treated as an expense in the calculation of that bank's corporate tax.

(g) *Liquidation*

In the event of the bankruptcy of a bank, the SDIF is a privileged creditor and may liquidate the bank under the provisions of the Execution and Bankruptcy Law No. 2004, exercising the duties and powers of the bankruptcy office and creditors' meeting and the bankruptcy administration.

(h) *Claims*

In the event of the bankruptcy of a bank, holders of savings deposits will have a privileged claim in respect of the part of their deposit that is not covered by the SDIF's insurance.

Since 15 February 2013, up to TL 100,000 of the amounts of a depositor's deposit accounts benefit from the SDIF insurance guarantee.

The main powers and duties of the SDIF pursuant to the SDIF regulation published in the Official Gazette dated 25 March 2006 and numbered 26119 are as follows:

(i) ensuring the enforcement of the SDIF board's decisions,

(ii) establishing the human resources policies of the SDIF,

(iii) becoming members of international financial, economic and professional organizations in which domestic and foreign equivalent agencies participate, and signing memoranda of understanding with the authorised bodies of foreign countries regarding the matters that fall within the SDIF's span of duty,

(iv) insuring the savings deposits and participation funds in the credit institutions,

(v) determining the scope and amount of the savings deposits and participation funds that are subject to insurance with the opinion of the Central Bank, BRSA and Treasury Undersecretaries, and the risk-based insurance premia timetable, collection time and form and other related issues in cooperation with the BRSA,

(vi) paying (directly or through another bank) the insured deposits and participation funds from its sources in the credit institutions whose operating permission has been revoked by the BRSA,

(vii) fulfilling the necessary operations regarding the transfer, sale and merger of the banks whose shareholder rights (except dividends) and management and supervision have been transferred to the SDIF by the BRSA, with the condition that the losses of the shareholders are reduced from the capital,

(viii) taking management and control of the banks whose operating permission has been revoked by the BRSA and fulfilling the necessary operations regarding the bankruptcy and liquidation of such banks,

(ix) requesting from public institutions and agencies, real persons and legal entities all information, documents and records in a regular and timely fashion in the framework of Article 123 of the Banking Law,

(x) issuing regulations and communiqués for the enforcement of the Banking Law with the SDIF's board's decision, and

(xi) fulfilling the other duties that the Banking Law and other related legislation assign to it.

Cancellation of Banking License

If the results of an audit show that a bank's financial structure has seriously weakened, then the BRSA may require the bank's board of directors to take measures to strengthen its financial position. Pursuant to the Banking Law, in the event that the BRSA in its sole discretion determines that:

- the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due,

- the bank is not complying with liquidity requirements,

- the bank's profitability is not sufficient to conduct its business in a secure manner due to disturbances in the relation and balance between expenses and profit,

- the regulatory equity capital of such bank is not sufficient or is likely to become insufficient,

- the quality of the assets of such bank have been impaired in a manner potentially weakening its financial structure,

- the decisions, transactions or applications of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA,

- such bank fails to establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the audit of such systems, or

- imprudent acts of such bank's management materially increase the risks stipulated under the Banking Law and relevant legislation or potentially weaken the bank's financial structure,

then the BRSA may require the board of directors of such bank:

- to increase its equity capital,

- not to distribute dividends for a temporary period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund,
- to increase its loan provisions,
- to stop extension of loans to its shareholders,
- to dispose of its assets in order to strengthen its liquidity,
- to limit or stop its new investments,
- to limit its salary and other payments,
- to cease its long-term investments,
- to comply with the relevant banking legislation,
- to cease its risky transactions by re-evaluating its credit policy,
- to take all actions to decrease any maturity, foreign exchange and interest rate risks for a period determined by the BRSA and in accordance with a plan approved by the BRSA, and/or
- to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, its financial structure cannot be strengthened despite the fact that such actions have been taken or the BRSA determines that taking such actions will not lead to getting a favorable result, then the BRSA may require such bank to:

- strengthen its financial structure, increase its liquidity and/or increase its capital adequacy,
- dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSA,
- decrease its operational and management costs,
- postpone its payments under any name whatsoever, excluding the regular payments to be made to its employees,
- limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors,
- convene an extraordinary general assembly in order to change some or all of the members of the board of directors or assign new member(s) to the board of directors, in the event any board member is responsible for a failure to comply with relevant legislation, a failure to establish efficient and sufficient operation of internal audit, internal control and risk management systems or non-operation of these systems efficiently or there is a factor that impedes supervision or such member(s) of the board of directors cause(s) to increase risks significantly as stipulated above,
- implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank and the members of the board of directors and the shareholders with qualified shares must undertake the implementation of such plan in writing, and/or
- to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, the problem cannot be solved despite the fact that the actions have been taken or the BRSA determines that taking such actions will not lead to getting a favorable result, then the BRSA may require such bank to:

- limit or cease its business or the business of the whole organization, including its relations with its local or foreign branches and correspondents, for a temporary period,

- apply various restrictions, including restrictions on the interest rate and maturity with respect to resource collection and utilization,
- remove from office (in whole or in part) some or all of its members of the board of directors, general manager and deputy general managers and department and branch managers and obtain approval from the BRSA as to the persons to be appointed to replace them,
- make available long-term loans; provided that these will not exceed the amount of deposit or participation funds subject to insurance, and be secured by the shares or other assets of the controlling shareholders,
- limit or cease its non-performing operations and to dispose of its non-performing assets,
- merge with one or more other banks,
- provide new shareholders in order to increase its equity capital,
- deduct any resulting losses from its own funds, and/or
- take any other action that the BRSA may deem necessary.

In the event that: (a) the aforementioned actions are not (in whole or in part) taken by the applicable bank within a period of time set forth by the BRSA or in any case within 12 months, (b) the financial structure of such bank cannot be strengthened despite its having taken such actions, (c) it is determined that taking these actions will not lead to the strengthening of the bank's financial structure, (d) the continuation of the activities of such bank would jeopardise the rights of the depositors and the participation fund owners and the security and stability of the financial system, (e) such bank cannot cover its liabilities as they become due, (f) the total amount of the liabilities of such bank exceeds the total amount of its assets or (g) the controlling shareholders or directors of such bank are found to have utilised such bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardised the secure functioning of the bank or caused such bank to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members, may revoke the license of such bank to engage in banking operations and/or to accept deposits and transfer the management, supervision and control of the shareholding rights (excluding dividends) of such bank to the SDIF for the purpose of whole or partial transfer or sale of such bank to third persons or the merger thereof; provided that any loss is deducted from the share capital of current shareholders.

In the event that the license of a bank to engage in banking operations and/or to accept deposits is revoked, then that bank's management and audit will be taken over by the SDIF. Any and all execution and bankruptcy proceedings (including preliminary injunction) against such bank would be discontinued as from the date on which the BRSA's decision to revoke such bank's license is published in the Official Gazette. From the date of revocation of such bank's license, the creditors of such bank may not assign their rights or take any action that could lead to assignment of their rights. The SDIF must take measures for the protection of the rights of depositors and other creditors of such bank. The SDIF is required to pay the insured deposits of such bank either by itself or through another bank it may designate. The SDIF is required to institute bankruptcy proceedings in the name of depositors against a bank whose banking license is revoked.

Annual Reporting

Pursuant to the Banking Law, Turkish banks are required to follow the BRSA's principles and procedures (which are established in consultation with the Turkish Accounting Standards Board and international standards) when preparing their annual reports. In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation.

Furthermore, Turkish companies (including banks) are required to comply with the Regulation regarding Determination of the Minimum Content of the Companies' Annual Reports published by the Ministry of Customs and Trade, as well as the Corporate Governance Communiqué, when preparing their annual reports. These reports include the following information: management and organization structures, human resources, activities, financial situations, assessment of management and expectations and a summary of the directors' report and independent auditor's report.

A bank cannot settle its balance sheets without ensuring reconciliation with the legal and auxiliary books and records of its branches and domestic and foreign correspondents.

The BRSA is authorised to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

When the BRSA requests a bank's financial reports, the chairman of the board, audit committee, general manager, deputy general manager responsible for financial reporting and the relevant unit manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records.

Independent auditors must approve the annual reports prepared by the banks.

Banks are required to submit their financial reports to related authorities and publish them in accordance with the BRSA's principles and procedures.

According to BRSA regulations, the annual report is subject to the approval of the board of directors and must be submitted to shareholders at least 15 days before the annual general assembly of the bank. Banks must submit an electronic copy of their annual reports to the BRSA within 15 days following the publication of the reports. Banks must also keep a copy of such reports in their headquarters and a soft copy of the annual report should be available at a bank's branches in order to be printed and submitted to the shareholders upon request. In addition they must publish them on their websites by the end of May following the end of the relevant fiscal year.

Disclosure of Financial Statements

With the Communiqué on Financial Statements to be Disclosed to the Public published in the Official Gazette No. 28337 dated 28 June 2012, new principles of disclosure of annotated financial statements of banks were promulgated. The amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios are reflected in the requirements relating to information to be disclosed to the public and new standards of disclosure of operational, market, currency and credit risk were determined. In addition, new principles were determined with respect to the disclosure of position risks relating from (inter alia) securitization transactions and investments in quoted stocks.

Financial Services Fee

Pursuant to Heading XI of Tariff No. 8 attached to the Law on Fees (Law No. 492) amended by the Law No. 5951, banks are required to pay to the relevant tax office to which their head office reports an annual financial services fee for each of their branches. The amount of the fee is determined in accordance with the population of the district in which the relevant branch is located.

Anti-Money Laundering

Turkey is a member country of the FATF and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Turkey, all banks and their employees are obligated to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money laundering set forth in Law No. 5549 on Prevention of Laundering Proceeds of Crime. See "*Risk Factors – Political, Economic and Legal Risks relating to Turkey – Combating the Financing of Terrorism*."

Minimum standards and duties under such law and related legislation include customer identification, record keeping, suspicious transaction reporting, employee training, monitoring activities and the designation of a compliance officer. Suspicious transactions must be reported to the Financial Crimes Investigation Board.

New Consumer Loan, Provisioning and Credit Card Regulations

On 8 October 2013 the BRSA introduced new regulations that aim to limit the expansion of individual loans (especially credit card installments). The rules: (a) include overdrafts on deposit accounts and loans on credit cards in the category of consumer loans for purposes of provisioning requirements, (b) set a limit of TL 1,000 for credit cards issued to consumers who apply for a credit card for the first time if their income cannot be determined by the bank, (c) require credit card issuers to monitor cardholders' income levels before each limit increase of the credit card, (d) increase the risk weight for installment payments of credit cards with a term: (i) between one and six months from 75% to 100%, (ii) between six and twelve months from 150% to 200% and (iii) greater than 12 months from 200% to 250% and (e) increase the minimum monthly payment required to be made by cardholders. Before increasing the limit of a credit card, a bank should monitor the income level of the consumer. A bank should not increase the limit of the credit card if the aggregate card limit exceeds four times the consumer's monthly income. In addition, after 1 January 2014, minimum payment ratios for credit card limits up to TL 20,000 will be incrementally increased to ratios between 30% and 40% until 1 January 2015. These new regulations might result in slowing the growth and/or reducing the profitability of the Bank's credit card business.

The Law on the Protection of Consumers (Law No: 6502), published in the Official Gazette No. 28835 dated 28 November 2013 and to enter into force six months after its publication date, imposes new rules applicable to Turkish banks, such as requiring banks to offer to its customers at least one credit card type for which no annual subscription fee (or other similar fee) is payable. Furthermore, while a bank is generally permitted to charge its customers fees for accounts held with it, no such fees may be payable on certain specific accounts (such as fixed term loan accounts and mortgage accounts).

The Regulation Amending the Regulation on Provisions and Classification of Loans and Receivables, which was published in the Official Gazette dated 8 October 2013 and numbered 28789, reduced the general reserve requirements for cash and non-cash loans provided for export purposes and obtained by SMEs: (a) for cash export loans and non-cash export loans, from 1% and 0.2%, respectively, to 0%, (b) for cash SME loans and non-cash SME loans, from 1% and 0.2% to 0.5% and 0.1%, respectively, (c) for cash export loans whose loan conditions will be amended in order to extend the first payment schedule, from 5% to 0%, and (d) for cash SME loans whose loan conditions will be amended in order to extend the first payment schedule, from 5% to 2.5%. In addition, this regulation altered the requirements for calculating consumer loan provisions by: (i) increasing the ratio of consumer loans to total loans beyond which additional consumer loan provisions are required from 20% to 25% and (ii) requiring the inclusion of auto loans and credit cards in the calculation of the ratio of non-performing consumer loans to total consumer loans ratio (if such ratio is beyond 8%, which ratio was not altered by these amendments, additional consumer loans provisions are required). Credit cards are included in the definition of consumer loans by this regulation and the consumer loan provision rate for credit cards in Group I (Loans of a Standard Nature and Other Receivables) and Group II (Loans and Other Receivables under Close Monitoring) increased from 1% and 2% to 4% and 8%, respectively.

The Regulation Amending the Regulation on Bank Cards and Credit Cards introduced some changes on the credit limits for credit cards and income verification so that: (a) the total credit card limit of a cardholder from all banks will not exceed four times his/her monthly income in the second and the following years (two times for the first year) and (b) banks will have to verify the monthly income of the cardholders in the limit increase procedures and will not be able to increase the limit if the total credit card limit of the cardholder from all banks exceeds four times his/her monthly income. The following additional changes regarding minimum payment amounts and credit card usage were included in the amended regulation: (i) minimum payment amounts differentiated for first time cardholders in the sector, new cardholders, existing cardholders and existing cardholders' second card by customer limits, (ii) if the cardholder does not pay at least three times the minimum payment amount on his/her credit card statement in a year, then his/her credit card cannot be used for cash advance and also will not allow limit upgrade until the total statement amount is paid, and (iii) if the cardholder does not pay the minimum payment amount for three consecutive times, then his/her credit card cannot be used for cash advances or shopping, and such card will not be available for a limit upgrade, until the total amount in the statements is paid.

The BRSA, by the Regulation Amending the Regulation on Banking Cards and Credit Cards published in the Official Gazette dated 31 December 2013 and numbered 28868 (which entered into force on 1 February 2014), has adopted limitations on installments of credit cards. Pursuant to such limitations, the installments for purchase of goods and services and cash withdrawals are not permitted to exceed nine months. In addition, in respect of telecommunication and jewelry expenditures and food, nutriment and fuel oil purchases, credit cards may not provide for installment payments.

On 31 December 2013, the BRSA adopted new rules on loan to value and installments of certain types of loans. Pursuant to these rules, the minimum loan-to-value requirement for housing loans extended to consumers, for loans (except auto loans) secured by houses and for financial lease transactions is 75%. In addition, for auto loans extended to consumers, for loans secured by autos and for financial lease transactions, the loan-to-value requirement is set at 70%; *provided* that in each case the sale price of the respective auto is not higher than TL 50,000. On the other hand, if the sale price of the respective auto is above this TL 50,000 threshold, then the minimum loan-to-value ratio for the portion of the loan below the threshold amount is 70% and the remainder is set at 50%. As for limitations regarding installments, the maturity of consumer loans (other than loans extended for housing finance and other real estate finance loans) are not permitted to exceed 36 months, while auto loans and loans secured by autos may not have a maturity longer than 48 months. Provisions regarding the minimum loan-to-value requirement for auto loans entered into force on 1 February 2014 and the other provisions of this amendment entered into force on 31 December 2013.